



Export Finance Australia

2019–2020 Corporate Plan

Financing Australian exporters
to take on the world



Australian Government

export
finance
australia

Contents

Introduction	1
About us	2
Our purpose	5
Operating environment	8
Strategy	13
Capability	17
Key performance targets	20
Risk management	24
Appendix A: Statement of Expectations	29
Appendix B: Statement of Intent	35

Introduction

As Chairman of Export Finance Australia*, and on behalf of the Board as the accountable authority, I am pleased to present our 2019–2020 Corporate Plan.

The Plan covers the four-year period from 2019–20 to 2022–23, as required under paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

It also incorporates the requirements of section 49 of the *Export Finance and Insurance Corporation Act 1991* (EFIC Act).

James M Millar AM

Chairman, Export Finance Australia

**On 1 July 2019, the Export Finance and Insurance Corporation (Efic) began operating under the name Export Finance Australia.*

About us

Export Finance Australia
provides financing for
Australian exporters and
for overseas infrastructure
development in our region.



As the Australian Government's export credit agency (ECA), we are an integral part of Australia's international trade focus – supporting businesses, jobs and the community. We play a critical role for our customers and partners by using our commercial financing capability to support viable exporters and overseas infrastructure development when financing from the banking market is unavailable.

We work closely with banks, other financial institutions and partners, such as Austrade and the Department of Foreign Affairs and Trade (DFAT), to support exporters and our international partners on their growth journey. By doing so, we encourage and catalyse private market financing.

In recent years, the Government has enhanced our mandate and capital base to enable us to support a wider range of exporters (especially small and medium-sized enterprises (SMEs)), assist other government entities, and finance overseas infrastructure development, especially in the Pacific region.

These changes have complemented and enhanced our core export-focused mandate and we have used our specialist financing capabilities to support broader government policy initiatives.

We are a corporate Commonwealth entity with an independent Board that is responsible for managing our affairs. This includes determining strategy, defining risk appetite and monitoring performance.

We are part of the Foreign Affairs and Trade portfolio of agencies. Our responsible Minister is the Minister for Trade, Tourism and Investment, Senator the Hon Simon Birmingham (Minister).

Our impact

In 2018–19, our activities generated a positive impact for Australia.



Helped
107
businesses



Supported
A\$2.3b
of export contracts



Supported
13,622
jobs in Australia*



Contributed
A\$1.64b
to Australia's GDP*

*Analysis on the value of Export Finance Australia's contribution to the Australian economy undertaken by the Centre for International Economics.

How we provide finance

We help customers with finance solutions, which may involve loans, bonds, guarantees and insurance. We deliver our support in one of two ways – through our Commercial Account and/or the National Interest Account.

Commercial Account

Under the Commercial Account, we act as a for-profit corporation. We retain all margins and fees and bear all risks and losses. Decisions under the Commercial Account are the responsibility of the Export Finance Australia Board.

National Interest Account

Under the National Interest Account, the Minister can direct us to support transactions that are in the national interest.

We can also refer transactions to the Minister for consideration. This might be due to the transaction's size, tenor or significant exposure to the country of export.

The Commonwealth receives all income on National Interest Account transactions. It also bears all risks and losses. Decisions under the National Interest Account are the responsibility of the Government.

The Defence Export Facility and the Australian Infrastructure Financing Facility for the Pacific (AIFFP) financing are delivered through the National Interest Account.

What is an ECA?

Most advanced countries worldwide have government-owned ECAs, with a role to support and enable export trade for their country. Generally, these agencies provide various financing solutions to help businesses grow exports. The types of support provided depends on the mandate from the government and can include providing loans, insurance, guarantees and bonds.

Our purpose

To play an impactful role in financing Australian exports and interests, including overseas infrastructure development.



We achieve our purpose by fulfilling our mandated functions (see Appendix A and B), which are to:

- facilitate and encourage Australian export trade and overseas infrastructure development by providing finance
- encourage banks and other financial institutions to finance exports and overseas infrastructure development
- provide information and advice about finance to help support Australian export trade
- assist other Commonwealth entities and companies in providing finance and financial services
- administer payments in relation to overseas aid projects financed by the Commonwealth.

We do this by:



Supporting SMEs, corporates and governments to realise export opportunities

We support small, medium and large businesses across a range of industries – from advanced manufacturing and defence to tourism and shipbuilding.

Through our online digital service, *expertonline*, we provide SMEs with access to fast loan options.

Our specialist expertise allows us to help with financing solutions for larger corporate and sovereign projects. This enables us to bring Australian SMEs into the project's supply chain.



Helping finance sustainable infrastructure in the Pacific region and beyond

The Australian Government's 2017 Foreign Policy White Paper details how Australia's economic and security interests are converging. To meet the challenges of an increasingly contested and competitive region, it sets out an agenda for shaping a regional balance that supports Australian interests.

To support this agenda, the Government recently:

- enhanced our commercial mandate to include a new overseas infrastructure financing power
- provided us with an extra \$1 billion in callable capital
- directed us to provide operational and technical support to the AIFFP, a \$2 billion development-focused infrastructure financing facility for the Pacific
- encouraged our active participation in the Trilateral Partnership for Infrastructure Investment in the Indo-Pacific, with DFAT, the Overseas Private Investment Corporation and the Japan Bank for International Cooperation.



Providing defence export finance through the Defence Export Facility

As part of the Government's focus on building Australia's defence export capabilities, we administer the US\$3 billion Defence Export Facility. This amount is an upper limit available under the National Interest Account, it is not an amount that has been provided to Export Finance Australia. As directed by the Minister, this facility provides a way for us to finance defence exports where we may not be able to help under our Commercial Account.

The first loans under the Defence Export Facility were authorised in late 2018.



Enabling broader government objectives by supporting other Commonwealth entities

We provide expertise and support to other Commonwealth entities as directed by the Minister.



Australian
Infrastructure
Financing Facility
for the Pacific

The AIFFP supports infrastructure that encourages prosperity in the Pacific and Timor-Leste.



Australian Government



The National Housing Finance and Investment Corporation improves housing outcomes by making loans, investments and grants to encourage investment in social and affordable housing.



Australian Government

National Indigenous Australians Agency

The Indigenous Entrepreneurs Capital Scheme provides access to private sector capital for Indigenous businesses.



Australian Government



Northern Australia Infrastructure Facility

The Northern Australia Infrastructure Facility is a lending facility established to provide loans (which may be concessional) to infrastructure projects that benefit northern Australia.



Operating environment

Four key factors influence our operating environment and the demand for our products and services:

1. Australia's export outlook
2. Mandate requirements
3. Regulatory and prudential settings
4. Australian Government policies and directions

1. Australia's export outlook

The global economy's weak start to 2019 will likely weigh on Australian exports. The fallout from the ongoing trade tensions between the US and China sapped momentum from the global economy, weighing on growth across Australia's major trading partners. Current forecasts suggest a tepid improvement in 2020. However, a further escalation of trade tensions from the US and China, and between the US and Europe, could further hurt the economic outlook. The potential for a hard Brexit or a slowdown in Chinese economic activity also poses risks.

Earnings from the resource sector are forecast to trend lower as the expected decline in commodity prices outweighs the steady improvement in export volumes. Iron ore and coal export volumes are expected to pick up gradually over 2019 as they recover from various disruptions to production. As a result of delays in some liquid natural gas (LNG) projects, LNG exports are likely to reach production targets over the second half of 2020, instead of late 2019 as was previously expected.

Manufacturing export volumes are expected to grow steadily, supported by the lower exchange rate. We expect service exports to continue to be supported by student and visitor arrivals.

Meanwhile, cyclical factors mean that rural exports are expected to decline over the next year, as the effects of unfavourable weather conditions weigh on cereal and meat production. Further out, the outlook is highly contingent on weather outcomes and

assumes that seasonal conditions gradually return to their long-run averages over the next few years.

Over the medium term, we expect the following three key areas to drive Australia's export growth.



Knowledge-intensive, innovative industries will provide big opportunities for export growth

Through the Industry Growth Centres Initiative, the Government's focus on food and agribusiness, health (including medical technologies and pharmaceuticals), advanced manufacturing, digital technology and cybersecurity actively supports this potential. This should help rebalance Australia's economy as it moves beyond resources.



Growing consumption by Asia's middle-class

Between 2015 and 2030, spending by a newly affluent middle-class in the Asia-Pacific region is expected to almost triple to US\$37 trillion. Australia is ideally placed to access this fast-growing market.



Improved market access

Free trade agreements (FTAs) are improving market access for Australian exporters. The government has achieved FTAs with the three Asian powerhouses of China, Japan and Korea. The Trans-Pacific Partnership (the TPP-11) has been settled. Currently, over 70% of Australia's exports are covered by FTAs, targeting around 90% if FTAs under negotiation are concluded.

2. Mandate requirements

Our operations are subject to legislative and mandate requirements that involve ongoing investment in specialist capability, time and resources.

Although our mandate continues to evolve, our strong priority is to create economic opportunities for Australian export-related businesses.

A summary of our key mandate requirements is as follows:

Availability of private sector finance

Our mandate indicates that we can only provide financial support where the private market is unable to do so. Therefore, we don't compete with banks or other financial institutions. However, broader macro-economic conditions and domestic issues can affect credit markets and the private sector's risk appetite.

So, when deciding whether to offer finance, we consider the private sector's willingness to lend.

We are a counter-cyclical business, so when credit availability is strong, the need for our support may decrease. Our involvement often acts as a catalyst for the private market to step forward and provide support to businesses. In these cases, we may step away from transactions or reduce our exposures. If our early involvement means the private sector later steps in to meet our customer's needs, then we have been successful.

The financial impact achieved by securing private market involvement can be difficult to quantify, but we disclose it when it does occur.

Focus on SMEs

Support for SMEs is vital for the future growth of the Australian export sector and economy in general. We therefore focus our support on a wide range of businesses operating in this important sector. We do this in three ways:

- through our dedicated SME financing business, whose focus is to identify and finance viable exports in this sector
- with continuous improvements to our product offering, to ensure that SMEs are able to access overseas markets and expand their business overseas
- by linking Australian SME involvement to our financial support for large projects and transactions.

Overseas infrastructure development finance in the Pacific and beyond

Recent changes to our mandate require us to focus on the infrastructure needs of Pacific Island countries (and Timor-Leste) and the broader Indo-Pacific region. This presents an exciting opportunity for Export Finance Australia to extend our financing expertise into new projects to create value for Australia and the region.

Our provision of financing for all overseas infrastructure projects must be appropriate for the benefiting nation and apply the highest governance standards. To ensure this, we apply internationally recognised OECD standards for sustainable lending practices, environmental and social due diligence, and anti-bribery and corruption measures.

Australian benefit

Our ability to finance exporters requires us to identify Australian benefits flowing from our support. Such benefits may include:

- Australian content
- greater Australian participation in supply chains
- access to new markets for Australian businesses
- more Australian jobs
- payments, dividends or other financial proceeds from overseas to Australia.

Domestic or overseas resource projects

We recognise that large projects or firms can help SMEs access markets through supply chain participation. To ensure a balance in the level of support we provide to large transactions, our Board must satisfy itself that:

- there is a market gap in the availability of finance
- the transaction does not come at the expense of SME transactions
- the project has significant Australian content, including SME supply chain participation and/or benefit
- the project is financially viable.

Multiple transactions

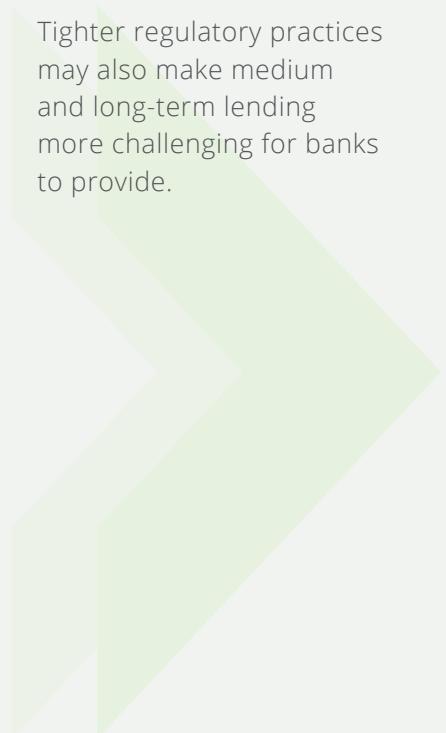
Our demonstration role to the private market means we limit our support of the same business to three times within a three-year period. If support is needed beyond this threshold, our Board must be satisfied that the support relates to an emerging market or will not crowd out private sector financiers.

3. Regulatory and prudential settings

Australian financial services providers continue to face a challenging period. The availability of private sector finance, and the need for our services and support, will vary according to economic and regulatory settings.

We may need to become more involved if the private finance market reduces its support for businesses. Alternatively, banks could react by prioritising business lending. This would result in less need for funding.

Tighter regulatory practices may also make medium and long-term lending more challenging for banks to provide.



4. Australian government policies and directions

We continue to play an important role in contributing to the Government's policy objectives. This role is broader and more complex than that of other financial institutions and cannot necessarily be measured using standard commercial benchmarks or outcomes.

Our role includes ongoing specialist support of DFAT in its engagements with the Paris Club, OECD and the International Working Group on Export Credits.

The Asian Development Bank (ADB) estimates the Pacific's infrastructure needs are approximately US\$3.1 billion per year (until 2030).

Similarly, the ADB estimates that developing Asia will require US\$26 trillion of investment over the 15 years to 2030 (US\$1.7 trillion per year). Such large financing requirements can't be met by any one country or organisation, creating the opportunity for Australia to play an important role.

Commercial banks are often unwilling or unable to finance overseas infrastructure, due to the complexity of working in emerging markets, countries' credit profiles, and the long-term financing needs of infrastructure projects.

Increasingly, ECAs are helping bridge infrastructure financing gaps and supporting companies when other sources of finance are unavailable.

With our enhanced mandate, which includes \$1 billion in additional callable capital, our role in supporting the AIFFP, and our international partner agency connections, we can now provide a more credible contribution to the infrastructure financing needs of the Pacific and Indo-Pacific regions.

Infrastructure projects have long lead times, particularly when working in remote jurisdictions like the Pacific. We recognise that sustainable infrastructure projects will take time to develop, as we work towards building a credible infrastructure transaction pipeline.

A low-angle, upward-looking photograph of several modern skyscrapers. The buildings feature a mix of glass facades and brickwork. The sky is a vibrant blue with scattered white clouds. The perspective creates a sense of height and architectural scale.

Strategy

Our strategy helps ensure we deliver on our purpose and mandate. It consists of three core priorities.

1. Refine our business model

We will continue to refine our business model to make it easier for Australian exporters to work with us. Our leadership and culture will enable us to:

- realise our purpose
- learn and grow
- deliver great customer outcomes.

Strategy 1: Continue to refine our current business model

Activities

- Simplify our products and use the *exportonline* platform more effectively
- Promote our solutions to small, medium and large businesses

Outcomes

- Increased business activity
- Increased awareness of Export Finance Australia in all export market segments
- Increased support for a wider range of exporters
- Improved customer services and transaction turnaround times

Strategy 2: Balance our demonstration role with long-term profitability

Activities

- Continue to work with banks and other financial institutions to help Australian businesses take on export opportunities
- Leverage our new and revised mandate

Outcomes

- Australian export businesses get the financial support they need to take on commercially viable export contracts, either through Export Finance Australia or other financial institutions
- Increased support for infrastructure that typically has long lead times. This may impact short-term profitability while a pipeline is developed but will generate benefits in the longer term as financings are completed

2. Evolve our business model

Over the last year we have evolved to be a more integral part of Australia's international trade focus.

Through effective strategic partnerships and collaboration across the export ecosystem, we will seek to support more export businesses, as well as infrastructure in the Indo-Pacific region which benefits Australia.

Strategy 1: Collaborate with the broader export finance ecosystem to deliver our mandate

Activities

- Partner with Austrade to help Australian exporters access the world
- Collaborate with other financial institutions and government agencies
- Work with other ECAs to support our infrastructure mandate

Outcomes

- Increases instances where Export Finance Australia assists Austrade clients
- Export Finance Australia supports solutions to a wider range of customers
- Engagement with ECAs to develop and deliver on infrastructure projects in the Indo-Pacific region

Strategy 2: Help the Government meet its broader policy objectives

Activities

- Use our new infrastructure mandate to support the AIFFP
- Actively seek opportunities for the Defence Export Facility and AIFFP
- Continue to support existing Commonwealth entity and company service level agreements, as directed by the Minister

Outcomes

- Active engagement with banks and alliance partners to support our customers
- Export Finance Australia supports the Government on delivering key policy objectives on the National Interest Account
- Export Finance Australia supports the Government in delivering efficiencies by leveraging existing support services capability

3. Disrupt our business model

We will position our organisation for the future by:

- understanding the global trade outlook and its impact on our business
- actively engaging with the Government on trade priorities
- working with our stakeholders to set clear expectations about our role
- canvassing the financial landscape (including ECAs)
- adopting new technologies to help us better support our customers.

Strategy: Enhance our role

Activities

- Work with DFAT to develop our role in supporting Australia's export trade landscape
- Understand the global financial landscape to ensure our offering is relevant to the changing export environment and Australia's interests

Outcomes

- Export Finance Australia supports Australia's trade, innovation and industry policies
- Export Finance Australia uses its international network, through partnerships and collaboration, to benefit Australian businesses

The background of the slide is a vibrant, abstract digital composition. It features a dark blue and black base, overlaid with numerous glowing orange and yellow light streaks that create a sense of motion and energy. Scattered throughout are patterns of binary code (0s and 1s) in a light blue or cyan color, some of which are slightly blurred, giving a three-dimensional effect. The overall aesthetic is high-tech and futuristic, suggesting themes of innovation, technology, and digital transformation.

Capability

Our capability needs to adapt to meet our evolving mandate. We are creating a more innovative and adaptable organisation, with a culture that supports our people to learn and grow – so they can deliver good customer outcomes.

Our culture

We encourage people to think differently, collaborate effectively and actively challenge the status quo.

We are creating a culture that:

- fosters leadership empowerment
- promotes inclusivity
- enhances accountability
- values true diversity.

Our culture is built on these four pillars:

WE EXCEL	WE LISTEN	WE COLLABORATE	WE GROW
We value high performance and are proud of achievements that are aligned with our purpose	We adapt to changing customer and market needs, and continuously improve the customer experience	We keep each other well informed and seek contributions from others to remain relevant	We grow our organisation and ourselves
			
<i>We embed our purpose, values and performance expectations into our key performance indicators, roles and responsibilities</i>	<i>We design our systems and processes to meet the needs of our customers</i>	<i>We provide consistent, transparent and timely communication (up, down and sideways)</i>	<i>We promote and reward different ways of working across all roles to improve outcomes – and provide leadership support and mentoring to help people grow</i>

Our people

We rely on our people to deliver the highest level of service to our customers. As our mandate evolves, we need to develop the capability of our people, as well as hire resources with the relevant skills and experience to deliver our expanded mandate.

We seek a blend of complementary skills and draw upon the collective expertise of our people who have a background in both the private and public sectors. Our Executive and senior management teams bring substantial global and local financing experience.

Our systems

We will continue to embrace innovation in technology, systems and processes. This will help to improve our service delivery to our customers.

This includes:

- reviewing our internal systems to ensure they provide a seamless and customer-centric experience
- moving to cloud-based infrastructure and services to take advantage of its mobility, scalability and security
- moving workflows online, including removing paper and email-based processes, and implementing mobile applications, to support our processes with easier, on-demand access for staff
- continuing to enhance our *exportonline* portal and internal support systems, to better support customer needs and provide a high-quality and efficient customer experience.

Our partnerships

We will continue to strengthen partnerships with financial institutions, government agencies, industry groups and other organisations, to help drive Australia's trade success and interests.

This will help broaden our reach, build on our capabilities, and increase the number of export businesses we support.

In particular, we will continue to work closely with Austrade to provide a more seamless experience for customers seeking government support. This includes:

- taking a proactive, customer-focused approach to partnership outcomes
- harnessing and sharing collective capabilities and resources
- providing a mechanism to align work across agencies
- adapting activity plans to learn and evolve, to meet changing customer needs.

Who are our partners?

- Australian and State and Territory government agencies
- Peak industry groups and sector associations
- Business chambers and councils
- Private sector, including banks and professional services firms

A laboratory setting with two computer monitors displaying scientific data, a microscope, and a rack of test tubes. The background shows shelves with various bottles and lab equipment. The overall color scheme is blue and green.

Key performance targets



Commercial Account

The table below provides our best estimate on the expected level of business activity over the next four years. This takes into account the enhanced mandate and broader capital resources made available to us in April 2019.

However, it must be recognised that planning out four years is difficult given our 'market gap' mandate and the episodic need for financing in any one year.

In a practical sense, because we cannot compete with banks or other financial institutions, their risk appetite impacts the level of business we can undertake. For that reason, our planned business activity relating to transactions completed and customers supported is largely outside our control.

Consistent with previous years we have shown our performance targets in a range and the targets in later years are dependent on achieving planned outcomes in the previous years.

Similarly, our financial outcomes are shown in a range. Over 70% of our income is derived in US Dollars (USD) and therefore movements in USD interest rates and exchange rates can have a significant impact on our profitability.

In 2018–19 for example, we benefitted from lower long-term USD interest rates although lower exchange rates had the opposite effect. Again, these factors are largely outside our control and given the nature of our portfolio difficult to hedge.

We outline performance risks in the next section, which should be considered when assessing our planned outcomes in the following table.

Table 1: Performance targets

Performance criteria	Measure	2018–19* (actual)	2019–20	2020–21 (plan)	2021–22	2022–23
Transactions completed	Dollar value of facilities signed	\$377.6m	\$500m–\$700m	\$650m–\$850m	\$650m–\$850m	\$700m–\$900m
	Dollar value of export contracts supported	\$2.3b	\$2.0b–\$3.0b	\$2.0b–\$3.5b	\$2.0b–\$3.5b	\$2.5b–\$4.0b
Customers supported	Number of customers supported	107	125–150	135–160	135–160	145–170
	Percentage of new customers supported	44%	40%–50%	40%–50%	40%–50%	40%–50%
Referrals	Percentage of transactions referred to banks	> 80%	> 80%	> 80%	> 80%	> 80%
Financials	Commercial Account profit (pre-tax)	\$36.8m	\$26m–\$30m	\$30m–\$34m	\$32m–\$38m	\$34m–\$42m

*The 2018-19 Commercial Account profit was impacted by movements in both USD interest rates and exchange rates. Given over 70% of our portfolio is denominated in USD, movements in such rates can have a material impact on our profitability. While we hedge our loans and borrowings, the future net interest margin is not hedged. This year, as a result of market fluctuations, we booked \$10 million in income (on a fair value basis) from movements in long term USD interest rates. Offsetting this, we also booked an unrealised loss of \$3 million from a decline in the AUD / USD exchange rate. The result of these market movements was additional net income of \$7 million.

When we prepare our Corporate Plan, we assume USD interest rate and exchange rate have no material impact on our underlying profitability. Therefore, when assessing Commercial Account profit for future years we regularise profitability back to eliminate these market movements.

Table 1: Performance targets (continued)

Our functions*	
Facilitate and encourage Australian export trade and overseas infrastructure development	Leverage the Commercial Account, National Interest Account, AIFFP, Defence Export Facility and Trilateral Partnership for Infrastructure Investment in the Indo-Pacific to develop a pipeline of transactions that meet the requirements of our new and existing mandate and thereby contribute to Australia's GDP and job growth
Encourage other financiers to support export trade and overseas infrastructure development	Collaborate and partner with banks and other financiers to support exporters and overseas infrastructure development
Provide information and advice about export and infrastructure finance	Leverage our wider government and alliance partner network to provide timely information and promote our finance offering
Assist other Commonwealth entities	Provide timely and professional services consistent with the service level agreement and as directed by the Minister
Administer overseas aid payments for the Commonwealth	Be a trusted adviser to the Government on financial payment solutions

*See page 6 for a comprehensive list of our functions.

National Interest Account

We generally do not set performance targets for transactions on the National Interest Account as it is a decision by the Minister, based on a referral from our Board.

The Minister can direct us to enter into a facility or give approval for us to enter into a facility if the Minister believes it is in the 'national interest' to do so.

Under the National Interest Account, the Commonwealth receives all net income and must reimburse us for any losses.

Transactions on the National Interest Account also include facilities written under the Defence Export Facility (US\$3 billion facility) and the recently established AIFFP (\$2 billion facility).

The only facilities reported in this Plan are facilities where we have received a direction from the Minister.

During 2019–20, based on direction from the Minister dated 3 December 2018, we expect to sign facilities in excess of \$200 million relating to the Defence Export Facility.

Performance risks

Meeting our 2019–20 performance targets

Given the ‘market gap’ nature of our mandate we expect our results to vary year on year.

Our performance targets for 2019–20 are ambitious and are influenced by a number of factors:

- **Maintaining mid-market momentum.**
We experienced an increase in the number of larger mid-market transactions completed in the second half of 2018–19. Our performance targets for this year are forecast on maintaining this momentum.
- **Transactions in the pipeline.** In 2018–19 we had a number of large transactions that experienced delays in closing due to their high complexity. We expect these transactions to now close in 2019–20. This will inflate our 2019–20 transaction value relative to 2018–19.
- **Increase in smaller transactions.** As we continue to refine our product offering and market approach, we expect to see a larger number of small deals at a lower average value.

Achieving longer term performance targets

Our ability to achieve our longer term performance targets depends on a number of factors, including, but not limited to:

- **Commercial market appetite.** As outlined on page 10, we don’t compete with banks or other financial institutions; therefore, the availability of commercial market finance will impact the volume and value of transactions we are able to support.
- **Previous year results.** If our business activity in previous years is significantly different to our targets, it will affect our financial outcomes in later years.
- **Long lead times.** Infrastructure financing is complex and requires long lead times.
- **Government support.** Government programs, notably the AIFFP and the Defence Export Facility, will result in new National Interest Account facilities. While these potential transactions have not been included in our performance targets, they will require substantial focus by our teams.
- **Counterparty and concentration risks.** The types of individual counterparty and concentration risks that we take on under our mandate affect the characteristics of our portfolio. Our credit concentrations can be material to individual counterparties, industries and countries. We have a small earnings buffer to absorb material credit losses.
- **Trilateral Partnership for Infrastructure Investment in the Indo-Pacific.** Meeting the objectives of the partnership between Australia, the US and Japan is likely to be a significant driver of effort and business activity.
- **Building partnerships.** Strengthening partnerships with other financial institutions, government agencies, industry associations and the foreign consular network, will increase awareness of our solutions and capabilities across a broader export landscape. These relationships will be vital in creating opportunities for growth and supporting investment by Australian businesses into emerging economies.

An aerial, high-angle photograph of a container ship's deck. The ship is moving through dark, choppy water. The deck is densely packed with intermodal containers in various colors, including blue, red, orange, yellow, and maroon. The containers are arranged in neat rows, with some showing signs of wear and rust. The ship's hull and railings are visible along the edges of the deck. A green rectangular overlay is positioned in the upper right corner, containing the title and introductory text.

Risk management

Risk management is a core part of our business. We have developed an enterprise-wide Risk Management Framework that defines our principles and the types of risks we face.

Our risk management approach

Our approach to risk management involves ensuring that the level and quality of capital is appropriate for our overall risk profile.

You can read more about our Risk Management Framework on our **website**.

Oversight of risk management

Risk policies, tolerances and operational limits are set by our Board, the PGPA Act, and the EFIC Act and Regulations. All transactions we underwrite are reviewed by our Board or by management as delegated by the Board. Country-related economic and political risks are assessed by a team of experts.

Prudential management

Although we are not directly regulated by the Australian Prudential Regulation Authority (APRA), we are guided by APRA prudential standards in managing financial risk.

The key prudential controls relate to capital management, including managing capital adequacy and large exposures. Under the EFIC Act, our Board must operate based on sound commercial principles. This includes defining our risk appetite, setting limits and maximum risk tolerances, monitoring performance and making dividend recommendations to the Government.

Our Board's risk appetite limits our exposure to individual counterparties and countries. When we are approaching our limits, we work with reinsurers and other ECAs to manage our net risk positions.

Additional \$1 billion in callable capital

Our callable capital is an amount specified in the EFIC Act that the Government will make available to us if we (for whatever reason) are unable to meet our expected losses or liabilities. It is a requirement under the EFIC Act that in calculating our total capital, amounts specified as callable capital are included in that capital calculation.

The recent increase in our callable capital by \$1 billion has resulted in our Board revising our current counterparty and country exposure limits. This is consistent with the Government's expectations and the Board's approach to ongoing review and evolution of its risk management approach and strategies.

These increases do not impact the existing \$6.5 billion maximum liability related to our activities on the Commercial Account. This cap is set by *Export Finance and Insurance Corporation Regulations 1991* and remains unchanged.

However, our new mandate also gives rise to greater potentially financial and reputational risks, as we look to deploy our larger

financing capacity across our business. Larger exposures may result in larger financial losses. To ensure we fully capitalise on infrastructure development that will provide optimal outcomes for countries who are the beneficiaries of our financing, our focus will be on undertaking thorough due diligence through strong risk mitigation strategies.

Corporate governance

Our Board is responsible for managing the affairs of Export Finance Australia. This includes determining strategy, defining risk appetite and monitoring performance.

We take a strong, commercially disciplined approach to governance and risk management through our Risk Management Framework. Our Board Audit and Risk Committee, and external and internal audit functions, also provide valuable oversight.

The OECD Arrangement on Officially Supported Export Credits

As a member of the OECD, Australia complies with the OECD Arrangement on Officially Supported Export Credits (Arrangement).

The Arrangement places limitations on the financing terms and conditions (including repayment terms, minimum premium rate, and minimum interest rates) we can apply when providing officially supported export credits. It also contains various transparency provisions among members, to ensure that these limitations are effectively applied.

Social and environmental risks

We conduct comprehensive due diligence and consider the social and environmental impact of our financing activities by applying our policy for environmental and social review of transactions.

This policy confirms that we:

- are bound by the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence
- apply the Equator Principles, a globally recognised benchmark used by many financial institutions to manage environmental and social risk in projects.

The policy also uses the International Finance Corporation's environmental and social performance standards as its benchmark.

These standards were selected as they are a widely used and understood global standard. However, where a higher benchmarking standard applies to a particular transaction, we will apply that higher standard.

We have developed an enterprise-wide Risk Management Framework that defines our core principles and the types of risks we face. The Framework forms the basis of our Risk Appetite Statement and our Risk Control Matrix.

Risk Appetite Statement*	Risk Control Matrix*
<p>Details our risk tolerance and sets appropriate limits on the risks we are willing to take.</p> <p>Our risk appetite incorporates quantitative and qualitative measures to ensure effective monitoring and governance.</p>	<p>Sets out:</p> <ul style="list-style-type: none"> ■ individual risks ■ mitigation measures ■ likelihood ■ consequences. <p>We review the Risk Control Matrix regularly to add new risks or identify changes to existing risks. This approach fosters a culture of risk awareness across our organisation.</p>

*Due to their commercial sensitivity, these documents are not made public.



Our risk management is built on a strong foundation that includes:



A commitment to our shared purpose and Code of Conduct, which we review and renew periodically.



Strong policies and procedures, supported by robust systems and processes.



Strategies to recruit, develop and retain employees who have the required specialist skills.



Clear lines of responsibility and accountability for achieving set outcomes.



Rigorous control processes, including management reporting, supported by Board oversight and independent review.



A culture that seeks to anticipate and mitigate risks before they occur, and always seeks to learn and improve.

Our internal committees support our risk management processes:

Executive Committee <ul style="list-style-type: none"> Examines all aspects of the business Chaired by the Chief Executive Officer 	Credit Committee <ul style="list-style-type: none"> Examines large potential transactions Chaired by the Chief Credit Officer
Risk and Compliance Committee <ul style="list-style-type: none"> Examines, monitors and regulates compliance risks Chaired by the Chief Risk Officer 	Treasury Risk Review Committee <ul style="list-style-type: none"> Examines Treasury activities, limits, noteworthy transactions and current issues Chaired by the Treasurer
Work Health and Safety Committee <ul style="list-style-type: none"> Examines workplace risks and reports any hazards or safety problems that may cause harm or injury to employees, contractors or visitors Chaired by the Chief Operating Officer 	Business Continuity Planning Steering Committee <ul style="list-style-type: none"> Coordinates annual Crisis Management and Business Continuity Planning Chaired by the Chief Operating Officer

Appendix A: Statement of Expectations



Senator the Hon Simon Birmingham

Minister for Trade, Tourism and Investment
Deputy Leader of the Government in the Senate
Senator for South Australia

Our Ref: MS19-000460

Mr James M. Millar AM
Chairman
Export Finance Australia
Level 10 Export House
22 Pitt Street
SYDNEY NSW 2000

Dear Mr Millar 

This letter sets out the Australian Government's revised statement of expectations for the Export Finance and Insurance Corporation which I am pleased to advise will now be known as Export Finance Australia. This statement outlines the Australian Government's key priorities and objectives for Export Finance Australia, consistent with section 34 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). It replaces the statement of expectations sent to you on 7 September 2017.

Mandate and scope of operations

The Government considers Export Finance Australia to play an important role in facilitating exports including by supporting overseas infrastructure development. As outlined in the *Export Finance and Insurance Corporation Act 1991* (the 'Efic Act'), Export Finance Australia will continue to:

- facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade;
- provide finance for overseas infrastructure development;
- encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions or overseas infrastructure development;
- administer payments and related matters under export contracts in respect to overseas aid projects for which money was made available by the Commonwealth;
- assist Commonwealth entities and companies by providing services in relation to financial arrangements and agreements; and
- provide information and advice about finance and insurance arrangements to support Australian export trade.

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107 Sir Donald Bradman Drive, Hilton SA 5033
Ph 08 8354 1644

Canberra
Parliament House Canberra ACT 2600
Ph 02 6277 7420

Export Finance Australia must not provide financial services or products on its Commercial Account unless Export Finance Australia is satisfied that private sector providers ordinarily carrying on business in Australia are unable or unwilling to support financially viable business activities. Export Finance Australia should ensure its activities fill the ‘market gap’ where private sector finance is not forthcoming. I expect Export Finance Australia to monitor the capacity of commercial markets and to take this into account when determining the scope of its activities.

The Government decided in 2014 to place greater emphasis on supporting small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. I welcome Export Finance Australia’s focus on continuous improvement to make it easier for SMEs to access its services, and I expect Export Finance Australia to continue to improve and simplify its services to ensure SMEs have every opportunity to access markets and expand their businesses overseas.

I expect Export Finance Australia to support a wide range of SMEs, including tourism operators, online businesses, exporters of intellectual property and other related rights, and businesses engaged in overseas direct investment.

While prioritising Export Finance Australia’s support for SMEs facing challenges accessing finance, the Government recognises that large projects or firms can help SMEs access markets through supply-chain participation. To achieve a balance in the level of support for large transactions, the following stipulations around the support Export Finance Australia can provide to large projects or firms will continue to apply.

Export Finance Australia shall only provide support for domestic or overseas resource projects (and related infrastructure) on its Commercial Account, where the Export Finance Australia Board is satisfied, after careful review, that:

- there is a demonstrated market gap in the availability of finance;
- the transaction does not come at the expense of SME transactions;
- the project has significant Australian content including through SME supply chain participation, and/or benefit; and
- the project is financially viable.

Export Finance Australia shall not consider proposals to provide finance to an entity for the construction of a project where the entity is also the recipient of funding from the Northern Australia Infrastructure Facility for that project.

Export Finance Australia may continue to provide support to SME suppliers of domestic resource projects (and related infrastructure) where the SME good or service is integral to the performance of a resource export project (and related infrastructure).

I expect Export Finance Australia to provide finance for overseas infrastructure projects that it reasonably expects to result in positive outcomes for Australia or Australians. Export Finance Australia should only provide overseas infrastructure financing where Export Finance Australia can demonstrate that it is likely to result in an Australian benefit. Benefits to Australia include, but are not limited to, greater Australian (including SMEs) participation in supply chains, access to new markets

for Australian businesses, more Australian jobs, payments or dividends or other financial proceeds from overseas to Australia.

In respect of financing of overseas infrastructure projects, I expect Export Finance Australia to reasonably satisfy itself through due diligence, consistent with its existing processes, and expert advice as needed, including from the Department of Foreign Affairs and Trade (DFAT), the infrastructure project is appropriate for the relevant nation and the governance surrounding project procurement is sound. In doing so, Export Finance Australia should also ensure there is appropriate compliance, as applicable, with the:

- OECD Recommendation on Sustainable Lending Practices and Officially Supported Export Credits and its own additional debt sustainability due diligence procedures;
- OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence;
- OECD Recommendation of the Council on Bribery and Officially Supported Export Credits; and
- Equator Principles.

Export Finance Australia is to encourage Australian participation in any overseas infrastructure projects that it finances. It should support Australian businesses and encourage stronger commercial links between Australia and our region. In carrying out its new function, it should help Australian companies, especially SMEs, expand into overseas markets.

I expect Export Finance Australia to focus particularly on the infrastructure needs of Pacific island countries (including Timor-Leste). Export Finance Australia may also consider infrastructure projects more broadly in the Indo-Pacific region. For infrastructure projects elsewhere, Efic may not rely on its powers under section 18A or 23A of the Efic Act alone in support of overseas infrastructure development.

I expect Export Finance Australia to work closely with DFAT to ensure the timely and effective implementation of the Australian Infrastructure Financing Facility for the Pacific (AIFFP). Export Finance Australia's financing for infrastructure in the Pacific island countries should complement the AIFFP. When infrastructure projects have strong commercial prospects, they should be first considered by Export Finance Australia on its Commercial Account. Together, Export Finance Australia financing for infrastructure and the AIFFP will help address the infrastructure needs of Pacific island countries.

Export Finance Australia is to maintain its demonstration role to private finance providers. In most circumstances, after one or two facilities with the same firm, Export Finance Australia will have demonstrated to the private sector that commercial returns are possible. I therefore expect Export Finance Australia to commit only to support the same firm up to three times within a three year period. Further commitment to support the same firm must be approved by the Export Finance Australia Board on the basis that the commitment relates to an emerging market, or where the Board assesses that the commitment will not crowd out the private sector.

The Government expects Export Finance Australia, subject to my approval and legislative authority, will make available its specialist financial capabilities to Commonwealth entities and companies. If called on to provide such financial capabilities to Commonwealth entities and companies, Export

Finance Australia must ensure that such activities do not occur at the expense of its primary purpose. Export Finance Australia will take steps to minimise the impact of work it performs for the Commonwealth on its capacity to assist exporters and overseas infrastructure projects, including by the charging of appropriate fees for such services.

Pricing arrangements

I expect Export Finance Australia's Commercial Account operations to be conducted on a commercial basis. As such, the pricing of Export Finance Australia's products and services should not undercut the private sector where private sector support is present, nor undercut pricing for comparable risks when private sector support is absent. This enhancement of Export Finance Australia's demonstration role is central to Export Finance Australia meeting its policy objective of helping commercially viable exporters and overseas infrastructure projects overcome financial barriers while also encouraging private sector participation.

Competitive neutrality charges should continue to apply to Export Finance Australia.

It is my expectation that the National Interest Account should also normally be conducted on a commercial basis. Any risk on the Commercial Account is not to be transferred to the Commonwealth without specific authorisation from me, as Minister for Trade, Tourism and Investment.

Governance and reporting

As a corporate Commonwealth entity, as defined in the PGPA Act, Export Finance Australia is subject to the accountability, management, performance and reporting requirements specified in that Act. I expect Export Finance Australia's Board and senior management to manage Export Finance Australia's financial matters with care and diligence in accordance with the applicable obligations of the PGPA Act and the Efic Act. Together you should strive to maintain a culture of professionalism and continuous improvement throughout the organisation.

Export Finance Australia should continue to maintain systems to manage its risks. While Export Finance Australia is not an Authorised Deposit-taking Institution, it should continue to be guided by the Australian Prudential Regulation Authority in managing financial risk. Export Finance Australia will also provide regular reporting to DFAT, the Treasury and the Department of Finance on its cumulative exposures per industry and per country.

Export Finance Australia should continue to provide reports to me semi-annually on the risk the Commonwealth is bearing directly through the National Interest Account. Commonwealth exposures will continue to be reported through the statement of risks in the Budget papers.

I expect Export Finance Australia to publish, through its on-line register, information on all transactions within eight weeks of signature. This will include, at a minimum, the name of the client, the sector, the goods/services or overseas infrastructure involved, the country, the type of facility and the value of the facility of the export or overseas infrastructure support. Export Finance Australia should also confirm, on its on-line register and in respect of each transaction, that the transaction is in compliance with the statement of expectations.

In addition to the enhanced pricing disclosure arrangements, and within appropriate confidentiality and legal parameters, I expect Export Finance Australia to share the pricing and terms of its transactions with relevant financiers operating in the domestic market. This will help demonstrate that commercial returns are possible and encourage private sector financiers to take on Export Finance Australia clients.

For repeat facilities (where Export Finance Australia commits to support a firm more than three times in a three year period) Export Finance Australia will report in aggregate to me semi-annually the basis for the commitment of support, in line with my expectations above.

Export Finance Australia should continue to publish its *Policy and Procedures for environmental and social review* and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. Export Finance Australia should continue to publicly disclose its prospective involvement in transactions associated with projects that have potentially significant adverse environmental or social impacts (Category A projects).

Other matters

In addition to the requirements above, and your responsibilities under the Efic Act and the PGPA Act to provide me and the Minister for Finance and the Public Service with a range of information and services, Export Finance Australia is also to:

- provide products and services having regard to the Australian Government's World Trade Organization (WTO) and other international commitments, including the United Nations Convention against Corruption;
- comply with the OECD Arrangement for Officially Supported Export Credits;
- where Efic considers it appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits, and the WTO;
- advance infrastructure financing and investment cooperation in our region through support for regional cooperation initiatives to which Export Finance Australia is a party;
- provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and Export Finance Australia's operations;
- comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the Freedom of Information Act 1982 and the possible availability of public interest immunity;
- inform me and DFAT of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans; and
- comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium, as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

I expect Export Finance Australia and DFAT to have a Service Level Agreement in place in relation to the management and administration of the National Interest Account.

Export Finance Australia should work closely with DFAT, Austrade and other government agencies in delivering their services to Australian businesses. This will involve a coordinated approach at all levels between the organisations.

I look forward to receiving a response from you on Export Finance Australia's plans to meet these expectations. Per usual practice, Export Finance Australia should make these intentions and expectations publicly available.

Yours sincerely



Simon Birmingham

cc. Senator the Hon Marise Payne, Minister for Foreign Affairs

03 APR 2019

Appendix B: Statement of Intent



17 April 2019

Senator The Hon Simon Birmingham
Minister for Trade, Tourism and Investment
Parliament House
Canberra ACT 2600

Dear Minister Birmingham,

Thank you for your letter dated 3 April 2019 setting out the Government's revised expectations concerning our operations and performance. I am pleased to respond by confirming that we will direct our operations to meet your expectations. This letter replaces the previous Statement of Intent dated 25 October 2017.

As is our usual practice, we will make this letter and your expectations publicly available.

Yours sincerely,

A blue ink signature of James M. Millar, consisting of a stylized, flowing script.

James M. Millar AM
Chairman

Data in this report may not sum due to rounding.

Requests for more information and enquiries should be addressed to:

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Level 10, 22 Pitt Street
Sydney NSW 2000 Australia

Telephone: +61 2 8273 5333
Email: info@exportfinance.gov.au

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