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Performance Audit

Effectiveness of the Export Finance and Insurance Corporation

Export Finance and Insurance Corporation

Australian National Audit Office

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6 June 2019

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Export Finance and Insurance Corporation. The report is titled *Effectiveness of the Export Finance and Insurance Corporation*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — http://www.anao.gov.au.

Yours sincerely

Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Summary and recommendations

Background

1. The Export Finance and Insurance Corporation (Efic) is the Australian Government's export credit agency. Efic was established in its current form[1] on 1 November 1991 under the *Export Finance and Insurance Corporation Act 1991* (the Efic Act) as a corporation wholly owned by the Australian Government. Efic sits within the Foreign Affairs and Trade portfolio. Efic is classified as a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

2. The primary purpose of Efic is to provide financial solutions and support to Australian export businesses that are unable to secure funding from the private sector, with the objective of facilitating and encouraging Australian export trade and to encourage private financiers in Australia to finance or assist in financing exports.

3. Efic is classified by the Department of Finance (Finance) as a material agency. It has risk weighted assets of $2.7 billion; exposure on its Commercial Account of $2 billion[2] [3] and available capital of $674.5 million as at 30 June 2018.

Rationale for undertaking the audit

4. The Australian Government is increasingly undertaking balance sheet activity to achieve policy objectives. Given Efic is responsible for the investment and management of over $5 billion in funds on behalf of the Australian public, this audit assessed whether Efic's mandate and purposes are being met effectively.

Audit objective and criteria

5. The objective of this audit was to assess the effectiveness of Efic.

6. To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- Efic is operating within its prescribed mandate;
- Efic is effectively managing its financial and service delivery functions; and
- Efic is meeting its statutory and prudential responsibilities.

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1 Export finance and insurance was officially provided under the operations of the former Australian Trade Commission in accordance with the *Australian Trade Commission Act 1985* and prior to this by the Export Payments Insurance Corporation under the *Export Payments Insurance Corporation Act 1956* (House of Representatives (the Parliament of the Commonwealth of Australia), *Export Finance and Insurance Corporation Bill 1991: Explanatory Memorandum*, Canberra, 1991 and W Truss, (Former Minister for Trade), 'EFIC 50th Anniversary Celebration', media release, Parliament House, Canberra, 10 July 2007).

2 Comprising loans, export finance guarantees, medium-term insurances, bonds and rescheduled credit insurance debts.

3 Efic's Annual Report 2017–18, page 118.

Conclusion

7. Efic is effectively undertaking its functions, except for its annual performance statement reporting.

8. Efic is operating within its prescribed mandate. It has developed a framework to interpret, operationalise and comply with each mandate requirement.

9. Efic effectively manages its financial and service delivery functions, and the evidence can support a view that Efic is operating on an appropriately commercial basis.

10. Efic is meeting its statutory and prudential management responsibilities, however Efic's annual performance statement reporting should be enhanced to enable a more comprehensive assessment of overall progress against its purpose.

Supporting findings

Compliance with prescribed mandate

11. Efic has established a framework to interpret its mandate and determine how it will be operationalised. This includes an internal compliance document to define how Efic intends to operationalise its Statement of Expectation requirements.

12. Efic's activities in monitoring commercial markets to identify situations where the private sector will not provide financial support to an export business (the 'market gap') are largely appropriate. Efic communicates with customer relationship banks and analyses comparative market pricing for small and medium-sized enterprise (SME) transactions, although it does not undertake proactive monitoring of the market gap for the wider export industry and does not report on situations where it assists an export business to obtain private sector finance.

13. Efic is adequately focusing its efforts on SMEs through tailored products and services. In response to the 2014 Statement of Expectations specifying the need for SMEs to be effectively supported, Efic implemented the EficDirect online loan platform to streamline Small Business Export Loans. In combination with other new initiatives and strategies, this has resulted in a general increase in both the volume of facilities provided to SMEs, and in the average value of SME transactions as a proportion of the total value of transactions undertaken annually in the Efic portfolio. There are opportunities to improve Efic's coverage of export supply chain SMEs.

14. Efic complies with its prescribed mandate in relation to Australian content, financial viability and other relevant requirements. Efic consistently applies requirements in relation to the number of facilities which can be provided to an individual entity over a three-year period. Efic has appropriate structures for understanding and applying requirements in relation to environmental and social standards.

15. The Defence Export Facility has been established and Efic is providing support to the defence export sector in line with Australian Government objectives. Efic participates in intergovernmental discussions to remain informed on opportunities to support the defence export sector, and is undertaking a campaign to raise awareness of the financial support services available to defence exporters.

Financial and service delivery functions

16. The evidence can support a view that Efic is operating on an appropriately commercial basis. In line with its mandate, Efic generates sufficient reserves to sustain and expand its operations and undertakes its functions with the objective of not undercutting private sector financiers. There is a need for Efic to ensure an appropriate balance is maintained between its commercial objectives and its fulfilment of government expectations surrounding the facilitation and encouragement of private sector support for Australian export trade.

17. Efic engages effectively with government and external stakeholders to execute its mandate through activities closely overseen by responsible managers. Marketing campaigns and initiatives are used by Efic to extend knowledge of its support offering to exporters in new and existing industries. Efic proactively engages with export businesses to facilitate potential applications.

Statutory and prudential responsibilities

18. Efic meets relevant legislative requirements regarding accountability, management and performance, however Efic's annual performance reporting should be enhanced in relation to the completeness of assessment information. Efic conducts treasury activities in accordance with a control framework approved by its Board and applies Anti-Money Laundering and Counter-Terrorism Financing assessment procedures to each transaction.

19. Efic meets its risk management obligations and manages its credit, funding and other risks effectively.

20. Efic has established governance structures that are aligned to its statutory obligations. The Board comprises members appointed by the responsible Minister together with the Efic Managing Director, and is supported by the Board Audit and Risk Committee, internal management committees and the Executive.

Recommendation

Recommendation no. 1 **Paragraph 4.21**	The Export Finance and Insurance Corporation include both quantitative and qualitative performance measures in the annual performance statement to enable a more comprehensive assessment of overall progress against its purpose. This should include measures to address mandated requirements to encourage banks and other financial institutions to finance, or assist in financing, export contracts or eligible export transactions. **Export Finance and Insurance Corporation response:** *Agreed.*

Summary of entity response

21. A summary response from the Export Finance and Insurance Corporation is provided below, while the full response is provided at Appendix 1.

> The Export Finance and Insurance Corporation (Efic) welcomes the proposed report and is pleased with the Report's conclusion that:

- Efic is operating within its prescribed mandate. It has developed a framework to interpret, operationalise and comply with each mandate requirement.
- Efic effectively manages its financial and service delivery functions, and the evidence can support a view that Efic is operating on an appropriately commercial basis.
- Efic is meeting its statutory and prudential management responsibilities, noting Efic's annual performance statement reporting could be improved to enable a more comprehensive assessment of overall progress against its purpose.

Efic notes that the ANAO has made only one recommendation to include more qualitative measures in the annual performance statement reporting. We welcome the ANAO's suggestions on the types of qualitative measures that can be incorporated into our reporting. For example, we know that Efic's involvement often acts as a catalyst for the private market to step forward and provide support to businesses. While it is often difficult to quantify the benefit of Efic's 'crowding in' of the private market, we acknowledge that such qualitative measures would enhance our current reporting.

Key messages from this audit for all Australian Government entities

22. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Australian Government entities.

Performance and impact measurement

- Management and the Board constantly monitor the control framework to support and enhance the commercial basis of operations and ensure the performance and profitability of the entity. Other corporate Commonwealth entities could benefit from applying a similar governance and cultural framework to their operations and service delivery activities.
- Within the PGPA accountability framework, an entity's purpose statement is fundamental in framing its performance reporting. If a purpose statement is too vague or not clearly connected with the legislative purpose of the entity, it can undermine the effectiveness of the entity's overall performance reporting framework.

Audit findings

1. Background

Introduction

Purpose and prescribed mandate

1.1 The Export Finance and Insurance Corporation (Efic) is the Australian Government's export credit agency. Efic was established on 1 November 1991 under the *Export Finance and Insurance Corporation Act 1991* (the Efic Act) as a corporation wholly owned by the Australian Government. Efic sits within the Foreign Affairs and Trade portfolio, and is classified as a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

1.2 Efic has operated under various statutory frameworks and forms since 1957[4]. The Export Payments Insurance Corporation was originally established to insure export businesses against the risk of non-payment by overseas buyers. The entity later took on the role of insuring offshore investments against non-commercial losses such as war damage, and providing finance for exports of capital goods.

1.3 Upon Efic's establishment in its current form in November 1991, Australian exporters were subject to challenging economic conditions—the Australian interest rate was 8.5 per cent, having peaked at 17.5 per cent in January 1990.[5] Efic was established to provide financial support to Australian based companies who were exporting, participating in the global supply chain or seeking to grow internationally.[6] Efic provides financial solutions, risk management options and professional advice when the private market is unable or unwilling to do so.[7]

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4 Export finance and insurance was officially provided under the operations of the former Australian Trade Commission in accordance with the *Australian Trade Commission Act 1985* and prior to this by the Export Payments Insurance Corporation under the *Export Payments Insurance Corporation Act 1956* (House of Representatives (the Parliament of the Commonwealth of Australia), *Export Finance and Insurance Corporation Bill 1991: Explanatory Memorandum*, Canberra, 1991 and W Truss, (Former Minister for Trade), 'EFIC 50th Anniversary Celebration', media release, Parliament House, Canberra, 10 July 2007).

5 Reserve Bank of Australia Cash Rates, 23 January 1990 and 6 November 1991 (available from https://www.rba.gov.au/statistics/cash-rate/ [accessed March 2019]).

6 Export credit agencies have been established by governments in various countries to support the development of export trade. Export credit agencies function through the provision of export financing, as well as various types of risk insurance or guarantees, in order to mitigate risk for export transactions and thereby enable and encourage the pursuit of international trade and the benefits that accrue to the country of origin. Export credit agencies have differing institutional models of operation and authority, as well as funding arrangements. Some are closely connected to a government budget with a low degree of independence from government, whereas others are self-funded and direct the majority of their operations with less government oversight.

7 Export credit agencies adopt one of three delivery models, either providing export insurance only (such as agencies in Denmark, Italy, the Netherlands and New Zealand), providing both export insurance and finance (such as Efic in Australia and agencies in the United Kingdom, Canada, United States, Belgium and Turkey) or operate two separate institutions for provision of insurance and finance (such as in Norway, France, Germany, Japan, South Korea, Sweden and the Czech Republic). OECD countries such as Australia, generally adopt a model where export credit insurance (including guarantees and trade credit insurance) is complemented by the provision of direct financing.

1.4 The Efic Act sets out the following key functions of Efic:

- to facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in export trade;
- to encourage banks and other financial institutions in Australia to finance or assist in financing exports;
- to manage the Australian Government's aid-supported mixed credit program (discontinued, although loans are still outstanding under this);
- to provide information and advice regarding insurance and financial arrangements to support Australian exports;
- to assist the Northern Australia Infrastructure Facility (NAIF) in the performance of the functions of the NAIF and to provide incidental assistance, where agreed, to the States and Territories in relation to financial arrangements and agreements related to the terms and conditions of grants of financial assistance for the construction of Northern Australia economic infrastructure; and
- as directed by the Minister, to assist Commonwealth entities and Commonwealth companies in performing their functions or achieving their purposes by providing services in relation to financial arrangements and agreements.

Operational Overview

1.5 Efic delivers its functions through the use of two main accounts; the Commercial Account and the National Interest Account.

1.6 The Commercial Account is the primary operating account for transactions entered into by Efic, where the risks are underwritten by Efic as a corporation. The majority of transactions are undertaken on Efic's Commercial Account (90.7 per cent).[8]

1.7 The National Interest Account is an account for undertaking transactions under ministerial direction where such transactions are deemed to be in the national interest. Risks relating to these transactions are underwritten by the Australian Government (as opposed to Efic as an individual corporation). The National Interest Account also houses the Defence Export Facility, which is intended to assist Australian companies to obtain the finance required to underpin the sales of their defence and defence-related equipment overseas.

1.8 Through these accounts Efic provides loans, bonds, guarantees and insurance to exporters and subcontractors within the export supply chain (refer to Appendix 2 for further details of Efic's financial products).

1.9 In 2017–18, Efic financially supported 160 Australian export businesses (direct exporters and businesses within the export supply chain) providing a total of $194 million in facilities in relation to $1.39 billion in export contracts. Efic received $13.9 million in revenue (post tax) from its Commercial Account transactions, and paid a $5.8 million dividend to the Australian Government out of its prior year net profit. Efic further provided $32.3 million of revenue from the National Interest Account to the Australian Government in 2017–18.

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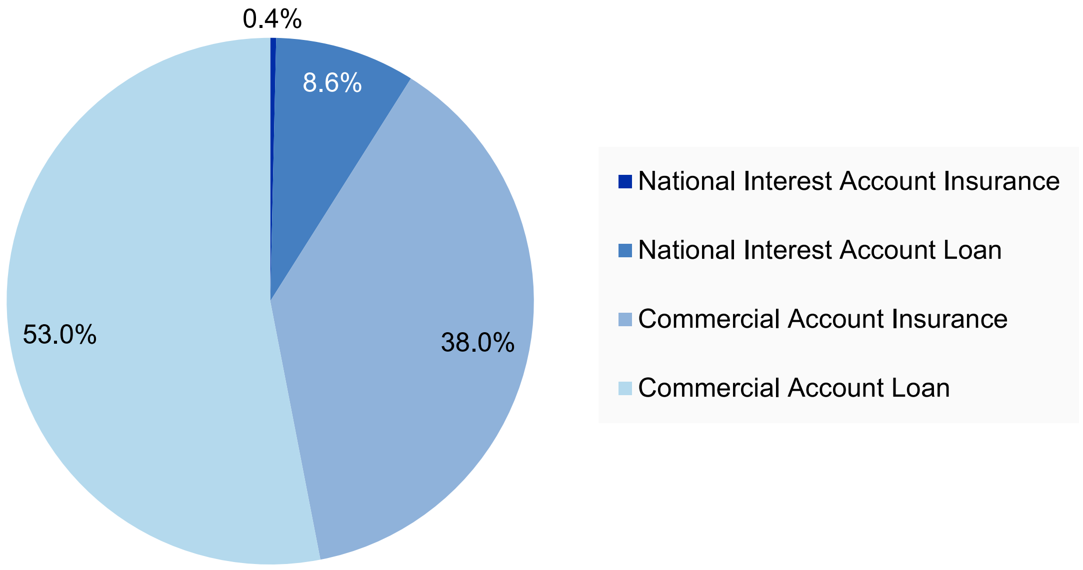
8 Calculated based on Efic portfolio data as at 21 November 2018. Data provided 14 December 2018.

1.10 Insurance and guarantee facilities (in the form of bonds, guarantees, trade credit insurance and reinsurance) equate to 38 per cent of Efic's current portfolio (refer below). Of Efic's open facilities, 62 per cent are loans to export businesses.

Figure 1.1: Efic portfolio — loans vs other financial products



Source: ANAO analysis of Efic's facilities.

1.11 Under Efic's primary duties, as set out in subsection 8(2) of the Efic Act, it is required in performing its functions to have regard to the desirability of improving and extending the range of insurance and other financial services and products available (whether from Efic or otherwise) to persons involved, or likely to be involved, directly or indirectly, in Australian export trade.

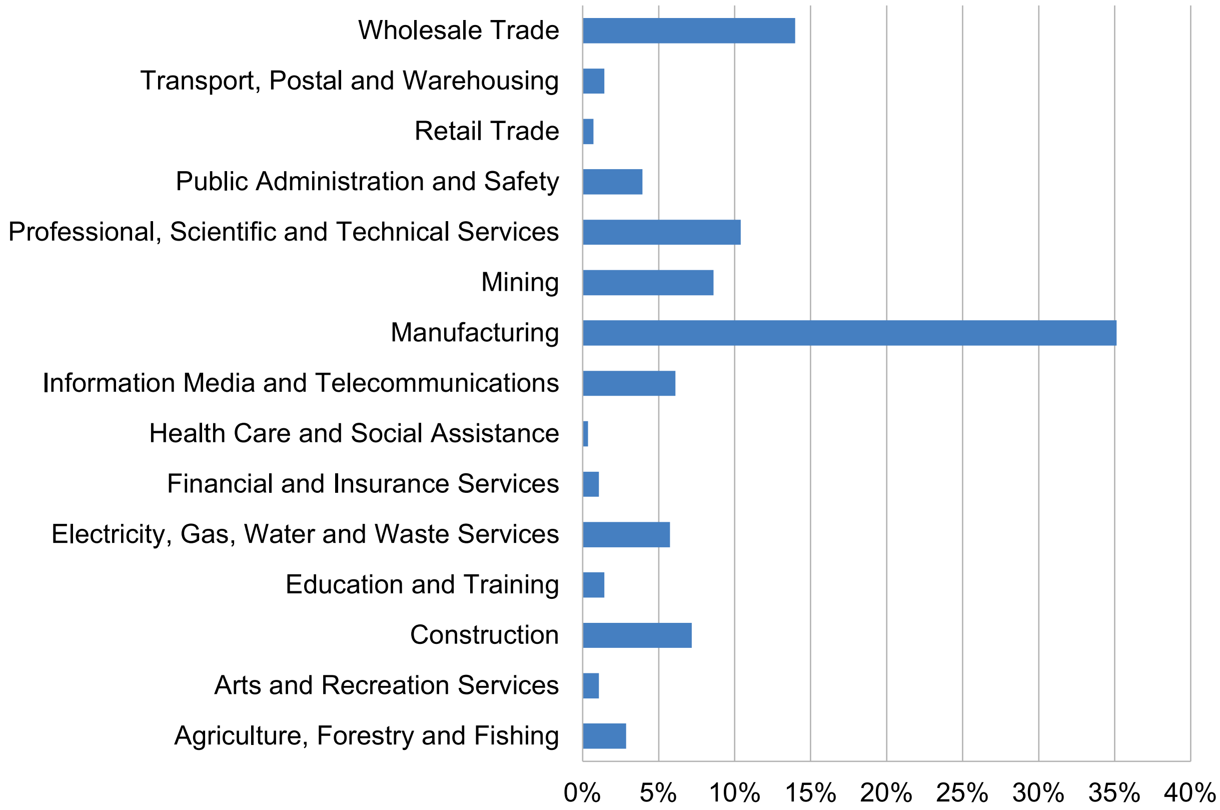
1.12 The 2012 Productivity Commission Inquiry: *Australia's Export Credit Arrangements* (Productivity Commission review)[9] recommended that Efic's Commercial Account product range be limited to guarantees and bonds, including the provision of bonds on behalf of an exporter in respect of export contracts. The Productivity Commission review also recommended that the product range may include the provision of reinsurance, for a limited period, to cover country and sovereign risk insurance provided to SMEs by the private sector. The Government formally responded to the Productivity Commission Report and did not agree with this recommendation[10]. The Minister issued a new Statement of Expectations (dated 13 November 2014) which stated: 'The Government intends to amend the Efic Act and enhance Efic's demonstration role by allowing Efic to provide loans in a broader range of circumstances'.

9 Australian Government Productivity Commission, *Australia's Export Credit Arrangements: Productivity Commission Inquiry Report No. 58, 31 May 2012*, 2012, Canberra.

10 In their response the Government agreed to 5 recommendations, partially agreed to 11 recommendations, noted 8 recommendations and disagreed with 4 recommendations.

1.13 As at 21 November 2018, Efic had 280 active facilities, with a total transaction value of $5.7 billion[11]. Figure 1.2, Figure 1.3 and Table 1.1 , provide an overview of these active transactions and facilities.

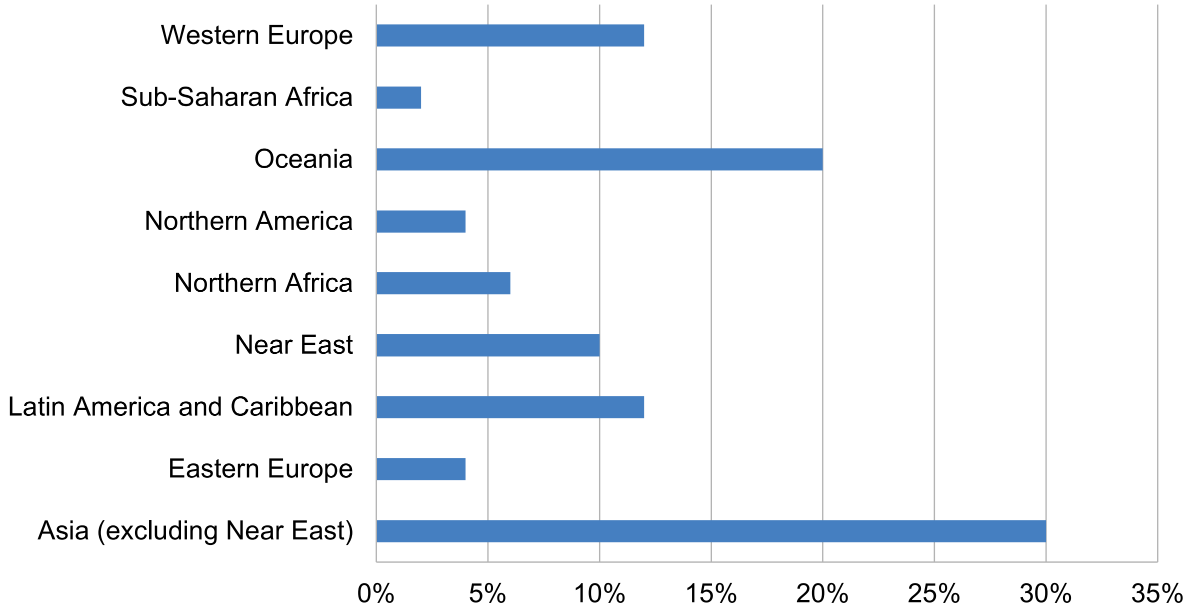
Figure 1.2: Transaction by industry sector



Source: ANAO analysis of Efic's open portfolio data as at 21 November 2018.

11 This amount relates to the total value of open (ongoing) transactions as at 21 November 2018. This includes the Iraq debt agreement which totals $1,741,889,753 (refer paragraph 4.38 for a detailed explanation of the status of this agreement).

Figure 1.3: Transaction by region (export destination)



Source: ANAO analysis of Efic's open portfolio data as at 21 November 2018.

Table 1.1: Transaction by facility type

Facility Type	Number of transactions	Percentage of total transactions (%)	Value of transactions ($)
Bond — Advance Pay	14	5.00	10,359,021.72
Bond — Performance	39	13.90	66,235,089.18
Bond — Warranty	21	7.50	9,095,995.65
Direct Loan	44	15.70	2,396,928,277.90
Export Credit Loan (ECL)	33	11.70	35,903,931.21
Export Finance Guarantee (EFG)	9	3.20	822,498,559.37
Export Line of Credit (ELOC)	32	11.40	29,618,576.63
Export Working Capital Guarantee (EWCG)	14	5.00	14,077,553.86
FEFG	6	2.10	259,130,727.79
MTI	1	0.40	276,441,077.10
Overseas Direct Investment Guarantee (ODI)	3	1.10	7,833,333.33
Reinsurance Guarantee	1	0.40	18,828,773.12
Rescheduled Debt	1	0.70	1,741,889,753
Small Business Export Loan (SBEL)	62	22.10	8,356,824.00
Total	**280**	**100**	5,687,197,493.86

Source: ANAO analysis of Efic's open portfolio data as at 21 November 2018.

1.14 Under section 62 of the Efic Act, the Australian Government explicitly guarantees the due payment by Efic of any money that becomes payable, including its borrowings from third parties. Efic has a credit rating of AAA by Standard and Poor's (S&P).

1.15 Efic is required to borrow money to fund loans made to Australian exporters or buyers of Australian exports. Funding may also be required to cover borrower defaults or calls by lending banks on guarantees made by Efic.

1.16 Efic's Treasury function is responsible for raising funds at competitive rates. This is performed through borrowing in the global capital markets and the use of derivative products to manage currency and interest rate risk. Under section 11 of the Efic Act, Efic are able to enter into swaps, foreign exchange agreements, forward rate agreements, options or hedge agreements.

1.17 On the 4 April 2019, the Australian Parliament passed the *Export Finance and Insurance Corporation (Efic) Amendment (Support for Infrastructure Financing) Bill 2019*, effecting changes to the Efic Act. These amendments, together with a new Statement of Expectations that has subsequently been issued by the Minister to Efic, enact a number of new measures that impact Efic as follows:

- a new trading name, 'Export Finance Australia';
- an additional $1 billion in callable capital; and
- the requirement to exercise a new overseas infrastructure financing power to provide finance for infrastructure development in the Indo-Pacific region, with a particular focus on the Pacific region (including Timor-Leste), based on an Australian benefit test (considering benefits such as greater Australian participation (including SMEs) in export supply chains, more Australian jobs and financial proceeds from overseas to Australia).

1.18 Due to the timing of these changes they were not considered within the scope of the audit and therefore are not further referred to within this report.

Audit rationale and approach

1.19 The Australian Government is increasingly undertaking balance sheet activity to achieve policy objectives. Given Efic is responsible for the investment and management of over $5 billion in funds on behalf of the Australian public, this audit assessed whether Efic's mandate and purposes are being met effectively.

Audit objective, criteria and scope

1.20 The objective of this audit was to assess the effectiveness of Efic.

1.21 To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- Efic is operating within its prescribed mandate;
- Efic is effectively managing its financial and service delivery functions; and
- Efic is meeting its statutory and prudential responsibilities.

1.22 The focus of the audit was on:

- Efic operating in the market gap and facilitating and encouraging Australian export trade;

- Efic operating on a commercial basis and consulting and engaging with relevant stakeholders; and
- Efic's governance structures and support of their ability to meet their statutory and prudential requirements including managing their credit and funding risks.

Audit methodology

1.23 The major audit tasks included:

- examination of legislation, relevant external reports, and Efic documentation;
- analysis of Efic data, including sample testing of transactions and underlying evidence to ensure compliance with internal and mandate requirements. The sample selected:
  - included open, closed and in progress transactions on the Commercial Account as well as transactions on the National Interest Account;
  - provided coverage over all facilities provided by Efic (all Efic products);
  - comprised transactions with enterprises with a range of sizes as well as overseas governments and buyers; and targeted high-risk areas and countries;
  - provided coverage over all industries assisted by Efic;
  - included a mixture of long- and short-term facilities;
  - included facilities of different monetary values; and
  - facilities from a range of jurisdictions that Efic's clients operate in;
- interviews with Efic executive, management and staff; interviews with key reporting stakeholders, including the Department of Foreign Affairs and Trade and Austrade[12]; and
- interviews with international export trade organisations, specifically UK Export Finance, Export Development Canada and New Zealand Export Credit, for comparative information.

1.24 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately $308,855.

12 Austrade provides a range of support, from business introductions and export establishment grants to market information to assist Australian businesses to succeed in trade and investment in global markets. Austrade also helps buyers to source goods and services from Australia.

2. Compliance with prescribed mandate

Areas examined

This chapter examines whether Efic is operating within its prescribed mandate as set out in relevant primary and subordinate legislation.

Conclusion

Efic is operating within its prescribed mandate. It has developed a framework to interpret, operationalise and comply with each mandate requirement.

Areas for improvement

There have been no recommendations identified.

- The ANAO has suggested areas for improvement in relation to: Statement of Expectation compliance plans; confirmation of the market gap from relationship banks; market gap monitoring activities; the incorporation of the Integral Test into EficDirect; and succession and support planning for key technical roles.

Has Efic established how it will address each requirement of its prescribed mandate operationally?

Efic has established a framework to interpret its mandate and determine how it will be operationalised. This includes an internal compliance document to define how Efic intends to operationalise its Statement of Expectation requirements.

Statement of Expectations and enabling legislation

2.1 The Statement of Expectations is the Australian Government's statement of key priorities and objectives as they relate to the purposes of Efic, made and published under section 34 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The most recent Statement of Expectations is dated 7 September 2017 and was made by the Minister for Trade, Tourism and Investment (Minister).

2.2 Efic's mandate issued under the Statement of Expectations and *Export Finance and Insurance Corporation Act 1991* (the Efic Act) addresses four key areas:

1. provision of financial products and services on commercial terms to export businesses and buyers that are not supported by the private financial sector (limited by Efic's commercial risk exposures on its commercial account and regulatory requirements);

2. provision of financial support under Ministerial direction (on Efic's National Interest Account);

3. sharing of knowledge and infrastructure (for establishment and operations) to support other Australian Government entities (usually with some similarity in nature of operations), without adversely affecting 1 and 2 above; and

4. delivery of dividends to government where possible, which are not in excess of Efic's profit for the year (refer to paragraph 3.7 for further details) or otherwise as specifically directed under section 55A of the Efic Act (including at Ministerial direction).

2.3 A Statement of Expectations applies only to the extent that compliance with the statement is not inconsistent with the enabling legislation (in this case the Efic Act). The requirements set out in the Statement of Expectations are consistent with the Efic Act.

2.4 The Statement of Expectations establishes that, in making decisions on the support to be provided to export businesses, Efic must:

- ensure its activities fill the 'market gap' where private sector finance is not forthcoming;
- support a wide range of SMEs;
- ensure projects have significant Australian content and are financially viable;
- limit the number of Commercial Account transactions provided to the same entity to three facilities within a three-year period; and to adhere to environmental, social standards and international treaty requirements.

2.5 Efic's compliance with these Statement of Expectations requirements has been examined in the subsequent sections of this Chapter.

Statement of Intent and compliance documentation

2.6 The Chair of the Efic Board provides the Minister with Efic's Statement of Intent. This expresses and confirms the Board's intention to meet the requirements outlined in the Statement of Expectations and acknowledges Efic's obligations to comply with the Efic Act.[13]

2.7 In the Statement of Intent, Efic advises that its purpose is to: 'outline how Efic will direct its operations to meet [the Minister's] expectations.'

2.8 Efic produces an internal 'Efic's Statement of Expectations — Compliance' document ('internal document') which sets out each requirement from the Statement of Expectations, the Efic 'owner' of the requirement and a description of how Efic intends to comply with the requirement.

2.9 The internal document forms the framework for Efic to interpret its mandate and determine how it will be operationalised. For some requirements in the internal document, the description of how Efic intends to comply with each requirement is not sufficiently explained to enable an effective understanding of how Efic will meet the given requirement. Instances are detailed in Table 2.1.

Table 2.1: Instances where the description of how Efic intends to comply with a Statement of Expectations requirement is not sufficiently explained

Mandate requirement	Audit analysis
Support a range of Small & Medium-sized Enterprises (SMEs)	The Statement of Expectations requires Efic 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. The internal document does not identify how the business development SME team will effectively focus on a wide range of industries, including those within the specific categories identified in the Statement of Expectations.

13 A published response to the Statement of Expectations is required (as set out in the Statement of Expectations). It is published on the Efic website at https://www.efic.gov.au/our-organisation/our-governance/ministerial-statements/.

Mandate requirement	Audit analysis
Online Transaction Register	The Statement of Expectations requires Efic to publish, through an online register, information on all transactions within eight weeks of signature. Efic has interpreted this as requiring it to maintain a transaction register on its website which lists all facilities provided by the organisation in the current financial year. This means that prior year transactions which are still open / yet to mature are not included in the register, although information on transactions from earlier years is contained in the respective Annual Reports.
Three by Three Rule	The Statement of Expectations requires that Efic limit the number of facilities on the Commercial Account provided to the same entity to three facilities within a three-year period. Further facilities with the same entity must be approved by the Efic Board, and can be approved only on the basis that the transaction is to an emerging market or where the transaction will not crowd out the private sector (the ‘three by three rule’) (refer to paragraphs 2.53–2.54 for further details). Efic is also required to report to DFAT the basis of support for repeat ‘transactions’ (specifically, information on entities who have more than three transactions with Efic in a three-year period). Efic interprets transactions to be ‘facilities’ to apply this requirement. A facility is classified by Efic as one or more products for which one application was made by the applicant. Therefore, this can comprise multiple products/transactions (Loan, Bond, Guarantee, Warranty) for which one market assessment is completed in relation to the same export contract (which may service multiple jurisdictions). Although this interpretation is reasonable, it is not clearly set out in Efic’s internal document.

Source: ANAO analysis.

2.10 Appendix 3 provides a table detailing the requirements of the Statement of Expectations and the extent to which Efic has operationalised each requirement. This table takes into consideration the effect of Efic’s interpretation of requirements on the facilitation and encouragement of export trade. Where Efic has operationalised a requirement yet there are opportunities for improvement identified, the relevant paragraph in this report is referenced.

2.11 Efic should further define how it will operationalise each requirement of the Statement of Expectations. In doing so, it should consider the achievement of its purposes in furthering the facilitation and encouragement of Australian export trade and encouraging the private finance sector to support Australian exporters and export supply chain businesses.

Does Efic appropriately monitor commercial markets to identify the ‘market gap’?

Efic’s activities in monitoring commercial markets to identify situations where the private sector will not provide financial support to an export business (the ‘market gap’) are largely appropriate. Efic communicates with customer relationship banks and analyses comparative market pricing for small and medium-sized enterprise (SME) transactions, although it does not undertake proactive monitoring of the market gap for the wider export industry and does not report on situations where it assists an export business to obtain private sector finance.

2.12 The Statement of Expectations requires that:

> Efic must not provide financial services or products on its Commercial Account unless Efic is satisfied that private sector providers are unable or unwilling to support financially viable business activities. Efic should ensure its activities fill the ‘market gap’ where private sector finance is not

forthcoming. [The Minister] expect[s] Efic to monitor the capacity of the commercial markets and to take this into account when determining the scope of its activities.

2.13 Efic receives requests for financial support and generally identifies these as being reflective of the market gap. This is on the basis that Efic assumes that any business approaching it must already have tried and failed to obtain financial support from private financiers. [14]

Transaction level assessment of market gap

2.14 Efic documents a market gap rationale in an Efic Credit Memorandum for each transaction. Corporate, Sovereign and Project Finance (CSPF)[15] transactions require significant discussions regarding the potential for private finance with the applicant, banks and other export credit agencies (which establishes the market gap). For SME transactions where there is a private relationship banker (details of which must be provided by the applicant), Efic informs an applicant's relationship banker of proposed financing to test the market gap and to determine the bank's willingness to provide finance. Efic does not require a response from the relationship bank to confirm the market gap, nor actively follow this up before it proceeds with the transaction. In 61 per cent of complete SME transactions subject to audit testing, no response from the relationship bank was received before Efic entered into the transaction.

2.15 In relation to its short-term trade credit insurance product, the New Zealand Export Credit Office (NZECO) requires confirmation from private insurers (may be via a private sector broker), that the private insurer has reviewed and is unwilling to provide short-term trade credit cover as a pre-condition of NZECO assessing a short-term trade credit application. This is to ensure NZECO is not competing with short-term trade credit insurers.

2.16 Where an application has not come through as a direct referral from a bank, there is increased risk that a private financier has not been consulted on the specifics of the proposed transaction.

2.17 In order to ensure that there is a market gap Efic could act to ensure that a response is received from the relationship bank of each applicant confirming that their bank will not finance the export transaction.

Proactive monitoring of the market gap

2.18 Efic provides updates to relationship banks[16] on any facility contracts it has signed with their clients on a quarterly basis. Efic undertakes Pricing Methodology and Strategy Reviews[17] which analyse comparative market pricing for transactions of low dollar value and short duration (which are typical requirements for SME financing). Examples of known bank pricing structures are referenced as part of each review.

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14 This requirement to monitor and only service businesses and transactions that are unable to be supported by the private sector is not a common factor across all export credit agencies. However, export credit agencies such as the Export-Import Bank of the United States (Ex-Im Bank) are prohibited by legislation or government policy from competing with private sector providers in a similar way to Efic.

15 Corporate, Sovereign and Project Finance transactions relate to financial support provided to larger exporters (usually with an annual turnover of $150 million and above) and overseas buyers of Australian goods and/or services especially in emerging and frontier markets.

16 The "relationship bank" is the bank that the applicant usually conducts business transactions with.

17 These reviews are undertaken at least every three years, usually more frequently.

2.19 Efic does not have a dedicated market research area and does not undertake proactive monitoring of the market gap for the wider export industry or specific export sectors / markets to ensure its financial support is appropriately targeting the market gap.

2.20 Export Development Canada has at least one team that focuses on market trends and opportunities although this team is not restricted solely to identification of the market gap. NZECO conducts meetings with private trade credit insurers and key broking agencies to confirm and discuss the current market gap / obstacles and the role that they are performing.

2.21 To assist in defining the market gap, Efic indicated that it will undertake a regular market gap review and hold regular formal engagements with the major banks and financial institutions to confirm their risk appetite for supporting export businesses within each industry and market. An annual strategy day was held by Efic in November 2018 that involved DFAT, Austrade and private financiers and included a review of existing products and services and where opportunities may exist for Efic. This event could be used in future to formally define the market gap.

Assistance to private finance sector

2.22 The Australian Government intends that Efic assist firms to secure finance for export and to invest overseas. The Efic Act outlines that one of Efic's core functions is to encourage banks and other financial institutions in Australia to finance or assist in financing exports.

2.23 Although Efic engages with banks and other financiers in negotiating CSPF transactions, Efic does not proactively encourage private sector financiers to take on SME facilities. Efic undertakes annual reviews of financial viability and credit risk and at this time a potential transfer to a private financier would be considered. However, no evidence was found of transactions having been on-sold to private financiers after a financial support/loan agreement had been signed.

2.24 In contrast, following confirmation that private insurers are unwilling to provide short-term trade credit cover before entering into a trade credit transaction, NZECO requires each of its short-term trade credit clients to approach private insurers every 12 months to again test their willingness to provide them with cover, before NZECO will consider assessing a policy renewal. NZECO further records examples where its due diligence has highlighted risks that have encouraged an exporter not to proceed with a sale. For example, where a fraudulent buyer was identified during the NZECO due diligence process which resulted in the exporter not shipping and avoiding losses.

2.25 Efic does not report on transactions that it has 'assisted' in moving over to private financiers (for example where a bank voluntarily takes on a transaction after Efic's completion of due diligence). This has been analysed at paragraph 4.20, and associated Recommendation 1.

Does Efic adequately focus its efforts on Small and Medium-Sized Enterprises (SMEs)?

Efic is adequately focusing its efforts on SMEs through tailored products and services. In response to the 2014 Statement of Expectations specifying the need for SMEs to be effectively supported, Efic implemented the EficDirect online loan platform to streamline Small Business Export Loans. In combination with other new initiatives and strategies, this has resulted in a general increase in both the volume of facilities provided to SMEs, and in the average value of

SME transactions as a proportion of the total value of transactions undertaken annually in the Efic portfolio. There are opportunities to improve Efic's coverage of export supply chain SMEs.

Focus on SMEs in Statement of Expectations

2.26 The Statement of Expectations states that: 'the Minister expects Efic 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'. Overseas direct investment is defined by Efic as 'investment by Australian companies in business operations overseas. This can take the form of a new or 'green field' investment, expansion of an existing facility or an acquisition or joint venture'.

2.27 This is reflective of the 2012 Productivity Commission Inquiry: *Australia's Export Credit Arrangements* (Productivity Commission review)[18], which found no convincing evidence to indicate there were failures in financial markets that impeded access to debt or equity finance for large firms, or for resource and infrastructure projects located in Australia. The Productivity Commission review recommended that Efic's mandate and operations on the Commercial Account should be reoriented to address information-related failures in financial markets that impede access to export finance by newly exporting SMEs. The Australian Government formally responded to the Productivity Commission Report and disagreed with the recommendation. The Minister issued a new Statement of Expectations (dated 13 November 2014) which instructed Efic not to support large onshore resource projects. The subsequent Statement of Expectations (dated 7 September 2017) removed the restriction and allowed Efic to support both onshore and offshore resource projects.

2.28 Efic has adopted a definition for SMEs as entities having annual revenues of up to $150 million. This definition stems from section 3A of the Efic Act, which defines a large business as a business with prior year revenue of $150 million revenue or more, and therefore, by default, SMEs fall into the less than $150 million revenue category.

2.29 Efic provides facilities to SMEs in a range of different industry sectors. SMEs from the specific named industries in the Statement of Expectations are included in the generic industries in Figure 1.2 (as classified by Efic). Industry segment information is captured by Efic in the Infor system for these specific named industries.

EficDirect

2.30 Efic's online portal 'EficDirect' was introduced in 2015–16. EficDirect facilitates the provision of Small Business Export Loans (SBEL), which are unsecured loans obtained through an online application and approval system for businesses with a turnover of between $250,000 and $10 million that have been trading for at least two years. Customers whose business exports relate to specific restricted sectors cannot apply for a Small Business Export Loan.[19]

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18 Australian Government Productivity Commission, *Australia's Export Credit Arrangements: Productivity Commission Inquiry Report No. 58, 31 May 2012*, 2012, Canberra.

19 Military, gambling, live animal exports, space and aeronautical, refining or manufacturing of non-renewable energy products, dual-use military equipment, manufacturing, trading or wholesaling of jewellery and precious gems and foreign exchange or remittance facility providers.

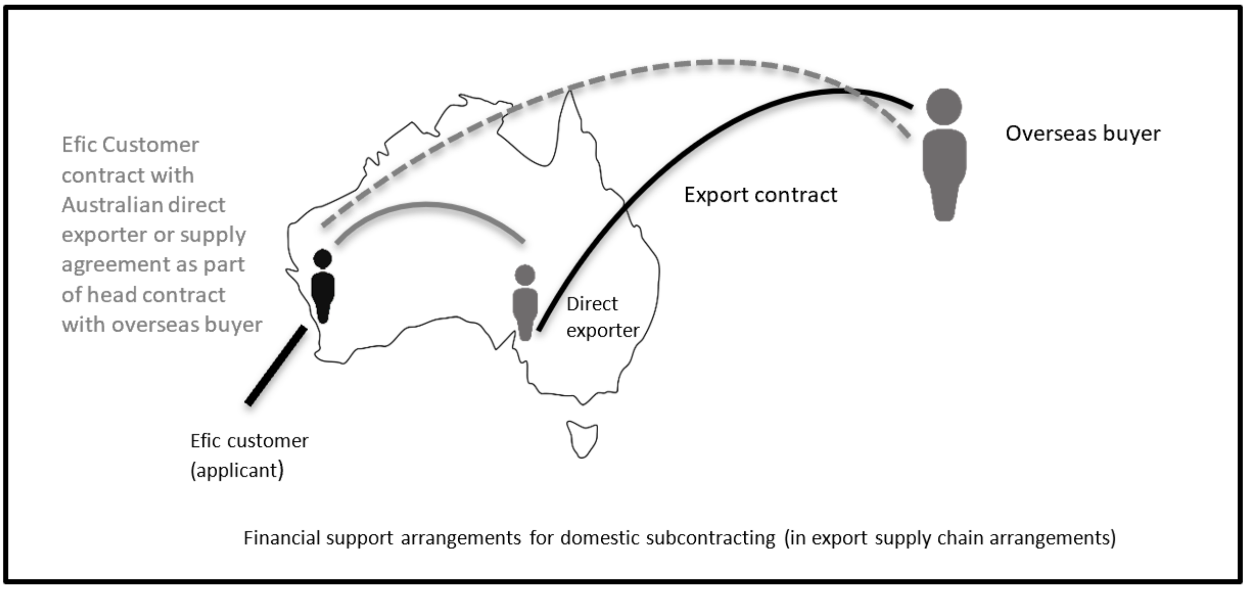
2.31 All applications via EficDirect are recorded in Efic's Infor system. These are initially assessed by Client Liaison Officers (CLO), who conduct a quality and completeness check before being passed on to a Business Development Manager (BDM) and/or the Transaction Management (TM) team (more experienced staff) to be formally assessed. Enquiries are also received via telephone and webchat, which do not always get recorded in Infor unless determined by the CLO to be a potential opportunity. This means that not all enquiries related to potential facilities are subject to review by senior/experienced staff, which may result in missed opportunities to support viable export transactions.

In-supply chain SMEs

2.32 Efic is only permitted 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) under the Statement of Expectations. These requirements are addressed within Efic's policy documents and transaction processes across its portfolio.

2.33 An application for Efic financial support (provision of a bond, guarantee or loan) in relation to a good or service that is considered part of the export supply chain (rather than a direct export arrangement) must relate to an export contract or proposed contract in place with a buyer (for example, an offtake agreement[20] with a foreign buyer). The applicant's contract for supply (whether in a Head Contract with an overseas buyer or in the applicant's contract supporting the export contract) must be integral to the performance of that export contract or the related export project (the conditions to assess this are known as the 'Integral Test' — illustrated in Figure 2.1 below).

Figure 2.1: Financial support arrangements in export supply chains



Source: ANAO analysis based on Efic information.

2.34 The first part of the Integral Test ('First threshold test') looks at aspects of the arrangement to assess whether the applicant is required to do something (produce or transport, extract or exploit

20 Offtake agreements are legally binding agreements for a buyer to purchase agreed goods or services prior to the actual goods or services being produced/delivered.

goods or render services) to enable the exporter to fulfil its obligations under the export contract. Where the applicant's contract provides business support services, rather than being an essential part of the export supply chain, it is less likely to be assessed as 'integral' and be eligible for financial support.

2.35 The second part of the Integral Test ('Second threshold test') assesses whether the risk category that applies to Efic's involvement is within its risk appetite.

- Nil to medium risk support arrangements would generally be considered within Efic's risk appetite. These are described as arrangements where support is given in relation to the performance of: the export contract itself; the exporters' obligations to other contractors (including the applicant) in the export supply chain; the applicant's obligations to the exporter or other contractors for the performance of activity in the export supply chain or an exporters' obligations to contractors (including the applicant) for the provision of business support services to the exporter[21].
- Medium to high risk support arrangements would generally not be supportable by Efic under its risk appetite. These are described as support given in relation to the performance of: the contractor applicant's obligations to the exporter for the provision of business support services to the exporter; the applicant's obligations to another contractor in the export supply chain for the provision of business support services to that contractor; OR the applicant's obligations to another contractor providing business support services to the exporter.

2.36 Any transactions that fall outside of the Integral Test parameters require further review by the Efic Executive and may not be approved. All transactions that meet the Integral Test must go to the relevant delegate for approval and all assessments performed under the Integral Test are saved and accessible internally on MyEfic, regardless of the outcome.

2.37 Of the 519 transactions entered into by Efic during the period 1 July 2016 to 21 November 2018 (916 transactions across the portfolio were considered in total, 91 are still in progress and 306 were not finalised for various reasons), 53 (just over 10 per cent) related to supply chain contracts. It is noted that this does not include supply chain SMEs supported indirectly through opportunities generated for them (where they are privately financed) as a result of Efic financially supporting large offshore projects.

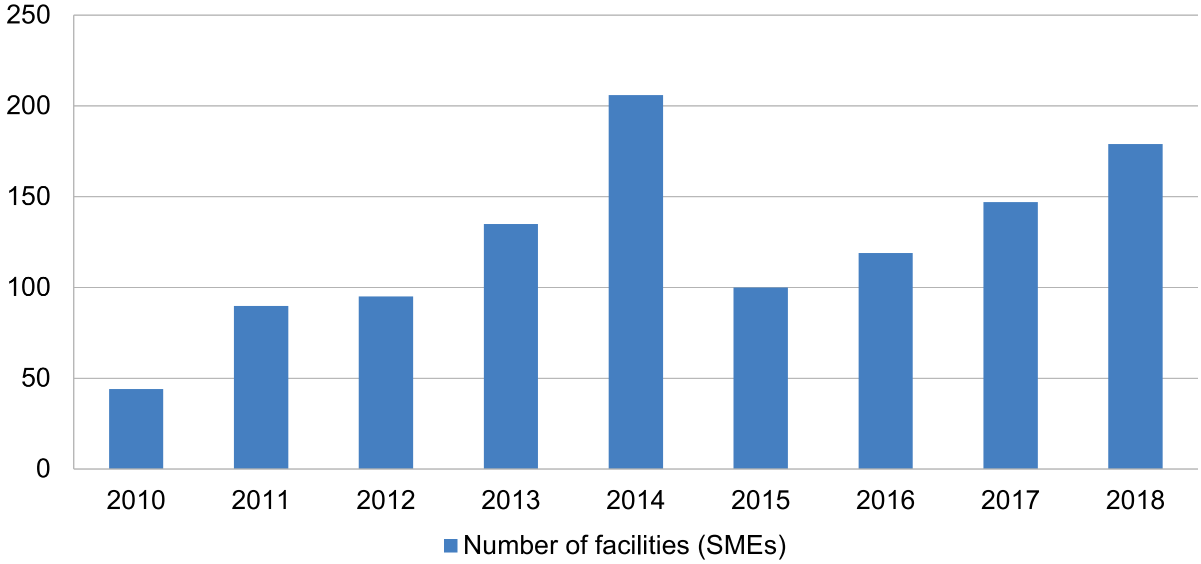
2.38 The process could be made more efficient for supply chain SMEs if the Integral Test could be incorporated into the EficDirect platform.

SME facilities and transactions — trend analysis

2.39 Figure 2.2 shows the trend in the number of SME facilities issued by Efic since 2010.

21 Efic will be more likely to support the direct exporter rather than a contractor in relation to the supply of similar business support services (e.g. to pay a warehouse owner for storage of a product for export). This is because the activities of a contractor are considered to form less of a connection between the guaranteed activity and the performance of the export contract itself.

Figure 2.2: Number of facilities provided to SMEs (2010–2018)



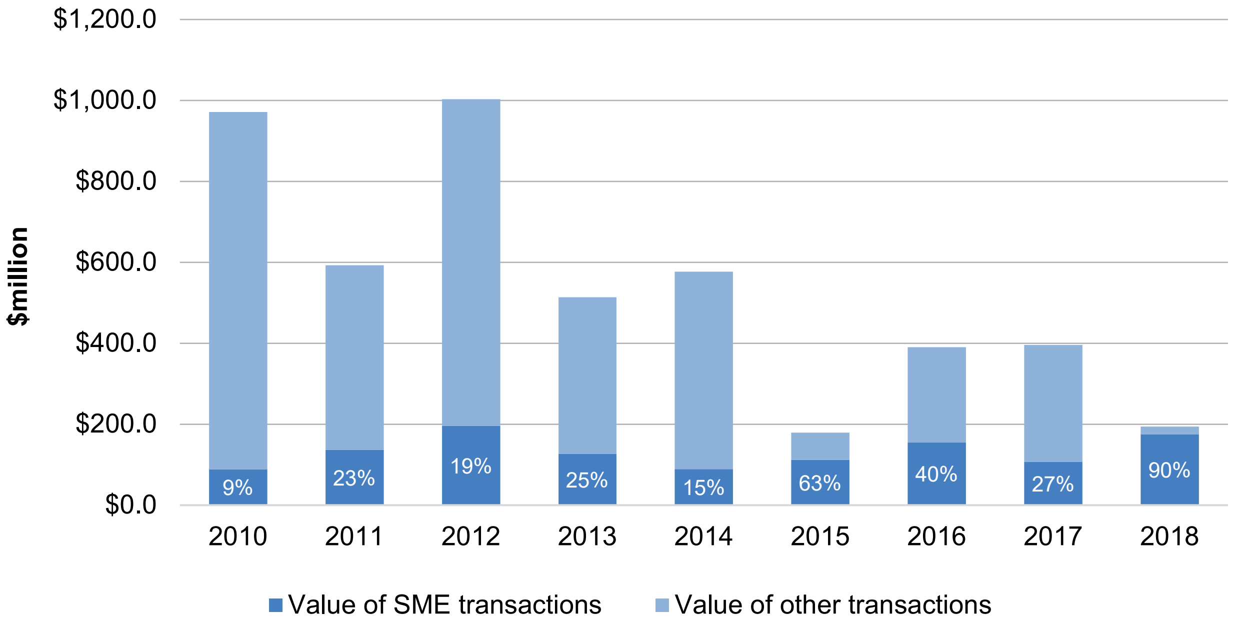
Source: ANAO analysis of signings in Efic Annual Reports.

2.40 In 2013, Efic introduced initiatives to assist SME clients in the form of banking partnerships for working capital solutions and a strategy and associated products for global supply chains. The results of these initiatives were evident in the increase in number of SME transactions during that year. The significant increase in the number of SME transactions within the financial year ending 30 June 2014 was primarily related to 99 Risk Participation Agreements provided to the Asian Development Bank that were not repeated in the following year.[22] Taking the variances of 2013 and 2014 into account, there has been a general increase in the volume of SME transactions since the implementation of EficDirect in 2015-16.

2.41 Figure 2.3 analyses the value of SME transactions as a proportion of the total value of transactions undertaken annually in the Efic portfolio from 2010 to 2018.

22 In 2014 Efic continued to build on its risk-sharing agreement with the Asian Development Bank (ADB) signed in May 2011. The agreement, part of ADB's Trade Finance Program, was aimed to make it easier for some of Asia's developing economies to import crucial Australian goods. A Risk Participation Agreement is an agreement where Efic shares the risk that Asian Development Bank takes in guaranteeing letters of credit for exports of Australian goods to Bangladesh, Pakistan, Vietnam and Sri Lanka — important future markets for Australian exports.

Figure 2.3: Value of SME transactions as a proportion of the total value of transactions undertaken annually in the Efic Portfolio (2010–2018)



Source: ANAO analysis of signings in Efic Annual Reports.

2.42 In the period 2010 to 2014 the average value of SME transactions as a proportion of the total value of transactions undertaken annually in the Efic portfolio was 19 per cent. In the period post the introduction of the 2014 Statement of Expectations, this average increased to 55 per cent. This may reflect that Efic has increased its focus on supporting SMEs.

Does Efic comply with its prescribed mandate in relation to Australian content, financial viability and other relevant requirements?

Efic complies with its prescribed mandate in relation to Australian content, financial viability and other relevant requirements. Efic consistently applies requirements in relation to the number of facilities which can be provided to an individual entity over a three-year period. Efic has appropriate structures for understanding and applying requirements in relation to environmental and social standards.

Australian content requirements

2.43 The Efic Act requires Australian content or benefits to accrue from certain proposed transactions for an export business to qualify for Efic financing[23]. The Statement of Expectations requires Efic to ensure domestic and overseas resource projects have significant Australian content.

23 For example, under section 16 of the Efic Act, guarantees can only be provided in relation to loans to Australian suppliers where the purpose relates to Australian export trade and not for the dominant purpose of direct investment outside Australia unless other specified requirements are met, including increased employment in Australia; any loans provided by Efic in relation to export contracts for goods can only support transactions where the goods are produced or manufactured wholly or in part in Australia (section 3 in combination with section 7 of the Efic Act).

2.44 Efic has applied an Australian content test across its whole portfolio as a way to meet all Australian benefits and content requirements under the Efic Act. Under this test, Efic will lend only up to a maximum of 85 per cent of the total content of a transaction, with the actual percentage of support to be provided dependent on the percentage of Australian content, which is defined as:

- goods manufactured or produced in Australia;
- inputs sourced from other Australian suppliers;
- services, including management and professional services provided by third parties, performed in Australia or by Australians employed outside Australia; and
- the Australian exporter's profit margin.

2.45 Management representations by the applicant in relation to Australian content (in the form of a legal declaration) are relied on by Efic. As part of its Transaction Risk Assessment procedures, Efic confirm the beneficial owners to the company and request financial information from these owners. Efic can trace the profit margin from this information for the beneficial owner/s allowing for the calculation of the profit margin attributable to Australia. It is noted however that Australian content at the time of the transaction may be an estimate until the export contract or project is completed.

2.46 Efic conducts audits of Australian content against an Exporter's Deed representations. These audits are conducted annually for a sample of four to five SME and CSPF clients. Efic has stated that if issues are found within this sample, the sample size would be increased (noting that the sample is focused on buyer finance and project finance transactions where the Australian content may be less obvious than in domestic transactions). The sample size in comparison to the total population of transactions for the year and the lack of an applied sampling methodology does not allow for Efic to draw appropriate conclusions nor provide assurance in relation to management representations across all transactions.

2.47 The Australian content test measures goods manufactured or produced in Australia; inputs sourced from other Australian suppliers; services, including management and professional services provided by third parties, performed in Australia or by Australians employed outside Australia; and the Australian exporter's profit margin.

2.48 Efic is proposing to apply a new Efic Australian Benefit Policy across its portfolio to allow for a more direct consideration of the benefits of proposed transactions to Australia's domestic and export economy. It is intended that this policy will improve the focus of Efic's financial support to encourage Australian export trade and ensure that Efic's financial exposure is aligned with the overall benefits flowing to Australia.

2.49 As a comparative example, NZECO [24] only considers applications where 'an economic benefit to New Zealand exists from the transaction' that NZECO would be underwriting. Economic benefits are demonstrated through:

- the nature and value of the goods or services provided within New Zealand, either solely or in conjunction with other New Zealand residents including expenditure on materials

24 The New Zealand Export Credit Office is a small agency with nine staff (The Treasury (New Zealand), *Meet the team* [Internet], 2019, available from https://exportcredit.treasury.govt.nz/about-us/meet-team [accessed January 2019].)

(excluding customs, excise/duties, imports), labour, overheads, and marketing cost elements,

- services delivered by New Zealanders employed or contracted offshore;
- the level of New Zealand intellectual property in the transaction; and
- profit derived from the transaction that will be repatriated back to New Zealand.

2.50 When NZECO is nearing its prudential or facility limits, NZECO prioritises New Zealand value-added content over other potential New Zealand benefits, such that the New Zealand value-added content must be at least 30 per cent of the transaction being supported by NZECO.

Financial viability

2.51 The Statement of Expectations states that, in making decisions on the support to be provided to export businesses, Efic must ensure that the relevant projects are financially viable. The financial viability of providing support for domestic and overseas resource projects (and related infrastructure) is demonstrated through a due diligence process applied by Efic to applications. In summary, the due diligence process involves:

- confirmation of export contract existence or technical assessment for application (refer paragraph 2.63);
- market gap assessment (refer paragraphs 2.14–2.17);
- Credit Risk Assessment (including review of financial viability, market and export country risks) (refer paragraphs 4.34–4.36);
- Transaction Risk Assessment (incorporating anti-money laundering and corruption and reputational risk assessment) (refer paragraph 4.28); and
- Environmental and Social Risk Assessment (refer paragraphs 2.56–2.63).

2.52 Efic has an appropriate framework in place to assess the financial viability of projects.

Three by three rule

2.53 The Statement of Expectations requires Efic to limit the number of Commercial Account transactions provided to the same entity to three facilities within a three-year period. Further transactions with the same entity must be approved by the Efic Board on the basis that the transaction is to an emerging market, or where the Board assesses that the transaction will not crowd out the private sector. In Efic's Statement of Expectations Compliance Table, the Efic Board has pre-approved a list of emerging markets, being all economies not classified as 'advanced' economies by the International Monetary Fund as published biannually in its World Economic Outlook.

2.54 Efic has interpreted the three by three rule as three facilities in total per customer. A facility can include one or more products and for which only one market assessment needs to be undertaken in relation to one export contract. For example, a customer can apply for an Export Credit Loan (ECL), a Performance Bond, a Warranty Bond and a Guarantee related to one particular Export Contract to a certain country (or could service multiple jurisdictions). This package of products (four products) would then count as one facility for the purpose of tracking against the three-by-three rule. Where multiple market assessments are required or the products applied for relate to multiple export contracts, these would then be classified as separate facilities for the applicant. Only when the number of such facilities (which can be more than three products) is exceeded (three within a three-year period) is Board approval required to be obtained prior to issuing any further products to the same customer.

2.55 Testing identified five exporters with more than three facilities (as per Efic's definition of the composition of a facility) within a three-year period. All had Board approval.

Environmental and social standards and compliance with OECD and international treaty requirements

2.56 Efic is required under the Statement of Expectations to provide products and services having regard to the Australian Government's World Trade Organisation and other international commitments, including the *United National Convention Against Corruption*. Efic applies anti-money laundering and corruption controls as part of its Transaction Risk Assessment process (refer paragraph 4.28).

2.57 Efic complies with the *Organisation for Economic Co-operation and Development (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* (OECD Common Approaches). Efic also voluntarily applies the Equator Principles, a global benchmark risk management framework, to identify and manage environmental and social risks in projects.

2.58 The OECD Common Approaches apply to officially supported export credits, while the Equator Principles apply to certain transaction types associated with projects, as outlined in Appendix 4.

2.59 The Equator Principles relate to the following financial products:

- where total Project capital costs are US$10 million or more, and include project finance or project finance advisory services;
- project-related corporate loans where total loan amount is at least US$100 million, loan tenor is at least two years and the Equator Principles Financial Institutions' individual commitment before syndication or sell down is at least US$50 million (can also be export finance in the form of buyer credit however the majority of the project needs to evidence effective operational control, either direct or indirect, by the applicant); and
- bridge loans with a tenor of less than two years expected to be refinanced by project finance or a project-related corporate loans meeting other relevant criteria above.[25]

2.60 Efic has implemented a procedure for environmental and social review of transactions that determines the level of environmental and social review required for each proposed transaction based on the type of financial support requested, the nature of the project activities and the role of the business applicant in the transaction (refer Appendix 5). In accordance with the Statement of Expectations, Efic publishes this procedure for environmental and social review and regularly reviews it to ensure it is consistent with better-practice environmental and social standards,

25 Equator Principles Financial Institutions, *The Equator Principles June 2013: A financial industry benchmark for determining, assessing and managing environmental and social risk in projects*, 2013.

including the International Finance Corporation (IFC) Performance Standards[26], the OECD Guidelines for Multinational Enterprises, the Equator Principles and OECD Common Approaches.

2.61 New projects are classified into Category A, B or C in accordance with the following definitions and managed in accordance with the procedure detailed at Appendix 5:

- Category A — potentially significant adverse environmental and/or social impacts;
- Category B — Between the two extremes represented by categories A and C; and
- Category C — minimal or no adverse environmental and/or social impacts.

2.62 In accordance with the Statement of Expectations, Efic publicly discloses its prospective involvement in transactions associated with projects that have potentially significant adverse environmental and social impacts (Category A projects). Efic takes submissions online and by post from the public in relation to potential Category A projects for consideration to report. The Efic Board annually reviews Efic's involvement in Category A projects and Efic discloses any Category A projects (usually related to extractive resource projects) on its website.

2.63 Efic has two engineers (technical assessors) who have primary responsibility for examining the technical viability of financial support applications (i.e. the technical features of the applications rather than financing terms). These staff are also responsible for performing assessments of borrower or sponsor compliance with OECD Common Approaches and Australia's other treaty obligations as they relate to environmental and social risk factors.[27] These staff undertake applicant and client site visits domestically and internationally to perform compliance and technical assessments for financial support applications of $2 million or more. For financial support applications that fall below this threshold, a desktop assessment is performed by the Transaction Management Team and reviewed by these assessors with particular focus on any compliance (and technical) risk concerns. Technical assessors must remain appraised of current international obligations and best practice and business technical requirements to assess technical applications across diverse industry sectors.[28]

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26 The IFC Performance Standards are an international benchmark for identifying and managing environmental and social risk particularly for high profile, complex, international or potentially high impact projects and has been adopted by many organisations internationally as a key component of their environmental and social risk management. IFC's Environmental, Health, and Safety Guidelines provide technical guidelines with general and industry-specific examples of good international industry practice to meet IFC's Performance Standards. The IFC Performance Standards address an environmental and social assessment and management system (required environmental and social performance of applicants and clients business activity, including workers and local communities), protection of labour rights and maintenance of fair, safe and healthy working conditions, pollution prevention and abatement, community health, safety and security, avoidance of physical or economic displacement or fair compensation of individuals and communities, biodiversity conservation and sustainable natural resource management, respect of indigenous peoples and protection of cultural heritage. Investees are required to comply with the IFC Performance Standards and Efic is required to verify compliance and where any non-compliance is identified a constructive corrective action plan must be developed and implemented within a reasonable timeframe by the investee as a condition of ongoing financial support. (International Finance Corporation. IFC Performance Standards. [online] https://firstforsustainability.org).

27 Responsibility for compliance with international obligations regarding pricing / competition and United Nations Convention against Corruption and anti-money laundering and bribery requirements resides with other Efic staff.

28 Maintaining knowledge of required compliance with environmental and social obligations includes attending meetings of the Environmental Practitioners of the OECD's Export Credit Group, sessions of the Equator Principles Association and involvement in the Equator Principles Association's Social Risk Working Group.

2.64 Efic does not have any documented arrangements for backup or succession in relation to these roles.[29]

Supporting other Australian Government Entities

2.65 In accordance with its mandate, Efic provides back office, infrastructure and operational support for the Northern Australia Infrastructure Facility (NAIF) and National Housing Finance and Investment Corporation (NHFIC).[30]

2.66 Efic also supports DFAT through provision of advice on financial management practices to understand how Efic executes its mandate. This also assists DFAT to prepare briefings to the Minister for Trade, Tourism and Investment.

Has Efic effectively established the Defence Export Facility in line with government objectives?

The Defence Export Facility has been established and Efic is providing support to the defence export sector in line with Australian Government objectives. Efic participates in intergovernmental discussions to remain informed on opportunities to support the defence export sector, and is undertaking a campaign to raise awareness of the financial support services available to defence exporters.

2.67 The Defence Export Facility is part of a package of strategic measures identified by the Australian Government in January 2018 aimed at increasing investment and employment within the defence industry sector:

> The Defence Export Facility has been established to assist Australian companies to obtain the finance required to underpin the sales of their defence and defence-related equipment overseas and to provide confidence to the Australian defence industry to identify and pursue new export opportunities knowing Efic's support is available when there is a market gap for defence finance.[31]

2.68 The Minister for Trade, Tourism and Investment (Minister) made a written direction on 15 January 2018 under section 26 of the Efic Act identifying circumstances in which applications for national interest transactions are, or are not, to be referred to the Minister. The direction sets out that an application to the Minister for Efic to enter into a national interest transaction (in accordance with Parts 4 and 5 of the Efic Act) in relation to the provision of financial support for an Australian defence export must satisfy specific conditions. These include the requirement that:

29 Efic considers there are a number of independent firms who could be engaged to provide consulting services in place of these two employees should either or both be unavailable, however Efic has not recently tested this presumption.

30 Efic also advised that it provides support to the Indigenous Entrepreneurs Capital Scheme (IECS) and, following 4 April 2019 changes to the Efic Act, the Australian Infrastructure Financing Facility for the Pacific (AIFFP).

31 C Pyne, (Minister for Defence Industry), '*Launch of job-creating Defence Export Strategy*', media release, Parliament House, Canberra, 29 January 2018.

- there is a private finance market gap for the proposed export of approved defence-specific or dual use[32] goods or services (for direct export or part of the supply chain);
- the proposed transaction has been subject to Efic's due diligence process (refer paragraph 2.51) and;
- is unable to be financed wholly or in part on Efic's Commercial Account.

2.69 Efic's administration of transactions that are the subject of referrals under these requirements are known as the 'Defence Export Facility'[33]. Under the Minister's direction Efic can refer applications to the Minister for approval that meet the conditions for 10 years until the maximum aggregate financial exposure for transactions under the Defence Export Facility reaches US$3 billion. No specific targets have been set out for management of the Defence Export Facility.

2.70 The export of defence and dual-use goods is restricted under Australian Customs legislation as well as the *Weapons of Mass Destruction (Prevention and Proliferation) Act 1995* and the *Defence Trade Controls Act 2012*, which covers the intangible supply of defence and strategic goods list technologies. Efic addresses these requirements in providing support for defence exports. Efic is part of an Interdepartmental Committee which meets regularly (generally monthly) to ensure broad inter-agency engagement across Defence Export Facility applications and monitor the implementation of the Government's Export Strategy. This Committee reviews applications to export defence-related equipment (that is, the transfer or supply of controlled technology, information or services) to sensitive destinations. The membership of this committee includes the Department of Defence, the Defence Export Office, Department of Industry, Innovation and Science, Austrade and DFAT. Consultations with relevant agencies also provide Efic with the opportunity to gain current insights on the Defence export industry and related markets.

2.71 The private finance market gap for defence exports is determined through Efic's regular communications with industry sector representatives and other Commonwealth entities. Efic have noted that there can be significant risk exposure for defence exports as future orders may be unknown (procurement is often arranged on an annual basis by buyers) and cancellation can occur at any time. Generally, other defence export stakeholders, especially the Australian Defence Export Office, take the lead in identifying defence export arrangements that may require Efic to provide financial support for exporters, however Efic is now more actively seeking Defence Export Facility opportunities through consultation with these stakeholders[34].

2.72 From 1 July 2016 to 21 November 2018, Efic had 15 transactions on the National Interest Account with a total value of $522 million. Of these transactions, two customer's products were included in the Defence Export Facility, with a combined value of $190 million. The presence of the two defence transactions on the National Interest Account is due to one transaction reaching the credit limit on the Commercial Account, and, for the second transaction, the credit decision relying on protected information to which Efic was not privy.

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32 Dual-use refers to meeting a defence and non-defence purpose. These goods and services must meet the Efic 'Integral Test' (refer paragraph 2.33 – 2.36) and have a defence-related application.

33 The Defence Export Facility is not a facility in terms of a discrete formal financial assistance program offered by a lending institution to help a single person or entity that requires operating capital, rather it refers to any transactions that meet the conditions for defence export assistance by Efic under the Minister's direction.

34 Efic is undertaking a targeted marketing campaign to provide awareness of the Defence Export Facility and the availability of financial support to businesses within this industry.

2.73 Financial assistance will continue to be provided via the Commercial Account for defence transactions, however if Efic reaches its risk and capital exposure limits for the Commercial Account, it can extend the facility via access to the National Interest Account for these transactions (with the Minister's approval as outlined above). Efic does not hold capital against the transactions on the National Interest Account as the Australian Government bears responsibility for risks on this account.

3. Financial and service delivery functions

Areas examined

This chapter examines whether Efic is effectively managing its financial and service delivery functions.

Conclusion

Efic effectively manages its financial and service delivery functions, and the evidence can support a view that Efic is operating on an appropriately commercial basis.

Areas for improvement

There have been no recommendations identified.

The ANAO has suggested areas for improvement in relation to: the provision of further support to first-time exporters; the timing in which the identity verification of an applicant is completed in the transaction process; and collaboration with other Australian Government entities to identify opportunities to facilitate and encourage Australian export trade.

Are Efic's operations conducted on an appropriately commercial basis?

The evidence can support a view that Efic is operating on an appropriately commercial basis. In line with its mandate, Efic generates sufficient reserves to sustain and expand its operations and undertakes its functions with the objective of not undercutting private sector financiers. There is a need for Efic to ensure an appropriate balance is maintained between its commercial objectives and its fulfilment of government expectations surrounding the facilitation and encouragement of private sector support for Australian export trade.

Legislative requirements

3.1 Upon its establishment in 1991, Efic received a $6 million equity injection to assist with its establishment, and a secondary equity injection of $200 million in July 2014 that restored Efic's capital base following a $200 million special dividend paid in June 2013[35].

3.2 The *Export Finance and Insurance Corporation Act 1991* (Efic Act) outlines Efic's requirements to be self-sustaining while ensuring that it delivers on its set purpose. Subsection 49(a) of the Efic Act highlights 'the need for Efic to generate reserves sufficient to support expansion of its operations', and subsection 56(1) of the Efic Act details that 'The Board is required to ensure, according to sound commercial principles, that the capital and reserves of Efic at any time are sufficient'. Export credit agencies such as Export Development Canada are also required to be self-funded and operate on commercial principles similar to Efic.

35 In June 2013, legislation was passed to require Efic to pay a one-off special dividend of $200 million to the Commonwealth Government as required under the 2012–13 Federal Budget. In an effort to support small and medium size businesses to successfully grow their exports and increase Efic's callable capital, this decision was then reversed in July 2014 and the $200 million was then returned to Efic via an equity injection.

3.3 The investment approval issued by the Finance Minister under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires Efic's treasury investments to be restricted to entities rated AA- or better for approved (foreign) entities, or Australian Authorised Deposit-taking Institutions (ADIs)[36] rated BBB- or better[37].

3.4 The Statement of Expectations sets out the Minister's requirement that Efic conduct its transactions with Australian export businesses on a commercial basis and therefore ensure that its pricing does not undercut private sector financiers where the potential for private support is present, nor should it undercut pricing for comparable risks where private sector support is absent for Australian export businesses.

3.5 Efic does not offer nor provide finance or insurance to Australian export businesses at concessional rates, instead it offers products on commercially comparable terms to private sector financiers, which are aimed at Efic's knowledge of the market gap where private financiers are unwilling to operate on the basis of risk. This is supported by Efic's Pricing Methodology and Strategy Reviews[38] (latest review dated 22 February 2018) and an established matrix of risk rating and tenor of exposure to ensure Efic does not compete on price for its products with the private finance market. This includes analysis of comparative market pricing for transactions of low dollar value and short duration (typical requirements of SMEs). Examples of known bank pricing structures are referenced as part of each review.

3.6 Efic's performance, profitability, capital and reserves are a standing agenda item for the Efic Board. Efic has achieved profits each year, with the exception of 1998[39]. Figure 3.1 below details the profits achieved by Efic in relation to the Commercial Account since its establishment as a separate corporation in 1991.

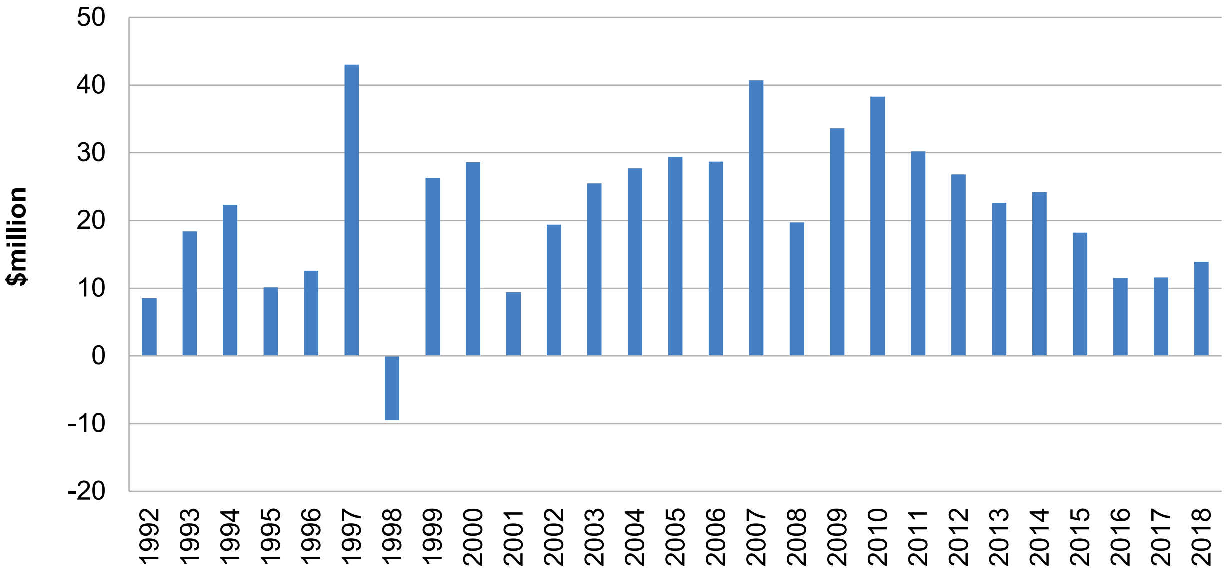
36 Authorised Deposit-taking institutions include banks, building societies and credit unions.

37 *Public Governance, Performance and Accountability (Investment) Authorisation 2014,* sections 4 and 6.

38 These reviews are undertaken at least every three years, usually more frequently.

39 Efic experienced a $9.5 million loss in 1998 due to credit provisioning for the Asian Financial Crisis. Most of this provisioning was written back in subsequent financial years.

Figure 3.1: Profits achieved by Efic (Commercial account)

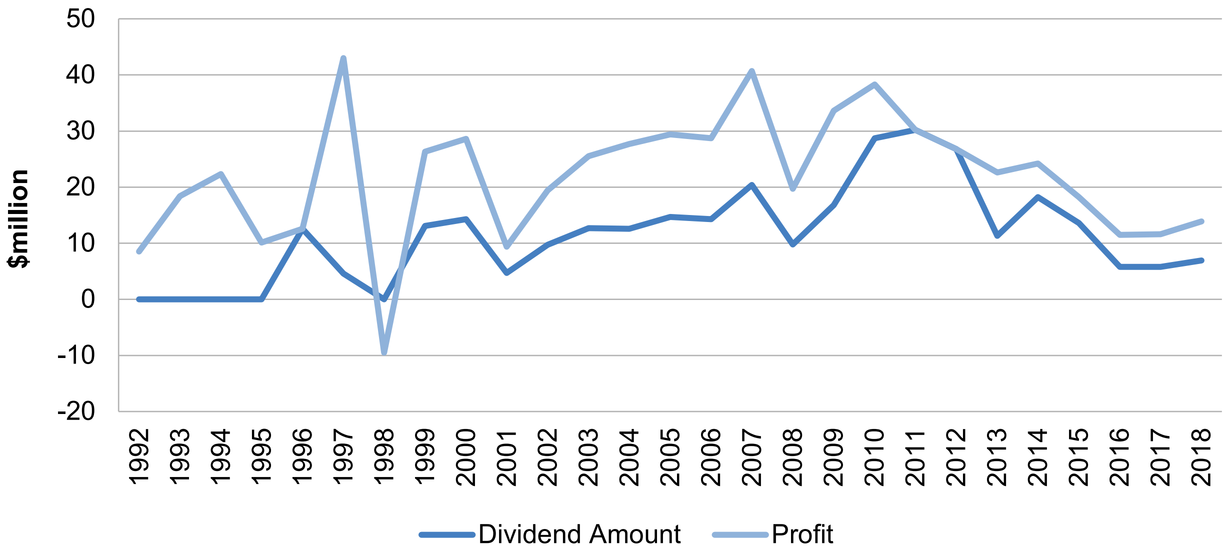


Note: From 1 July 2015, a Tax Equivalent charge of 30 per cent on accounting profit (in addition to an equivalent state tax that covers payroll and land tax) was introduced under competitive neutrality arrangements. This impacts on operating profit from 2015 onwards.

Source: ANAO analysis of Efic Annual Reports.

3.7 Subsection 55(1) of the Efic Act provides Efic with the ability to pay annual dividends to the Australian Government as approved by the Board. The declared dividend must not exceed Efic's profit for that year (subsection 55(4)) (this is separate to any dividends which the Minister can direct Efic to pay in excess of profit under section 55A of the Efic Act). Since the enactment of the Efic Act in 1991, Efic has returned $307.6 million to the Commonwealth in the form of a dividend, with the first dividend paid in 1996. Figure 3.2 below shows the dividends returned to the Commonwealth by Efic since it began operations in 1991.

Figure 3.2: Dividend paid by Efic to the Commonwealth



Note: Excludes the special dividend paid in 2013 (see paragraph 2.1).

Source: ANAO analysis of Efic Annual Reports.

3.8 The Efic Act and Statement of Expectations do not include any specific targets in relation to profits, dividends or return on equity for Efic. The data at Figures 3.1 and 3.2 reflect that Efic is generating annual profits and returning dividends to government, however Table 3.1 indicates that Efic's return on equity is lower than that of the major Australian Banks.[40]

Table 3.1: Return on Equity Comparison

Entity	2014	2015	2016	2017	2018
Efic	10.9%	5.5%	2.6%	2.6%	3.1%
Commonwealth Bank of Australia	18.7%	18.2%	16.1%	15.7%	14.1%
National Australia Bank	11.6%	14.8%	14.3%	14.0%	11.7%
ANZ Bank	15.4%	14.0%	10.3%	11.7%	11.0%
Westpac Bank	16.4%	15.8%	14.0%	13.8%	13.0%

Note: The fall in Efic's return on equity ratio between 2014 and 2015 relates to the introduction of the Tax Equivalent charge of 30 per cent on accounting profit (in addition to an equivalent state tax that covers payroll and land tax) under competitive neutrality arrangements. This impacted on Efic's operating profit from 2015 onwards.

Source: ANAO analysis of Efic, Commonwealth Bank of Australia, National Australia Bank, ANZ Bank and Westpac Bank Annual Reports.

3.9 Efic's return on equity comparative to the major banks needs to be considered in the context of its obligation to operate in the market gap, fulfil community service obligations, and limitations on the product range it is able to offer. Noting this, Efic's payment of dividends and that it is meeting the requirements under the Efic Act to generate sufficient reserves to sustain and expand its operations, on balance the evidence can support a view that Efic is operating on an appropriately commercial basis.

Balance between commerciality and government objectives

3.10 The Statement of Expectations states that Efic should:

> Encourage banks and other financial institutions carrying on a business in Australia to finance, or assist in financing, export contracts or eligible export transactions.

3.11 In addressing this expectation, part of Efic's role is to demonstrate that commercial returns are possible where Efic has supported a financially viable transaction that the private sector was unable, or unwilling, to support. This aims to 'narrow the market gap' and therefore have private financiers take on a greater range of financially viable export transactions.

3.12 It is noted that any activities by Efic to facilitate greater participation by the private sector in the financing of particular export transactions will necessarily involve Efic forfeiting the commercial returns which may have resulted from its own investment in the associated transactions.

3.13 Efic's focus on commerciality can impact on decision making in this regard and limit Efic's willingness to encourage Australian export trade.

3.14 In the 2012 Productivity Commission Inquiry: *Australia's Export Credit Arrangements* (Productivity Commission review) it was noted that practically all Australian exports, by both

40 Return on equity is a measure that calculates how many dollars of profit an entity generates with each dollar of shareholder's equity.

volume and value, take place without the assistance of Government (including Efic). Although no reference was made to how Efic could or does support the growth of Australian export trade, it was observed that while Efic is supposed to operate in the market gap, most of Efic's activities were directed at supporting larger businesses, and that there was no convincing evidence that a market gap exists for large businesses. Efic's mandate was subsequently changed to focus its support on small businesses, which aligns with the Statement of Expectations from 2014 stating 'The Government has decided to get the best out of Efic by having it focus support for SMEs seeking to expand their opportunities in overseas markets'.

3.15 The average value and term length of SME transactions in Efic's portfolio is less than that of CSPF transactions. This means that unless substantial volumes of SME transactions are undertaken, the returns from SME products are not on par with those generated from CSPF transactions. On this basis, Efic is now placing a more formal focus on the pursuit of CSPF transactions, which was endorsed by the Efic Board in April 2018[41] in relation to the need to:

> Grow the business within our current mandate (by being more focused and proactive and less concerned about volume and more about profitability).

3.16 Efic needs to be able to balance its requirement to operate commercially and be self-sustaining with its requirement to facilitate and encourage Australian export trade, and encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions.

Does Efic effectively consult and engage with relevant stakeholders?

> Efic engages effectively with government and external stakeholders to execute its mandate through activities closely overseen by responsible managers. Marketing campaigns and initiatives are used by Efic to extend knowledge of its support offering to exporters in new and existing industries. Efic proactively engages with export businesses to facilitate potential applications.

Stakeholder engagement plan

3.17 Efic has a stakeholder engagement plan, developed in December 2015. The Board is provided with semi-annual updates on activities against this plan.[42]

3.18 The stakeholder engagement plan identifies 11 main external stakeholders, including:

- SME clients;
- large corporate and sovereign clients;
- direct government relationships, including DFAT and relevant Ministers;
- central government agencies;
- government business services;
- government regulatory services;

41 Export Finance and Insurance Corporation Board Minutes, 262nd Meeting, 24 April 2018

42 Efic's stakeholder engagement plan has not been updated since 2015. Better practice dictates that plans of this nature should be reviewed on an annual basis.

- industry groups;
- professional associations;
- financial institutions;
- civil society organisations; and
- the media.

3.19 Efic employed a new Head of Marketing and External Relations in November 2018 who has been tasked with updating Efic's stakeholder engagement plan.

Engagement with export businesses

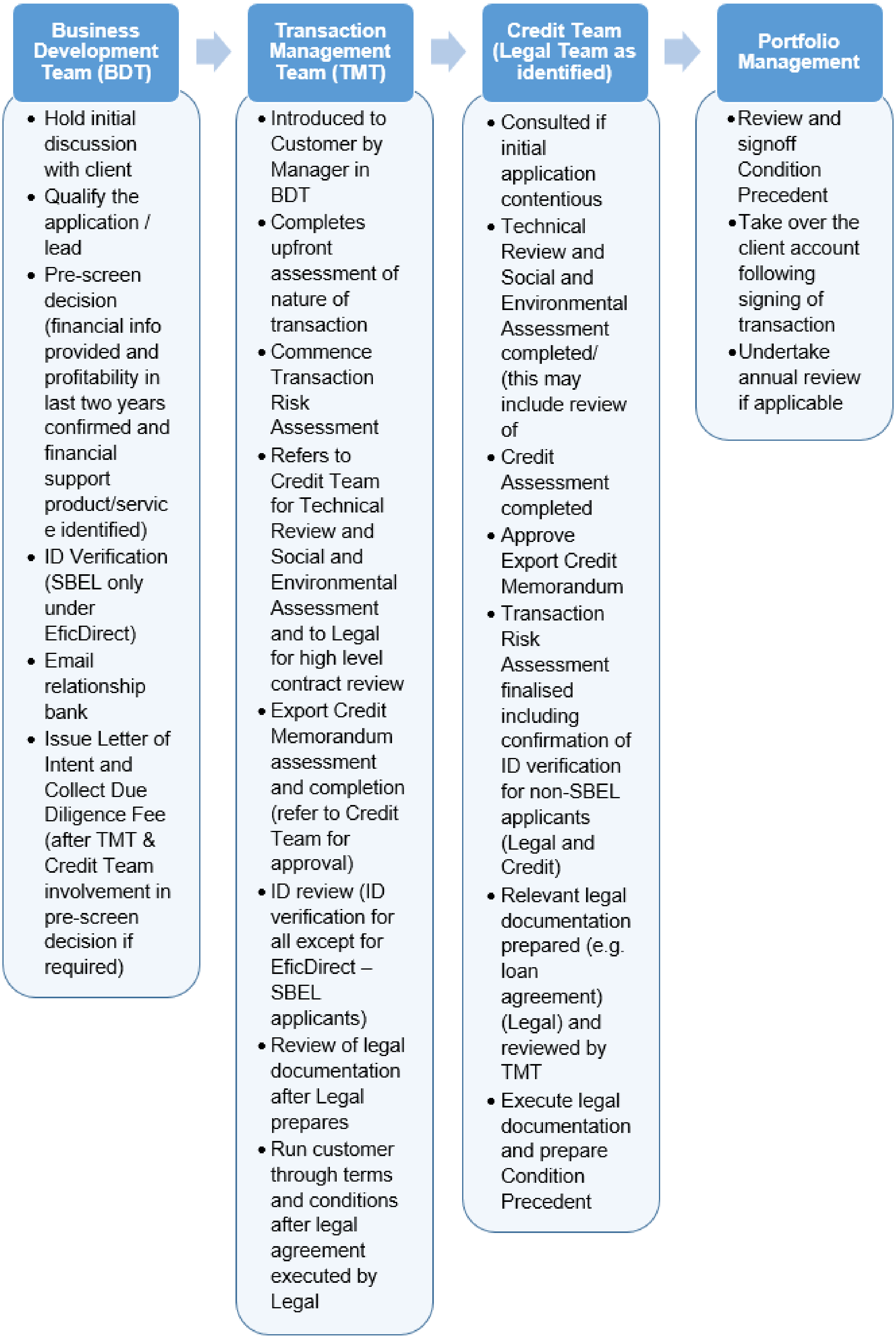
3.20 Efic maintains a management structure for stakeholder engagement which has the objective of ensuring financial and service delivery functions are undertaken with close oversight by senior management. Staff in the respective functional teams (refer Figure 3.3 below) are responsible for maintaining quality in both operational delivery and in the delivery of support to export businesses.

3.21 Marketing campaigns and initiatives are used by Efic to extend knowledge of Efic's support offering to exporters in new and existing industries. Efic undertakes marketing campaigns for specific industry areas and emerging markets each year (fashion, wine and SMEs were some of the areas that were the subject of marketing campaigns in 2018). However, the Marketing Team does not always obtain formal feedback in relation to the effectiveness of marketing campaigns or initiatives to improve future marketing efforts, and the rationale and strategy behind these campaigns is not fully apparent (and not substantively documented). Efic should consider assessing the effectiveness of its marketing campaigns and other initiatives to generate applications to ensure that its marketing is well-positioned and targeted to meet its objectives and mandate.

3.22 Efic financially supports SMEs from a range of industry sectors in accordance with the Statement of Expectations. Efic should consider publishing its annual indicative priorities, including methodology for assessing areas of focus for annual campaigns, to improve transparency of information to these industry sectors, private financiers, potential applicants and other stakeholders.

3.23 Efic maintains relatively streamlined transaction processes for communicating with export businesses, including the EficDirect platform for direct SME exporters (most in-supply chain SMEs cannot be supported through EficDirect). Figure 3.3 summarises the application management process.

Figure 3.3: Efic's application management process



Source: ANAO analysis of Efic's SME and CSPF transaction processes.

3.24 A significant proportion of the lead management and due diligence for a transaction is performed before a business and its primary persons are subject to formal identity verification. If a business fails this identity verification test, substantial costs will have been incurred without return given the transaction cannot proceed. Although any critical changes in personnel and transaction parties would need to be factored into final decision-making, earlier identity verification work would reduce the risk of the transaction not being able to go ahead.

Engagement with government stakeholders

3.25 Section 17 of the PGPA Act requires the Accountable Authority to encourage co-operation with others to achieve common objectives, where possible.

3.26 Under the Statement of Expectations, Efic is required to work closely with Austrade, Tourism Australia, the Department of Industry, Innovation and Science and DFAT in delivering its services to Australian businesses (involving a coordinated approach at all levels between the organisations).

3.27 Efic has sound engagement practices with DFAT and Austrade. There are regular meetings between Efic and key stakeholders within these organisations about Efic's offerings including regular reporting and meetings with DFAT prior to each Board Meeting to discuss key agenda items and Efic operations. Efic is currently finalising a Partnership Plan with Austrade to scope strategies and activities that can be co-developed by Austrade and Efic.

3.28 Under the Statement of Expectations, Efic is expected to:

- provide regular reporting to DFAT, Treasury and Finance on its exposure risk per industry and per country;
- report to DFAT the justification for companies with more than three transactions in a three-year period;
- provide DFAT, and any other relevant agencies with any information (non-legally privileged) requested to support these agencies in preparing advice on policy in relation to export credits and its operations;
- inform DFAT of any approaches to restructure or relieve outstanding Development Import Finance Facility loans; and
- maintain a Service Level Agreement with DFAT in relation to the management and administration of the National Interest Account.

3.29 DFAT reviews Efic's interpretation of its mandate and how it should meet the aforementioned requirements. Efic complies with these requirements based on Efic's interpretation of its mandate.

3.30 Efic could leverage off the relationships and work of other Commonwealth entities such as the CSIRO and IP Australia for emerging export opportunities. The CEO and Executive of Efic have noted that this is an area that Efic will strongly seek to address in future.

4. Compliance with statutory and prudential responsibilities

Areas examined

This chapter examines whether Efic is effectively meeting its statutory and prudential management responsibilities.

Conclusion

Efic is meeting its statutory and prudential management responsibilities, however Efic's annual performance statement reporting should be enhanced to enable a more comprehensive assessment of overall progress against its purpose.

Areas for improvement

The ANAO made one recommendation aimed at strengthening Efic's performance measures in its annual performance statements.

Does Efic meet its accountability, management, performance and reporting obligations under the PGPA Act and other relevant legislation?

Efic meets relevant legislative requirements regarding accountability, management and performance, however Efic's annual performance reporting should be enhanced in relation to the completeness of assessment information. Efic conducts treasury activities in accordance with a control framework approved by its Board and applies Anti-Money Laundering and Counter-Terrorism Financing assessment procedures to each transaction.

4.1 Efic has established a compliance framework that is monitored by a dedicated compliance function. A register of Efic's statutory obligations is maintained and regularly reviewed to ensure Efic continues to comply with its statutory obligations.

4.2 Executive and Senior Managers examine whether Efic is meeting its obligations on an ongoing basis, including through frequent examination of its governing directions and legislation. Efic heads of each department (refer Appendix 6) and the Executive complete six-monthly attestations to confirm compliance with regulatory obligations.

4.3 Efic engages consultants and utilises its internal audit function to undertake regular reviews of its operational compliance and effectiveness, including benchmarking against better practice/other entities in the export sector.

4.4 Efic is a corporate Commonwealth entity under the PGPA Act, and therefore bound by the requirements of the PGPA Act, the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) and other legislative instruments.

4.5 The appointed accountable authority of Efic is its Board. The accountable authority must govern the entity in a way that promotes the proper use and management of public resources, promotes the achievement of the purposes of the entity, and promotes the financial sustainability of the entity (subsection 15(1) PGPA Act). Refer to paragraphs 4.40–4.43 for more information on the Efic Board and governance structure.

4.6 Section 16 of the PGPA Act provides the accountable authority with the duty to establish and maintain systems relating to risk and control. Efic's risk management framework is reviewed by the Board on an annual basis, with the last review on 24 April 2018. This covered the risk management framework, risk control matrix and Efic's risk appetite statement.

4.7 Section 17 of the PGPA Act requires the accountable authority to encourage co-operation with others to achieve common objectives, where possible. For Efic, this requirement is extended through the Statement of Expectations which requires Efic to make available its specialist financial capabilities to Commonwealth entities and companies, and subsection 7(da) of the Efic Act which requires Efic to assist the Northern Australian Infrastructure Facility (NAIF) in the performance of the function of the facility.

4.8 Efic provides the NAIF with administrative support functions under a Service Level Agreement. Efic also liaises with DFAT, Austrade, the Department of Industry, Innovation and Science and the Department of Defence in relation to export trade (refer to stakeholder engagement at paragraphs 3.25–3.30).

4.9 Efic provides reporting to the Board on Efic's support for other Commonwealth entities, including the alignment of the provision of its services with its core capabilities.

4.10 Efic has prepared all reports required under the PGPA Act, including the preparation of a corporate plan (section 35), budget estimates[43] (section 36), annual financial statements (section 43) and annual financial report (section 43).

Annual performance statement reporting

4.11 Australian Government entities are required to prepare an annual performance statement and include a copy in the annual report to be tabled in Parliament (subsection 39(1) of the PGPA Act). The aim of an annual performance statement is to provide the public with information about the entity's performance in achieving its purpose (subsection 39(2) of the PGPA Act).

4.12 Paragraph 3 of the *Resource Management Guide No. 134 – Annual performance statements for Commonwealth entities* issued by the Department of Finance, provides direction on the content of an annual performance statement. It notes that an annual performance statement will report on the extent that a Commonwealth entity has fulfilled their purpose(s) as articulated at the beginning of a reporting year in their corporate plan.

4.13 Auditor-General Report No. 17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18* states:

> Section 16E of the PGPA Rule requires an entity's corporate plan to state the entity's purpose/s over the next four years. The PGPA Act defines purpose/s as including the objectives, functions or role of an entity. The aim of the purpose/s statement is to give context to the significant activities that the entity will pursue over that period, and should be stated in a relevant and concise manner. Finance guidance notes that:
>
>> *Well-expressed purpose statements make it clear who benefits from an entity's activities, how they benefit and what is achieved when an entity successfully delivers its purposes. Essentially, purposes describe the value an entity seeks to create or preserve.*

43 Efic does not have stand-alone budget estimates, they are integrated within the Department of Foreign Affairs and Trade Portfolio Budget Statements.

4.14 Efic has defined its purpose within its corporate plan as ‘Financing Australian businesses to take on the world’. This defined purpose is broad in nature and does not describe the impact intended to be achieved, nor its benefit to the Australian economy.

4.15 The characteristics of appropriate performance criteria are relevance, reliability and completeness. Performance indicators are considered to be:

- Relevant — where they clearly indicate who will benefit from the entity’s activities and how; address a significant aspect/s of the entity’s purposes via its activities; and provide sufficient information in a clear and concise manner;
- Reliable — use and disclose information sources and methodologies that are fit-for-purpose (including a basis or baseline for measurement or assessment, for example a target or benchmark); and are free from bias; and
- Complete — provide a balanced examination of the overall performance story, and collectively address the entity’s purpose. [44]

44 Department of Finance, Quick Reference Guide — RMG 131 Developing good performance information, September 2016. The basis for the ANAO’s assessment was drawn from the characteristics of ‘good’ performance information as defined by Finance. Guidance from Finance notes that ‘appropriate’ performance information is relevant (benefit, focus and understandable), reliable (measurable and free from bias) and complete (collective and balanced). See Appendix 7 for more information.

Table 4.1: Efic performance measures, targets and results 2016-17 and 2017–18

	Measure	Target 2017–18	Result 2017–18	Result met?	Target 2016–17	Result 2016–17	Result met?
New signings SME	Number of transactions	200 to 250	249	Yes	200 to 250	191	No
	Number of facilities	175 to 225	179	Yes	155 to 205	147	No
	Value of facilities	$150m–$170m	$175.1m	Exceeded	$180m–$200m	$107.6m	No
	Value supporting export contracts	$730m–$780m	$1.25b	Exceeded	$840m–$890m	$557.9m	No
New Signings Corporate, Sovereign and Project Finance	Number of transactions	2 to 10	5	Yes	5 to 15	7	Yes
	Number of facilities	2 to 10	2	Yes	5 to 15	6	Yes
	Value of facilities	$270m–$300m	$19.1m	No	$330m–$360m	$288.4m	No
	Value supporting export contracts	$380m–$500m	$146.8m	No	$1,300m–$1,400m	$438.3m	No
Capital Adequacy	Capital Available	$678m	$674.5m	No	$667.5m	$667.2m	No
	Risk Weighted Assets	$3.66b	$2.7b	Yes	$2.951m	$2.652m	Yes
	Capital Adequacy Ratio (including callable capital)	18.5%	25%	Yes	22.6%	25.2%	Yes
Financial Performance	Pre-tax profit	$15.8m	$19.8m	Yes	$16.5m	$16.6m	Yes
	Post-tax profit	$11.1m	$13.9m	Yes	$11.5m	$11.6m	Yes

Source: ANAO analysis of Efic's Annual Reports 2017–18 and 2016–17.

4.16 Although its 2016–17 and 2017–18 Annual Reports state that these were successful years for Efic, Efic failed to meet some of its performance measures, some by a considerable margin. Whilst there are statements throughout both annual reports discussing the context for why these performance measures were not met, these statements are not presented as qualitative performance criteria within the corporate plan and / or performance statements section of the annual reports.

4.17 Efic's results against its performance measures have improved from 2016–17, particularly in supporting small and medium-sized enterprises (SMEs):

- Although outside the targeted range, the values of facilities supported and supporting export contracts were higher than targeted for 2017–18; Efic identifies that this is because they underestimated the market gap.
- New Signings for CSPF are significantly lower in both years. This is mainly due to the increased emphasis on supporting signings of SMEs and the long-term nature (timing) of negotiations in relation to CSPF transactions.
- The 'Value supporting export contracts'[45] measure for both CSPF and SME is influenced by the product mix[46]. Some CSPF transactions were also not entered into during the period as they were considered too risky or ended up being self-financed by the applicant.
- Capital adequacy meets the Efic Board's expectations.

4.18 Efic's defined purpose as expressed within its Corporate Plan is too broad in nature to allow an effective assessment of the appropriateness of its performance criteria. The audit therefore assessed the performance criteria detailed in Table 4.1 against Efic's prescribed mandate as included in the Efic Act and the Statement of Expectations (refer paragraph 2.2 for a summary of Efic's prescribed mandate, and see Appendix 7 for the basis of the assessment). The performance criteria were found to be:

- relevant, as the measures were focussed on Efic being active in supporting Australian exporters and operating in a commercial manner; were understandable with the beneficiaries being SME and CSPF Australian exporters; and the intended benefit to be delivered was the completion of the finance / insurance transactions.
- reliable, on the basis that they are quantitative in nature and based on completed transactions or audited financial information.
- the completeness of the performance criteria was assessed as partly met, as the performance measures used by Efic are all of a quantitative nature, and only provide details in relation to financial performance and completed transactions during the year.

4.19 The performance criteria do not clearly explain how Efic has met its purpose in relation to: building Australia's export trade and working with banks and other financial institutions to provide

45 'Value of facilities' is the value of signing (in Table 4.1) and is only a proportion of the 'Value supporting export contracts' except in Buyer Finance transactions (where they are almost equal).

46 'Value supporting export contracts' is impacted by the mix of products. For example, in a bond Efic may support 10 per cent of the contract (if the signing value is $10 million the value supporting export contracts is $100 million); whereas for project finance the value supporting export contracts is a multiple of the signing value.

financing support to export businesses[47]; its performance in relation to its underlying functions; and how it has assisted the growth of the Australian economy.

4.20 Efic should consider 'assist-based' performance criteria to measure its performance against its function and purpose under the Efic Act and Statement of Expectations. Examples of such measures adopted by the NZECO are provided at Appendix 8.

Recommendation no.1

4.21 The Export Finance and Insurance Corporation include both quantitative and qualitative performance measures in the annual performance statement to enable a more comprehensive assessment of overall progress against its purpose. This should include measures to address mandated requirements to encourage banks and other financial institutions to finance, or assist in financing, export contracts or eligible export transactions.

Export Finance and Insurance Corporation response: *Agreed.*

4.22 *Efic agrees with this recommendation and will enhance its annual performance statement reporting by including qualitative performance measures to enable a more comprehensive assessment of overall progress against our purpose*.

Treasury Management under the Efic Act and Regulations

4.23 Efic is required to comply with regulatory requirements including those set out in the *Export Finance and Insurance Corporations Regulations 1991*, which limit the total amount of Commercial Account loans Efic can make and also restrict the amount of contingent liability Efic can carry on its Commercial Account when providing insurance contracts and guarantees. The Finance Minister instructs on limits regarding the types and amounts of funds that Efic can borrow under Section 59 of the Efic Act.

4.24 Efic borrows to fund loans made to exporters or buyers of Australian exports as well as to be able to service borrower defaults and calls by lending banks on export finance guarantees (contingent liabilities) provided to support the financing of Australian export trade.

4.25 Efic conducts treasury activities in accordance with a control framework approved by its Board under the requirements of the Efic Act, PGPA Act and directions and approvals from the Australian Government. Efic aims to raise funding at competitive rates and to manage the investment of capital and reserves and its surplus liquidity portfolio. Under Section 62 of the Efic Act, the Australian Government guarantees the due payment by Efic of any money that becomes payable, including borrowings from third parties. Under section 61 of the Efic Act 'Efic must not borrow or raise money except under section 58 or 59'. Section 58 allows the Finance Minister to lend money to Efic out of government appropriations, while Efic can borrow or raise money, subject to approval of the Finance Minister under section 59 of the Efic Act, to fund its operations. Efic funds its activities under Section 59 rather than section 58 approvals. Efic borrows

47 Working with banks and other financial institutions to provide financing support to export businesses can be seen as a Community Service Obligation (that is, when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices).

in the global debt capital market to fund lending operations and uses derivative products (under the general powers set out in section 11 of the Efic Act) to minimise currency and interest rate risks arising from its operations. In addition, Efic is authorised to raise funds from approved borrowing facilities in advance of loan funding needs.

4.26 The results of Efic's treasury operations are a standing agenda item for the Efic Board.

Efic's anti-money laundering and corruption procedures

4.27 Efic is required to provide products and services having regard to the Australian Government's international commitments, including the *United Nations Convention against Corruption*. Efic has established an Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Program. Specific AML/CTF procedures are summarised in Table 4.2 below.

Table 4.2: Efic's anti-money laundering and corruption procedures

Procedure performed	Details
Company searches	Searches conducted to identify all relevant parties to the transaction, including the names of each director of the organisation and the effective ownership of the company. Searches typically performed using Dow Jones and/or Equifax
Identification verification	Identification is obtained for each relevant party. A Veda ID Matrix[48] search is performed on each person to ensure identification is correct.
Country risk search	Performance of searches on a number of country risk indices. These include Basel, Transparent International Corruptions Perceptions Index, United Nations Trade Sanction listing, and any DFAT sanctions.

Source: Efic AML/CTF Program.

4.28 Efic performs a 'Transaction Risk Assessment' as part of the due diligence for each proposed transaction. This involves classification and risk assessment of the type of applicant, identification and review of shareholdings and shareholders and relevant jurisdiction for export. Any politically exposed persons or credit risk factors are identified using the Dow Jones Search Tool.[49]

4.29 Once it has been determined by Efic that the export is prohibited, the transaction process is terminated and the exporter is notified of the decision not to pursue the transaction.

Does Efic effectively manage its credit and funding risks?

Efic meets its risk management obligations and manages its credit, funding and other risks effectively.

48 An Equifax identity verification product https://www.equifax.com.au/idmatrix/.

49 Third-party risk management and evaluation tool that utilises global intelligence and government/company databases to identify credit and other risks in relation to persons/entities.

4.30 The Statement of Expectations requires that:

> Efic should continue to maintain systems to manage its risks. While Efic is not an Authorised Deposit-taking Institution, it should continue to be guided by the Australian Prudential Regulation Authority in managing financial risk.

4.31 The Efic Board has made a decision to follow the APRA prudential standards to the extent that they are applicable to Efic, and can be met whilst still complying with the requirements of the Efic Act .[50]

4.32 For the Efic Board to meet its requirement under section 56 of the Efic Act to 'ensure, according to sound commercial principles, that the capital and reserves of Efic at any time are sufficient', Efic also draws risk exposure requirements from the standards set by the Bank of International Settlements through the Basel Committee on Banking Supervision (Basel).

4.33 The Efic Board has endorsed the APRA maximum exposure of 50 per cent of capital for bank counterparties.[51] In accordance with these requirements, Efic treats its capital as equivalent to regulatory capital under APRA guidelines and uses this as the basis for setting risk tolerances in regard to large exposures, and for determining capital adequacy for transactions on its Commercial Account. This involves setting a maximum exposure of 25 per cent of capital and reserves and callable capital[52] per non-bank counterparty/ies. Lower targets have been set for higher risk investments.[53] An exception is then applied to risk transfer arrangements[54] where the Efic Board approves increases in exposure limits to single counterparties on a case by case basis of up to 50 per cent (up to 37.5 per cent for risk transfer partners rated Efic Risk Score (ERS) 1[55] or 2[56] and up to 50 per cent for risk transfer partners rated ERS1 from government-backed export credit agencies).

4.34 All transactions that Efic underwrites are reviewed by the Board or by the Executive team in accordance with delegated authorities, and large or complex transactions are reviewed by the Efic Executive Committee. Sovereign (Overseas Country) risk is assessed by the Efic Chief Economist. Efic confines risk within Board and Executive approved limits and does not trade speculatively in wholesale markets.

4.35 All transactions subject to audit testing had appropriate credit risk assessments completed in line with Efic's policies and its mandate. Efic had complied with procedures in relation to the assessment of transactions, including as documented in the Efic Credit Memorandum for each complete transaction, and undertaken monitoring of risk in relation to each market, industry sector and country (sovereign risk) related to transaction analysis.

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50 As Efic voluntarily complies with APRA requirements, it is not subject to any ongoing process of external audit to provide assurance in relation to its compliance with the requirements.

51 Bank counterparties has the meaning of authorised deposit-taking institutions under the *Banking Act 1959* rated BBB- and above, and other financial entities rated AA- and above.

52 $200 million callable capital that is available from the Australian Government in accordance with section 56 of the Efic Act.

53 Investments with a rating lower than Efic Risk Score 1 (ERS1) (AAA/AA- or Aaa / Aa3) or ERS2 (A+/A- or A1/A3).

54 A Risk management technique where Efic transfers risk for all or part of its risk exposure in relation to a risk obligor to another party (which could be another export credit agency or other entity).

55 Efic Risk Score (ERS) 1 (equivalent to S&P Global Ratings AAA/AA– or Aaa/Aa3).

56 Efic Risk Score (ERS) 2 (equivalent to S&P Global Ratings A+/A– or A1/A3).

4.36 Annually, the credit risk assessment and transaction risk assessment is reviewed (and re-performed) for any facilities that do not mature within 12 months to assess whether there are any required changes to the terms of the transaction (and to manage any change in risk). Credit decision-making for SMEs acquiring a Small Business Export Loan through EficDirect has been outsourced for efficiency purposes to Equifax, a consumer credit reporting agency, who link to the platform under a contractual agreement that addresses confidentiality and platform security.

4.37 Efic is required to regularly report to DFAT, Treasury and Finance on its cumulative risk exposures per industry and per country. Efic provides DFAT with Board Papers and ongoing updates, and provides annual briefings to Treasury and the Department of Finance on its operations.

4.38 Transactions by risk exposure reported to these entities generally relate to direct financing or insurance of exporters into overseas markets, or buyer financing. In the audit sample two facilities were noted, which required separate reporting and disclosure in the annual report:

- a direct loan with the government of Iraq, based on credit insurance deals with the Australian Wheat Board from 1987–1990. The Iraqi government had its accounts suspended during this time. The Australian Wheat Board called upon the insurance provided by Efic; Iraq petitioned the Paris Club[57] to either reschedule or forgive their debts, and in 2005 a debt forgiveness deal was entered into which effectively removed 20 years of interest from the amount owing. The final agreement commenced in 2008 and is to be paid off over 17 years. Iraq has paid each principal and interest payment on time since the completion of the agreement.
- in 2002, during the Asian Financial Crisis, Indonesia petitioned the Paris Club and was granted payment relief, which effectively allowed Indonesia to extend their loans to have minimal payments in the short term before increasing payments in the longer term of any loan period. As with Iraq, Indonesia has maintained a consistent payment schedule for its loan with Efic since the final agreement was signed.

4.39 Efic is required under the Statement of Expectations to provide regular reports on the risk that the Australian Government is bearing directly through the National Interest Account (this is then reported as part of the Australian Government Budget Papers). Efic provides these reports as part of its annual briefings to Treasury and the Department of Finance on its operations.

Are Efic's governance structures consistent with its statutory obligations?

> Efic has established governance structures that are aligned to its statutory obligations. The Board comprises members appointed by the responsible Minister together with the Efic Managing Director, and is supported by the Board Audit and Risk Committee, internal management committees and the Executive.

57 The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. Paris Club creditors provide debt treatments to debtor countries. http://www.clubdeparis.org/en.

Efic Act Requirements

4.40 In accordance with section 34 of the Efic Act, membership of the Efic Board must include a Managing Director, a Chairperson, a Deputy Chairperson; a government member, and not fewer than two (and not more than five) other members of the Board as the Minister determines in writing to be appropriate.

4.41 Seven non-executive members of the Board are currently appointed by the Minister for Trade, Tourism and Investment, in addition to the government member[58] and Managing Director (in accordance with section 34 of the Efic Act). Efic's functions and powers are set out in section 7 and section 11 of the Efic Act and primary accountabilities are held by the Board and Managing Director (Chief Executive Officer). There are no Efic Board decisions made by proxy.

4.42 The composition of the Board and the Board Audit and Risk Committee includes both technical and government specialists, and the Minister is represented on the Board by the government member, currently the Secretary of DFAT or their alternative, the Deputy Secretary.

4.43 Efic's secretariat function provides reporting to the Board and Board Audit and Risk Committee on a timely basis. The secretariat has documented procedures for all of its functions, a full induction process for new Board members, and Board papers are of a sound standard. DFAT further conducts a review of Board papers as a usual practice in order to engage with Efic on the items to be discussed and to prepare a brief for the Secretary or their alternative. A performance review of the Board is conducted every two years by an engaged provider; and Board members are surveyed every two years (every alternate year to the performance review).

PGPA Act governance requirements

4.44 Section 12 of the PGPA Act requires each Commonwealth entity to have an accountable authority, whose duty is to govern the entity. As Efic is a corporate Commonwealth entity, the Board is the appointed accountable authority. The Board meets at least six times a year and also on an intersessional basis if required.

4.45 The Efic Board has appointed an audit committee, the Board Audit and Risk Committee, as required by section 45 of the PGPA Act. Efic has defined the Board Audit and Risk Committee's role as overseeing all aspects of risk management and internal control, including reviewing compliance activity, financial reporting and performance reporting; the audit program; and the adequacy of Efic's accounting policies and procedures. The Board Audit and Risk Committee meets on a quarterly basis.

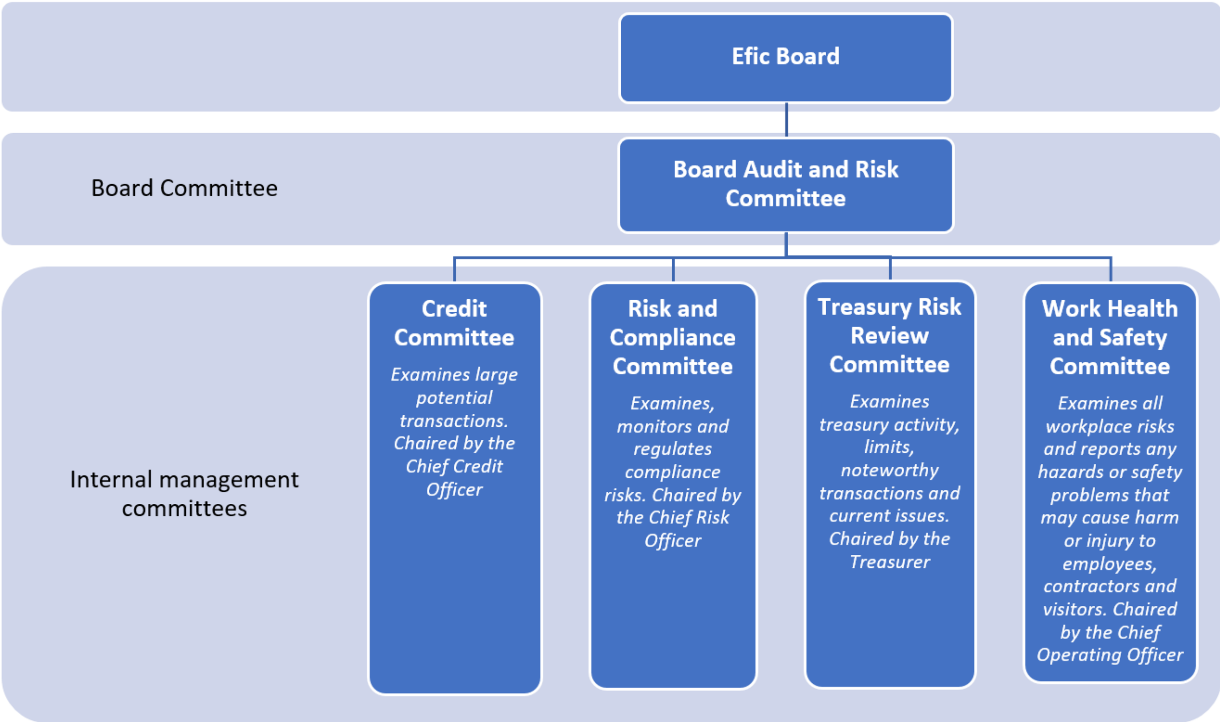
4.46 Internal management committees that support the Board in fulfilling its responsibilities are listed in Figure 4.1.

4.47 The Board has tasked the Efic executive and senior management with establishing and maintaining systems relating to risk and control as required by section 16 of the PGPA Act. Efic executive and senior management have developed policies, processes, procedures and controls to identify and manage Efic's risks. Efic executive meets on a fortnightly basis, where updates are provided by all areas of the entity and the Managing Director, decisions are made in relation to the

58 The government member of the Efic Board holds office for a term determined by the Minister in accordance with subsection 35(2) of the Efic Act.

approval of new facilities, and other standing items, including Workplace Health and Safety, staff travel and the embargo list, are discussed.

Figure 4.1: Committees within Efic



Source: ANAO analysis of Efic risk management framework, roles and responsibilities.

Grant Hehir
Auditor-General

Canberra ACT
6 June 2019

Appendices

Appendix 1 Export Finance and Insurance Corporation response

Australian Government

Efic Finance for Australian Exporters

13 May 2019

Ms Lisa Rauter PSM
Group Executive Director, Performance Audit Services Group
Australian National Audit Office

Dear Ms Rauter,

Efic comments on the proposed report under s.19 of the *Auditor-General Act 1997.*

Thank you for your letter of 15 April 2019 providing the proposed audit report (the **Report**) on the Effectiveness of the Export Finance and Insurance Corporation (**Efic**).

The Efic Board is pleased with the Report's conclusion that:

- Efic is operating within its prescribed mandate. It has developed a framework to interpret, operationalise and comply with each mandate requirement.
- Efic effectively manages its financial and service delivery functions, and the evidence can support a view that Efic is operating on an appropriately commercial basis.
- Efic is meeting its statutory and prudential management responsibilities, noting Efic's annual performance statement reporting could be improved to enable a more comprehensive assessment of overall progress against its purpose.

It is satisfying that, after extensive examination of Efic's policies, procedures and documentation, and interviews with staff, the ANAO has identified examples of good practice that may be relevant for other Commonwealth entities. In particular, the report notes:

> *"Management and the Board constantly monitor the control framework to support and enhance the commercial basis of operations and ensure the performance and profitability of the entity. Other corporate Commonwealth entities could benefit from applying a similar governance and cultural framework to their operations and service delivery activities." (Proposed Report under s.19 of the Auditor-General Act 1997 - page 6)*

These very positive findings reflect Efic's commitment to a robust governance framework, underpinned by a strong organisational culture, and the hard work of Efic's highly engaged Board, executive and staff.

We are passionately committed to deliver on our purpose to support Australian export trade whilst adhering to Efic's legislative and compliance obligations,

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ABN 96 874 024 697 • Phone +61 2 8273 5333 • www.efic.gov.au

Response to recommendations

The Report sets out one recommendation:

i. The Export Finance and Insurance Corporation include both quantitative and qualitative performance measures in the annual performance statement to provide a comprehensive assessment of its overall progress against its purpose. They should include measures to address mandated requirements to encourage banks and other financial institutions to finance, or assist in financing, export contracts or eligible export transactions.

Efic agrees with this recommendation and will enhance its annual performance statement reporting by including qualitative performance measures to enable a more comprehensive assessment of overall progress against our purpose.

Response to areas for improvement

Efic will also carefully consider other observations and comments made by the ANAO in the Report and explore opportunities for process improvement, including in relation to:

- Confirmation of the market gap monitoring activities.
- Support for first-time exporters.
- Continued collaboration with other Australian Government entities.

On behalf of the Board and staff of Efic, I would like to thank the officers of the ANAO who conducted this audit in a very professional and systematic manner with appropriate consultation throughout the process.

Yours sincerely,

James M Millar AM

Chairman

Appendix 2 Efic’s financial products

Financial products	Examples
Loans Finance to support export transactions which is unable to be secured from the private sector — to support cash flow requirements.	**Small Business Export Loan** — an unsecured, government-backed loan solution (with easy application and fast approvals) introduced in 2016 for businesses with a turnover of more than $250,000.
	Export Line of Credit — A line of credit introduced in 2017 to support ongoing eligible export-related contracts that can be drawn and repaid multiple times during the loan term. This provides access to additional working capital when needed to support these contracts.
	Export Venture Debt (not an equity injection) that provides businesses with working capital to assist them in meeting their obligations for relevant export contracts. The funds are repaid through the customers’ payments, with redraws available if needed. This allows equity investment funding to focus on more strategic aspects of the business, and provides an alternative to selling equity.
	Export Contract Loan — a simple loan structure, with flexibility to tailor the loan amount and loan term to suit the specific export-related contract, the ability to draw down anytime during the loan drawdown availability period, so additional working capital is available when the business needed it and the availability for pre and post shipment export working capital finance.
	Defence Export Facility — US$3 billion facility aimed specifically at defence exports to give defence contractors the confidence to pursue new direct export and supply chain contracts with a source of available finance.
Insurance Helps to protect an export business’ payment stream and makes it more competitive by being able to offer its buyers extended payment terms.	**Medium-term export payments insurance** — helps businesses to manage the risk of non-payment due to defined commercial and political events, including war, civil war and riot, the application of foreign laws that interfere with the contract, and the inability to convert local currency or to transfer currency out of the business’ buyer’s country. This insurance is for up to 100 per cent cover against non-payment due to defined political risks and up to 90 per cent cover against non-payment due to defined commercial risks.
Guarantees Guaranteeing commercial finance facilities taken out by Australian companies exporting or operating in the export supply chains, helping them to expand their businesses overseas and to source opportunities in emerging and frontier markets.	**Export Working Capital Guarantee** — a guarantee by Efic to the export business’ bank that provides the security required for the bank to lend the business additional working capital needed to fulfil eligible export-related contracts.
	Overseas Direct Investment Guarantee — Guarantee to the export business’ bank, which then approves the funding for the business to expand overseas, which could be used for building a warehouse or manufacturing facility, or buying an existing asset or business.
	Documentary Credit Guarantee — Guarantee issued to banks to confirm Letters of Credit from countries and/or banks that the Australian banks do not have risk appetite for.

Financial products	Examples
Guarantees (or bonds) are often a prerequisite for Australian subcontractors providing goods or services to domestic export-related contracts.	**Guarantee to a bank issuing a bond** — a guarantee by Efic to the export business' bank that to prove the security required to provide a bond to another party.
Bonds Bonds are often a prerequisite for Australian subcontractors providing goods or services to domestic export-related contracts Prevents business being lost to an overseas competitor that has the available security to have bonds issued by their bank. Unlocks working capital, which can help finance additional export contracts.	**Advance payment bonds** — provide a buyer of the business' product or service with security for their advance payment under an export contract **Performance bonds** — provide a buyer of the business' product or service assurance that if the business doesn't meet its obligations under a contract the buyer can call on the bond to reduce its losses. **Warranty bonds** — protect the buyer of the business' product or service from loss if the business does not meet its contractual warranty obligations after the contract is completed. **US Surety bonds** — allow the business to meet its US bonding requirements and compete more effectively by supplying a surety bond from Efic's registered US surety bond issuer, Liberty Mutual Insurance.
Corporate, Sovereign and Project Finance (CSPF) CSPF business provides an annuity stream of income given most exposures are for longer tenors and transaction sizes are of significantly greater value than export finance transactions.	**Tailored products not specified** — annuity income stream for eligible exporters.

Financial products	Examples
Risk Distribution Agreement	Under the Risk Distribution Agreement with Asian Development Bank, EFIC has agreed to assume up to 50 per cent of the risk from the Asian Development Bank (on a pro rata basis), where the Risk Distribution Agreement is providing guarantees against pre-approved limits to confirming banks against the payment obligations of eligible issuing banks, which include private and publicly owned banks. All of the letters of credit cover goods and services from Australia by Australian exporters. Maximum tenor (for any payment obligation in which Efic risk participates): 180 days. Note: The Risk Distribution Agreement has been entered into for one year and is renewable annually by mutual consent. Please note this is not advertised on the Efic website, and Efic obtains monthly reporting from the Asian Development Bank on written transactions.

Source: Identified during audit fieldwork including review of Efic product information on its website (https://www.efic.gov.au/).

Appendix 3 Statement of Expectations requirements

1. The following table details the Statement of Expectations requirements the extent to which Efic has addressed each requirement. Paragraphs in the report have been referenced for those requirements where a key requirement has been addressed, however improvement areas have been.

Key requirement	Addressed by Efic?	Reference in report
Mandate and scope of operations		
Facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade.	●	–
Encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions.	◑	Paragraph 2.22–2.25
Administer payments and related matters under export contracts in respect to overseas aid projects for which money was made available by the Commonwealth.	●	–
Provide information and advice about finance and insurance arrangements to support Australian export trade.	●	–
Must not provide financial services on its Commercial Account (CA) unless satisfied that private sector providers are unable to support financially viable business activities.	◑	Paragraph 2.12–2.21
Ensure Efic's activities fill the market gap where private sector finance is not forthcoming.	◑	Paragraph 2.12–2.21
Monitor the capacity of the commercial markets and take it into account when determining scope of activities.	◑	Paragraph 2.12–2.21
Focus on continuous improvement to make it easier for SMEs to access its services and support a wide range of SMEs.	●	–
Assist SMEs to access the market through supply chain participation.	◑	Paragraph 2.32–2.38
Only provide support for domestic or overseas resource projects (and related infrastructure) where the Efic Board is satisfied, after careful review: • there is 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 SME supply chain participation; and • the project is financially viable.	●	–
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 NAIF for that project.	●	–

Key requirement	Addressed by Efic?	Reference in report
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).	●	–
Where Efic approves transactions involving resource projects (and related infrastructure), Efic to provide DFAT with an assessment of the transactions' compliance with the relevant criteria above and to report this publicly (subject to any confidentiality considerations).	●	–
Maintain its demonstration role to private finance providers. Efic should limit the number of CA facilities provided to the same company to three facilities within a three-year period. Further facilities with the same firm must be approved by the Efic Board on the basis that the transaction is to an emerging market, or where the Board assesses that the transaction will not crowd out the private sector.	●	–
The Government expects Efic, subject to approval and legislative authority, to make available its specialist financial capabilities to Commonwealth entities and companies. If called on to provide such financial capabilities to Commonwealth entities and companies, Efic must ensure such activities do not occur at the expense of its primary purpose and Efic will take steps to minimise the impact of the work it performs for the Commonwealth on its capacity to assist exporters, including by the charging of appropriate fees for such services.	●	–
Pricing arrangements		
Efic's CA operations to be conducted on a commercial basis. As such, the pricing of Efic'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.	●	–
The National Interest Account (NIA) 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		
Efic's Board and senior management to manage Efic's financial matters with care and diligence in accordance with the applicable obligations of the PGPA Act and the Efic Act.	●	–
Maintain systems to manage its risks. Continue to be guided by the Australian Prudential Regulation Authority in managing financial risks. Also provide regular reporting to DFAT, the Treasury and the Department of Finance on its cumulative exposures per industry and per country.	●	–
Provide regular reports on the risk the Commonwealth is bearing directly through the NIA. Commonwealth exposure will continue to be reported through the statement of risks in the Budget papers.	●	–
Publish through its on-line register information on all transactions within eight weeks of signature, including the name of the client, the sector, the goods/services involved, the country, the type of facility and the value of the facility.	◐	Table 2.1

Key requirement	Addressed by Efic?	Reference in report
Share the pricing and terms of its transactions with relevant financiers operating in the domestic market to help demonstrate that commercial returns are possible and encourage private sector financiers to take on Efic clients.	◑	Table 2.1
For repeat transactions (companies with more than three transactions with Efic in a three-year period) Efic will report to DFAT the basis for the support, in line with my expectations above.	●	–
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.	●	–
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		
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 appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits, and the WTO.	●	–
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 Efic'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 the Minister and DFAT of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans.	●	–
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.	●	–
Efic and DFAT to have a Service Level Agreement in place in relation to the management and administration of the NIA.	●	–
Work closely with Austrade, Tourism Australia, the Department of Industry, Innovation and Science and DFAT in delivering their services to Australian businesses. This will involve a coordinated approach at all levels between the organisations.	●	–

Key requirement	Addressed by Efic?	Reference in report
Legend: ● key requirement has been addressed ◑ key requirement has been addressed, however improvement areas have been identified ○ key requirement has not been addressed		

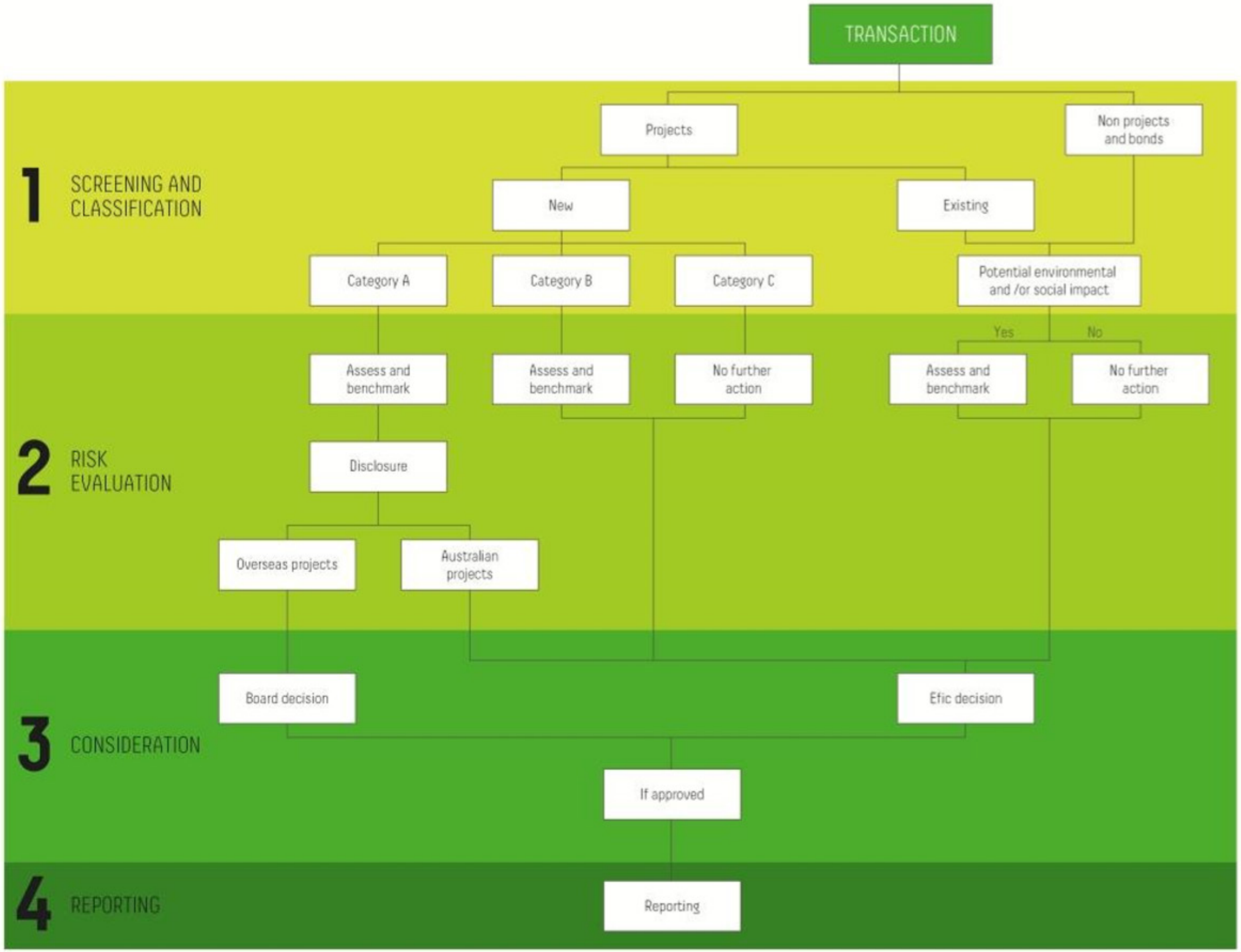
Source: Results from ANAO audit testing.

Appendix 4 Relevance of OECD Common Approaches and Equator Principles

Efic Solution	Do the OECD Common Approaches apply?	Do the Equator Principles apply?
Medium-long term finance		
Direct loan (project finance)	Yes	Yes
Direct loan (corporate)	Possibly	Possibly
Export finance guarantee	Yes	Possibly
Documentary credit guarantee	Yes	No
Insurance		
Export payments insurance	Yes	No
Bond insurance	No	No
Political risk insurance (any type)	No	No
Other		
Advance payment bond, performance bond or warranty bond	No	No
Working capital guarantee	No	No

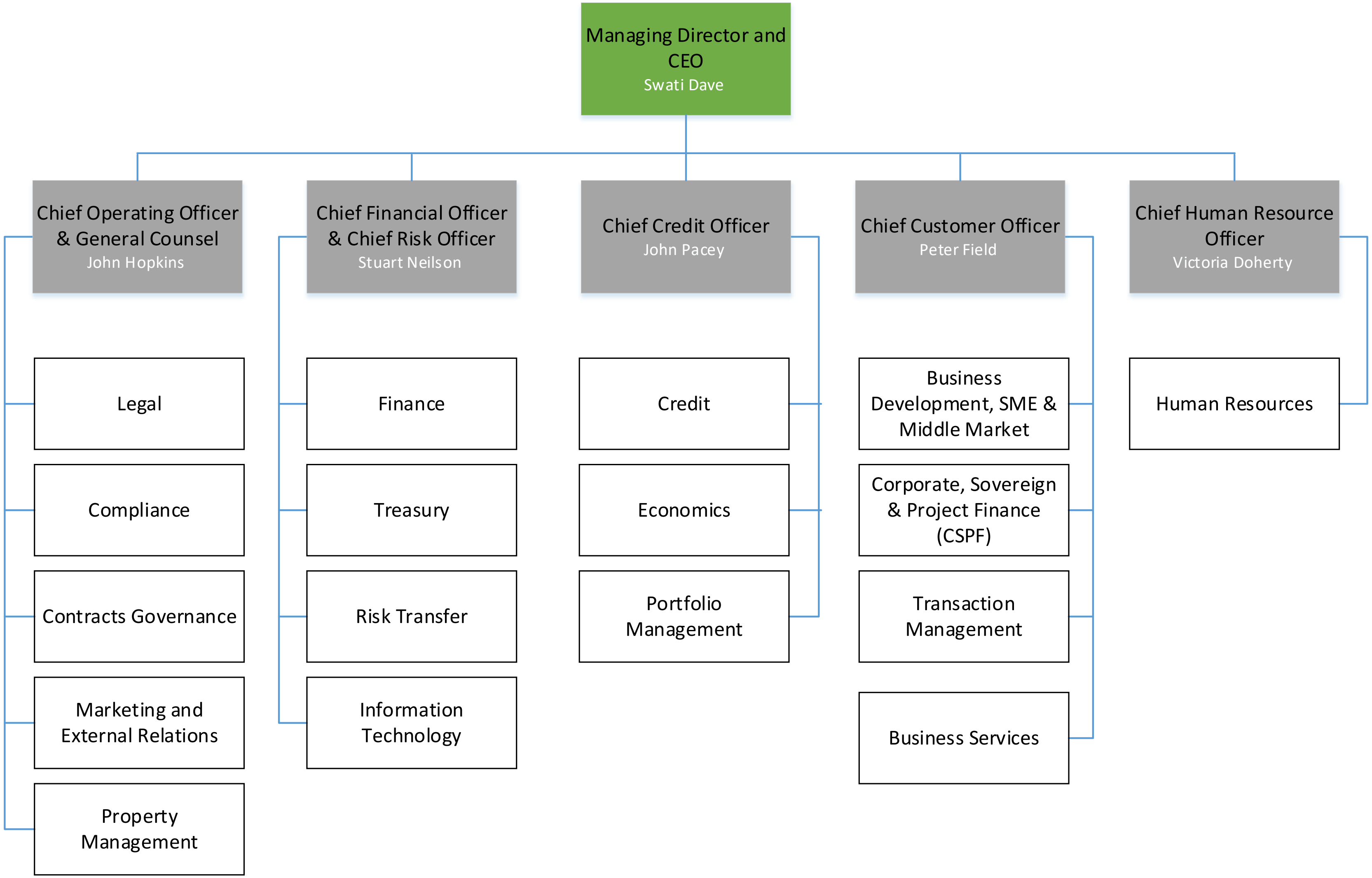
Source: Efic. (2018) Procedure for environmental and social review of transactions, pp. 3.

Appendix 5 Efic's procedure of environmental and social review of transactions



Source: Efic. (2018) Procedure for environmental and social review of transactions, pp.2.

Appendix 6 Efic Organisation Chart



Source: Efic, Org Structure [Internet], available from https://www.efic.gov.au/our-organisation/our-organisation/organisational-structure/ [accessed January 2019] and identified through audit fieldwork.

Appendix 7 ANAO criteria for the assessment of the appropriateness of performance information

Finance guidance		Assessment characteristics	Explanation
Relevant	Individual assessment	**Benefit** The performance criterion clearly indicates who will benefit and how they will benefit from the entity's activities.	The performance criterion should explain who will benefit from the activity and how the recipient benefitted.
Relevant	Individual assessment	**Focus** The performance criterion should address a significant aspect/s of the purpose, via the activities.	The performance criterion should assist significantly in informing whether the purpose is being achieved, and the attribution of the entity's activities to it is clear.
Relevant	Individual assessment	**Understandable** The performance criterion should provide sufficient information in a clear and concise manner.	The performance criterion should be stated in plain English and signal the impacts of activities to inform users.
Reliable	Individual assessment	**Measurable** The performance criterion should use and disclose information sources and methodologies that are fit for purpose.	The performance criterion should be capable of being measured to demonstrate the progress of fulfilling the purpose. This includes documenting a basis or baseline for measurement or assessment, for example a target or benchmark.
Reliable	Individual assessment	**Free from Bias** The performance criterion should be free from bias and where possible, benchmarked against similar activities.	The performance criterion should allow for clear interpretation of results and provide an objective basis for assessment.
Complete	Overall assessment	**Balanced** The performance criteria should provide a balanced examination of the overall performance story.	The performance criteria should reflect a balance of measurement types (effectiveness and efficiency), bases (quantitative and qualitative) and timeframes (short, medium and long-term).
Complete	Overall assessment	**Collective** The performance criteria should collectively address the purpose.	The performance criteria should demonstrate the extent of achievement against the purpose through the activities identified in the corporate plan.

Source: Auditor-General Report No. 17 2018–19 Implementation of the Annual Performance Statements Requirements 2017–18.

Appendix 8 Assist based measures utilised by NZECO

- **Facilitation of trade finance with private banks** — A trade finance related enquiry is received from an exporter (usually an SME), who has been unable to receive pre or post-shipment trade finance from their bank manager. After understanding the cashflow cycle and related risks of the transaction, NZECO proposes a trade finance structure which it could underwrite. The bank's credit manager then assesses whether the bank has the products and risk appetite to finance this structure on their own. NZECO will record this as an 'assist' on the basis that, but for NZECO's assistance, this outcome would not have been achieved.
- **Policy reverts to an insurer or bank (demonstration and support)** — Non-renewal of a policy by NZECO due to an insurer or bank stepping into the market space that NZECO had previously been filling, and where the private sector's change of decision can be attributed to NZECO's support. This may include helping an exporter to enter a new market and establish a payment history with a foreign buyer, or helping an exporter scale its growth, meet increased orders and retain profits to improve its balance sheet. NZECO monitors and reports the percentage of customers/policies that have reverted back to private insurers or banks.
- **US-registered surety bond provider no longer requires guarantee of performance to provide surety bond** — NZECO has a relationship with Liberty Mutual Insurance (Efic has a similar arrangement for Australian export clients), whereby NZECO will guarantee the performance of a New Zealand firm in order to enable Liberty Mutual to issue a US surety bond on its behalf (these bonds are 100 per cent to 200 per cent surety bonds for state or federally funded projects in the US and can only be issued by US-registered surety bond providers who have very high financial thresholds for any new company who seeks their bonding support; most New Zealand firms cannot meet this minimum threshold). Where a New Zealand firm for which NZECO has guaranteed one or more US surety bonds receives its own surety bond facility by a US surety bond provider, this is directly attributable to the New Zealand firm's successful performance record in delivering US projects which NZECO had previously underwritten. These are therefore also recorded as an 'assist'.