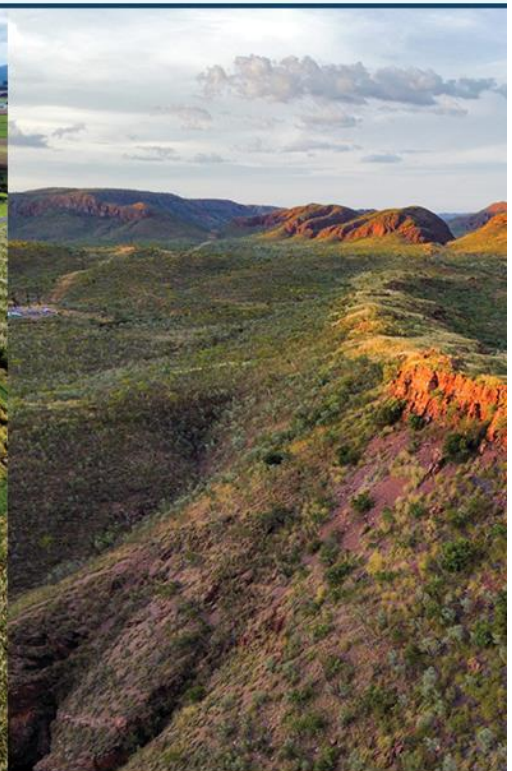




Australian Government

2024 Independent Review of the Northern Australia Infrastructure Facility Act 2016

Discussion Paper



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Overview

The *Northern Australia Infrastructure Facility Act 2016* (the Act) stipulates that the current investment window of the Northern Australia Infrastructure Facility (NAIF) will end on 30 June 2026. Section 43 of the Act states that a review of the operation of the Act must be undertaken as soon as possible after 30 June 2024.

The Minister for Northern Australia, the Hon Madeleine King MP, announced an Independent Expert Panel (the Panel) on 19 August 2024 to conduct the review of the NAIF Act (the Review). The Panel is comprised of The Hon Warren Snowdon (Chair), Professor Peter Yu, and Dr Lisa Caffery.

The Act outlines the Review, at a minimum must:

- consider whether the time limit of 30 June 2026 for making decisions to provide financial assistance should be extended
- consider appropriate governance arrangements for the facility after that date.

As part of the Review, the Panel is also considering:

- the need for, and effectiveness of, the NAIF in facilitating and supporting the development of economic infrastructure across northern Australia
- the appropriateness of NAIF's legislative framework, including the *Northern Australia Infrastructure Facility Investment Mandate Direction 2023* and rules made under the NAIF Act and eligibility criteria
- the suitability and effectiveness of NAIF's products and services and finance delivery mechanisms beyond 30 June 2026
- whether NAIF's administrative, governance and operating arrangements are fit for purpose
- the appropriateness of the NAIF portfolio diversity to maximise growth in the north
- opportunities to support greater engagement and inclusion of First Nations people and organisations in NAIF projects, including procurement and employment, and as project proponents.

The full Terms of Reference for the Review are at **Appendix A**.

The Panel will provide a written report to the Minister for Northern Australia and the Minister for Finance by December 2024.

Have your say

The Panel is seeking submissions from interested stakeholders to inform the Review. Your input is extremely valuable to ensure the recommendations to the Australian Government are relevant to your region and industry.

This discussion paper provides background on the NAIF, an outline of key topics of interest for the Review and invites submissions on any of these matters to inform NAIF future investment activities and mandate and governance arrangements.

Your submission will be considered no matter how many questions you respond to. If you wish to only provide general comments, please refer to the last question on this paper. The full set of questions is available at **Appendix B**.

Written submissions can be submitted via the department's [Have Your Say page](#) for the 2024 Independent Review of the Northern Australia Infrastructure Facility Act 2016. Submissions will be published to the have your say page and treated as non-confidential unless the submission is expressly stated to be confidential or is inappropriate for publication. Confidential submissions will only be disclosed in specified circumstances as set out in Privacy Collection Notice on the department's Northern Australia Investment Facility Act 2016 Review have your say page.

Any personal information which is provided in a submission will be handled in accordance with the [Privacy Policy](#) of the Department of Infrastructure, Transport, Regional Development, Communications and the Arts and the Australian Privacy Principles. For more detail about the department's handling of information provided in a submission, please refer to the [Privacy Collection Notice](#).

If you would like to discuss your submission, please contact the NAIF Act Review Secretariat at NAIFActReview@infrastructure.gov.au.

Alongside the public submission process, the Panel will undertake targeted consultation with key stakeholders, including industry bodies; Australian, state and territory government agencies; and the NAIF itself. For more information please visit infrastructure.gov.au/NAIFActReview.

Introduction

The Northern Australia Infrastructure Facility (NAIF) was established in 2016, as a core component of the *Our North, Our Future: White Paper on Developing Northern Australia*. The NAIF is now a \$7 billion government Specialist Investment Vehicle designed to meet the unique needs of the north and drive economic growth in northern Australia by providing concessional financing to infrastructure projects.

Since its establishment, the NAIF has committed more than \$4.4 billion to support 32 projects with a total project value of approximately \$18.5 billion across northern Australia. This includes investments in regional airports, university student accommodation, energy and renewables, agriculture and water, transport and logistics, critical minerals, fertilisers, and other resources. NAIF's investment in these projects, on behalf of the Australian Government, is forecast to generate \$33.3 billion in public benefit for the north and create more than 18,300 jobs¹.

NAIF's operations are governed by the *Northern Australia Infrastructure Facility Act 2016* (the Act) and the *Northern Australia Infrastructure Facility Investment Mandate Direction 2023* (Investment Mandate). NAIF investment decisions are made by an independent, skills-based Board, and are informed by the project's alignment with the mandatory criteria and NAIF's own investment requirements. In addition, all projects funded by NAIF must have an Indigenous Engagement Strategy, which sets out objectives for First Nations participation, procurement, training and employment to improve outcomes for the First Nations population in the region of the proposed project.

¹ Data as at 31 July 2024

Topics for discussion

The Panel is seeking views on a range of topics to inform the Review and inform the future of the NAIF.

NAIF’s role and effectiveness in infrastructure investment across northern Australia

Northern Australia has historically faced challenges in accessing capital from commercial markets, in part due to distance, remoteness and climate. The NAIF was established to help grow investment, create jobs and support development across the north by helping to de-risk investment and encourage private sector investment. To achieve this, the NAIF provides concessional financing to infrastructure projects with a proven financing gap that would not have otherwise gone ahead.

NAIF financing supports various industries with a goal to make the north more diverse and boost the economy. So far, NAIF has made investments in regional airports, university student accommodation, energy and renewables, agriculture and water, transport and logistics, critical minerals, fertilisers, and other resources.



Figure 1 – NAIF investments as at 31 July 2024

Discussion Area 1: How does Government support, such as the NAIF, address the challenges experienced by projects in the north in securing commercially viable financing, and how might this support be improved or adapted?

Legislative framework and eligibility criteria

NAIF's operations are enabled and managed through its legislative framework (the Act and the Investment Mandate).

Northern Australia Infrastructure Facility Act 2016

The main objective of the Act is to establish the NAIF as a Corporate Commonwealth Entity which provides financial assistance for the development of northern Australia economic infrastructure.

Recent key amendments to the Act:

- In 2021, the Act was amended to extend the NAIF's operations for a further five years to 30 June 2026. It was also amended to allow the NAIF to provide loans and equity investments directly to entities, in addition to providing loans through the States and Territories.
- In 2023, the Act was amended to include the Indian Ocean Territories in the definition of northern Australia and to provide an additional \$2 billion to the NAIF, taking the total financing available to \$7 billion.

Northern Australia Infrastructure Facility Investment Mandate Direction 2023

The Investment Mandate provides direction to the NAIF Board about the performance of the NAIF's functions and outlines the mandatory criteria that projects must satisfy. The current Investment Mandate commenced on 15 December 2023.

The Investment Mandate ensures the NAIF's investments focus on 5 government policy priority areas, namely:

1. Sustainable and resilient economic development and the alleviation of economic or social disadvantage in northern Australia.
2. Working with jurisdictions to deliver key infrastructure projects in northern Australia.
3. Sustainability, climate change and circular economy principles and solutions in northern Australia.
4. Realising the Critical Minerals Strategy 2023–2030.
5. Materially improving the lives of Indigenous people and communities.

To be eligible for financial assistance, the NAIF must be satisfied that the project meets all applicable mandatory criteria:

- the project involves development or enhancement of northern Australia economic infrastructure
- the project will be of public benefit
- the project is located in, or will have a significant benefit for, northern Australia
- for financial assistance in the form of loans—the loan will be able to be repaid, or refinanced
- Indigenous Engagement Strategy – For Projects not solely in the Indian Ocean Territories, the Project Proponent must provide an Indigenous Engagement Strategy
- if an Alternative Financing Mechanism is provided in the form of equity or equity-like investment, this will generate a return to Government.

Statement of Expectations

In December 2022 and 7 July 2023 respectively, the responsible Ministers issued a Statement of Expectations and an addendum to the Statement of Expectations to the NAIF Board. This document provides strategic direction to the NAIF Board on the governance and performance of the NAIF. In response, the NAIF Board provided the Ministers with a Statement of Intent and an addendum to the Statement of Intent.

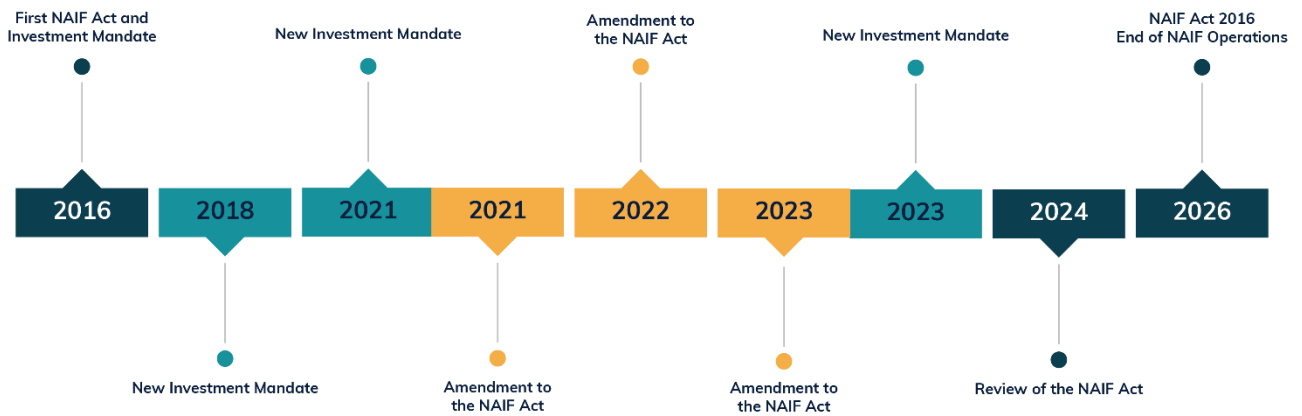


Figure 2 – Timeline of changes to NAIF’s legislative framework

Governance

The NAIF is governed by a skills based Board and under certain circumstances the Minister for Northern Australia has the right of veto on all investment decisions made by the Board. NAIF funding is appropriated through the Department of Infrastructure, Transport, Regional Development, Communications and the Arts and loan repayment by proponents must be returned to consolidated revenue.

Discussion Area 2: Does the current NAIF legislative framework enable it to support project types and scale anticipated to best deliver sustainable social and economic growth into the future?

Discussion Area 3: Are the governance arrangements, including the current approach to appropriate the NAIF through the Department, and administer all loan payments and repayments (and associated balance sheet assets and impairments) through the Department’s accounts, appropriate to manage NAIF and Government investment risks?

Products and services

The financial assistance offered by NAIF primarily takes the form of loans, but can include other financial mechanisms, such as equity, which are explored below. Projects seeking NAIF finance must undergo and satisfy rigorous due diligence and project assessment based on eligibility criteria. If projects are found to be eligible, financial solutions are tailored by NAIF to meet the specific needs of each project. NAIF does not provide grants, and all NAIF loans must be repaid in accordance with the loan terms.

Project finance loans

NAIF loans are provided predominantly through the States and Territories, but may be direct to project proponents.

Loans may be offered on concessional terms, which can include:

- loan term
- interest rate
- extended periods for interest capitalisation beyond construction completion
- deferral of loan repayments or other repayment schedules
- lower or different fee structures.

Alternative financing mechanisms

NAIF may only offer an alternative financing mechanism (rather than a loan) for a project if NAIF is satisfied that, unless an alternative financing mechanism is used, the project would either:

- a. not proceed; or
- b. would proceed, but the public benefits able to be achieved would be considerably lower than could be achieved with the alternative financing mechanism.

Equity Investments

NAIF may provide financial assistance in the form of equity investments, however, this instrument has not yet been utilised. The Investment Mandate 2023 states in Section 10(1) that loans are to be the primary form of financial assistance considered by the Facility for all Investment Proposals and the Statement of Expectations (SoE) 2022 states that direct lending or direct equity should be called upon only in circumstances where protracted negotiations with a State or Territory on provision of financial assistance are putting at risk timely delivery of a project that would otherwise proceed with direct financing. This is in the context of the requirement (Investment Mandate 2023 and SoE 2022) that NAIF provide financial assistance through a State or Territory as the primary method of providing assistance.

Any equity investments made by NAIF must be between \$5 million and \$50 million per project, and it must not make more than \$500 million in equity investments overall. Equity investments made by NAIF must also not result in the NAIF or the Commonwealth taking a majority or controlling interest in a project.

Letters of credit, guarantees and similar instruments

Other financial assistance offered by NAIF may include letters of credit, the purchase of primary-issue bonds, debentures and other debt-like instruments. These have not yet been utilised by the NAIF and the current appropriation model may constrain their use.

Discussion Area 4: Are the current concessional financing products and services provided by the NAIF meeting the needs and interests of northern Australia?

Discussion Area 5: Are there other roles for NAIF other than as a provider of concessional finance?

Project assessment process

When making investment decisions, the NAIF conducts an initial high-level evaluation to ensure project eligibility against the mandatory criteria. If a project is found to meet the mandatory criteria, NAIF will then undertake a strategic assessment. The strategic assessment considers factors including the project business case, financial modelling, offtake agreements, relevant approvals and the project's potential to meet public benefit and Indigenous Engagement Strategy guidelines.

NAIF will also undertake the following due diligence assessments:

- credit risk analyses
- environmental and social impact
- compliance with the Australian Industry Participation Plan
- work health and safety accreditation.



Figure 3 – NAIF's project assessment stages

Eligibility and project size

NAIF's feedback data (stakeholder engagement survey and project enquiries) indicate demand in the market for more small loan gap financing in northern Australia. Previous reforms to NAIF sought to increase its ability to deliver small loans through partnerships with regional financiers – leading to the establishment of the Northern Territory Government's Local Jobs Fund (see below).

Small loans partnership with the Northern Territory

NAIF is working with the Northern Territory Government by contributing up to \$50 million to the Northern Territory Local Jobs Fund (NTLJF). This investment gives eligible small and medium sized businesses in the Northern Territory access to loans of up to \$5 million (and up to \$10 million in some instances) through the NTLJF's Territory Infrastructure Loans program.

Over time NAIF's average loan has grown. Its average loan size for Investment Decision's made in its first 4 years was approximately \$92 million – and in the second 4 years it was \$141 million. While NAIF's lowest value loan is \$7.18 million, only 4 loans are currently less than \$20 million in value.

NAIF's website states that *"because of the high level of work required to carry out due diligence, assess public benefit, complete all documentation, and develop Indigenous Engagement Strategies, we primarily focus on providing loans above \$10 million."* These obligations may in practice enforce a floor for loan size under which it becomes untenable for proponents to seek NAIF financing. The NTLJ has different due diligence processes and a clear mandate to make small loans, but the low demand to date has meant no small loan agreements have yet (as at 31 July 2024) been entered into.

Discussion Area 6: Does the NAIF legislative framework or processes preclude small to medium enterprises from securing support for projects that will create economic and community development benefits?

Discussion Area 7: Is there an ongoing role for NAIF in small loans? In what circumstances?

Delivering economic and community outcomes

Supporting economic and community benefits

The NAIF is intended to support projects that demonstrate a tangible economic and community benefit to northern Australian communities.

Under the Investment Mandate, the NAIF must be satisfied the proposed project will produce benefits² to the broader northern Australia economy and community beyond an economic return to the project. Such benefit could include, but it is not limited to:

- providing a basis for economic growth in the region or community such as by providing local employment opportunities (including employment opportunities for First Nations peoples), growing regional income, increasing sovereign capability, providing local procurement opportunities (including Indigenous procurement opportunities), or increasing business for local suppliers; or
- stimulating population growth by improving regional or community access to social infrastructure, for example social or affordable housing, or by increasing regional or community liveability or living standards.

To assess this, the NAIF requires proponents to undertake a public benefit assessment including quantitative forecasts on Direct Jobs and Indirect Jobs during life of the project and beyond. The expected value of the public benefit attributable to the north, must exceed the estimated value of any concessions offered.

Within 2 years of the project completion, NAIF is required to conduct a review of project performance and outcomes again the forecast at Investment Decision stage.

Discussion Area 8: Does the NAIF public benefit assessment process prioritise economic benefits over community development benefits? Should alternative methods be used to capture community benefits?

Supporting First Nations communities

First Nations people have a major presence in northern Australia, representing 17.4% of the total population in northern Australia, compared to 3.8% nationally.³ In addition, 78% of northern Australia is subject to some form of First Nations legal right or interest, most commonly Aboriginal Land Rights or Native Title.⁴ Improving First Nations outcomes is key to the future economic development of northern Australia.

As at 31 July 2024, NAIF financing has created employment for more than 1,000 First Nations people, and NAIF funded projects have reported approximately \$70 million spent on First Nations procurement.⁵ To support First Nations inclusion, the Investment Mandate requires projects to have an Indigenous Engagement Strategy (IES) in their proposals. Materially improving the lives of Indigenous people and communities is also an identified Government Policy Priority under the Investment Mandate.

The IES sets objectives for First Nations participation, procurement, training and employment to improve outcomes for the First Nations population in the region of the proposed project. The Investment Mandate states that these objectives should be designed in partnership with local First Nations people where possible and contain plans demonstrating a commitment to First Nations communities.

² Source: NAIF Public Benefit Guideline March 2024

³ Bureau of Communications, Arts and Regional Research (BCARR) analysis of Australian Bureau of Statistics (ABS), Estimates of Aboriginal and Torres Strait Islander Australians, 30 June 2021 data, ABS website, 2023. Analysis based on Statistical Areas Level 2 for the mainland and Local Government Areas for Christmas Island and Cocos (Keeling) Islands

⁴ Source: NAIF [website](#), accessed 19.08.2024

⁵ Source: NAIF [website](#), accessed 19.08.2024

Project proponents must report regularly on achievements against the IES objectives to show their commitment to First Nations people throughout the project lifecycle. The Investment Mandate also requires NAIF to publish a summary of the proponent's IES within 30 days of an Investment Decision, and report annually on the non-financial outcomes of its Investment Decisions, including First Nations employment and procurement opportunities.

While NAIF has a performance target (2023-24) of supporting at least 2 projects annually with significant indigenous ownership, this target was not met in 2023-24 nor in 2022-23 (noting one such project in this year did progress to due diligence stage).

Discussion Area 9: How can NAIF best support the needs and interests of First Nations businesses, communities and First Nations capacity building through its investments?

Discussion Area 10: Is the Indigenous Engagement Strategy approach sufficient to support First Nations procurement and employment? How might this approach be improved or adapted?

Discussion Area 11: What are the impediments in First Nations led projects in meeting the requirements for NAIF concessional finance?

Other relevant matters

The Panel invites any additional insights or comments stakeholders would like to provide to inform the review and shape the future of the NAIF.

Discussion Area 12: Are there additional insights or comments you would like to offer as part of this review process?

Appendix A – Terms of Reference

A.1 Terms of Reference for the 2024 Northern Australia Infrastructure Facility Statutory Review

The *Northern Australia Infrastructure Facility Act 2016* (the NAIF Act) established the Northern Australia Infrastructure Facility (NAIF). The NAIF Act was previously reviewed in 2019-20, and subsequently amended 27 May 2021 extending the NAIF investment window to 30 June 2026. The NAIF Act was again amended on 4 July 2023, providing an additional \$2 billion to the NAIF - taking the total financing available to \$7 billion. The NAIF Act broadly creates opportunities for the NAIF to meet current and future challenges by supporting and/or aligning with broader Australian Government policy priorities, such as the Critical Minerals Strategy, Net Zero Policy and a Future Made in Australia Agenda.

Without limiting the matters to be covered by the review of the NAIF Act (the Review), section 43(2) of the NAIF Act stipulates the Review must consider the following in relation to the NAIF:

- whether the time limit of 30 June 2026 set out in section 8 of the NAIF Act for making decisions to provide financial assistance should be extended; and
- the appropriate governance arrangements for the NAIF after 30 June 2026.

In addressing the above matters, the Review should consider:

- the need for, and effectiveness of, the NAIF in facilitating and supporting the development of economic infrastructure across northern Australia;
 - including its value in supporting industry growth in northern Australia with publicly funded concessional finance, including assessing and determining the optimal level of concessionality;
- the appropriateness of NAIF’s legislative framework, including the *Northern Australia Infrastructure Facility Investment Mandate Direction 2023* and rules made under the NAIF Act and eligibility criteria;
- the suitability and effectiveness of NAIF’s products and services and finance delivery mechanisms beyond 30 June 2026;
- whether NAIF’s administrative, governance (including legislative) and operating arrangements are fit for purpose, including reference to:
 - screening, due diligence, credit and risk assessment processes and management;
 - skills matrix for the Board and senior management;
 - joint ministerial roles and responsibilities;
 - appropriate structure and management of appropriation;
 - management (including risk management) and reporting of NAIF loan assets and associated impairments;
 - opportunities to improve the efficiency and effectiveness of loan delivery and management, including with reference to other Commonwealth Specialist Investment Vehicles; and
 - Australian Government policy and guidelines applicable to Specialist Investment Vehicles.
 - other learnings from, and collaboration and complementarities with, other Commonwealth Specialist Investment Vehicles.
- the appropriateness of the NAIF portfolio diversity to maximise growth in the north;
- opportunities to support greater engagement and inclusion of First Nations people and organisations in NAIF projects, including procurement and employment, and as project proponents; and
- other matters relevant to the operation of the NAIF Act.

An Independent Expert Panel (the Panel) will be established to undertake stakeholder consultation for the Review and prepare the final report.

The Panel members will be selected for expertise in regional development, public policy and infrastructure, which will enable them to make assessments based on a thorough understanding of the economic challenges faced by communities in northern Australia.

The final report should include recommendations on the NAIF Activities and governance arrangements of the NAIF after 30 June 2026.

Timing

The Review is to be finalised and a written report provided to the Minister for Northern Australia and the Minister for Finance on, or before, 15 December 2024.