Local Jobs Fund-NAIF On-lending partnership

Small Loans Program

Policy framework

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NORTHERN TERRITORY GOVERNMENT

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1. Introduction

The Northern Territory, through its Local Jobs Fund (LJF) and North Australia Infrastructure Facility (NAIF) have established the NTLJF-NAIF Small Loans Program.

NAIF has agreed to lend monies to the Territory under a Loan Agreement for the purposes of on-lending to eligible participants. Operation of the partnership is administered by the LJF subject to agreed terms.

1.1. Related documents

This policy should be read in conjunction with;

- LJF Policy Framework
- LJF Assessment Plan
- LJF Risk Appetite Statement
- LJF Transaction Management Policy
- Anti-Money Laundering Policy
- NTLJF - NAIF Small Loans Program Indigenous Engagement Strategy

1.2. Purpose

The Small Loans Program is established for the purpose of on-lending funds borrowed by the Territory from NAIF to projects and borrowers assessed as eligible under this program policy.

1.3. Available funding pool

An initial funding pool of $33.3 million has been allocated to the Program for the first 12 months. Subject to take-up of the initial funding amount, an additional pool of a further $33.3 million may be available.

1.4. Program Term

The program shall run for a period of 24 months from the date of Financial Close under the Loan Agreement.

2. Objectives

The program is a financing partnership to implement growth capital expenditure loans to Eligible Borrowers in the Northern Territory.

The objective of the program is to support the development and expansion of enabling infrastructure, employment and economic growth and improved Indigenous outcomes across the Northern Territory, through the distribution of concessional loans.

3. Program details

3.1. Co-funding

The Program is a co-funding arrangement between NTLJF and NAIF on a 25% / 75% respective contribution basis.

NAIF has provided $25 million to the initial pool of funds, requiring NTLJF to provide $8.3 million.

The NTLJF provision shall be allocated away from the general LJF pool of funds available to it for the duration of the LJF-NAIF Small Loans program.

3.2. Product

The program will provide senior secured loans to eligible borrowers.

3.3. Eligible amounts

Loans may be made up to $10 million.

Loans for funding construction contracts of $4m or more will require a Commonwealth accredited Work Health & Safety building contractor to be engaged by the borrower for completion of construction works, and in any case subject to the "Loan Sizing Parameters" requirements outlined under **Section 3.5**.

3.4. Eligible purpose

Funding sought can be for an approved purpose being tangible growth capital expenditure, that explicitly excludes;

- refinance of existing debt
- acquisition of land or shares
- working capital or operational business expenses including re-stocking of inventory
- funding equity distributions

3.5. Loan sizing parameters

Where security for a loan includes the Eligible Project assets and cashflows as well as all other assets and cashflows of an existing business operation of an applicant, maximum gearing of up to 100% of project costs is allowed.

Where security for a loan includes the Eligible Project assets and cashflow only, maximum gearing up to 70% of project costs is allowed.

Where collateral for a loan is real property or a specific asset, the maximum leverage against the value of the property or asset is no greater than 70%

3.6. Eligible tenor

Individual loans may be written for terms of up to 10 years, subject to;

- Any interest capitalisation period allowed not exceeding 2 years
- No more that 50% of the portfolio of loans having a tenor of 10 years
- At least 25% of the portfolio of loans having a tenor of 7 years or less
- Full amortisation by the maturity date across all tenors

3.7. Repayment of loans

Eligible loans provided must be fully amortised by the maturity date.

Eligible borrowers may make voluntary repayments without penalty, including lump sum clearance of all monies outstanding.

3.8. Program account

The Territory is required to establish an interest bearing Program Account with a bank with a Standard& Poor's rating of at-least AA. The account will facilitate;

- Receipt of funds advanced to the Territory under the program;
- Funding of eligible loans to proponents approved under the program
- The receipt of fees, interest and principal repayments relating to NAIF's share of eligible loans made to proponents by the Territory and the payment to NAIF thereof

3.9. Pricing

3.9.1. Funds advanced to the Territory by NAIF

Monies advanced by NAIF to the Territory for the purposes of funding the Small Loans Program are priced as follows;

Price mechanism	Pricing	Payment
Establishment Fee	1.0% of the amount advanced	Payable to NAIF at Financial Close in an equivalent amount of 50% of the calculated fee Payable to the Territory at Financial Close in an equivalent amount of 50% of the calculated fee
Interest rate; Cost of funds[1] Credit margin Cost recovery margin	 Tenor based per 3.9.2.1 1.50% 0.50%	 100% payable upon receipt from eligible borrowers 100% payable upon receipt from eligible borrowers 50% payable upon receipt from eligible borrowers[2]

[1] Commonwealth cost of funds for each relevant tenor as determined on the date of signing of the loan agreement between NAIF and the Territory. The cost of funds is fixed for the term of the advance.

[2] Until such time as NAIF has recovered the balance of its Establishment fee

3.9.2. Funds advanced to Eligible Borrowers by NTLJF

3.9.2.1. NAIF funded component

NAIF monies on-lent by NTLJF to Eligible Borrowers are priced as follows;

Price mechanism	Pricing	Payment
Establishment fee	1.0% of the amount advanced	Paid back in to Program Account as NAIF funds made available to Eligible Borrowers
Interest rate; Cost of funds Credit margin Cost recovery margin	 Based on tenor, per table below 1.50% 0.50%	 100% payable to NAIF per above table 100% payable to NAIF per above table 50% payable to NAIF per above table

All up tenor based interest rate;

Tenor (years)	Base rate % pa	Credit margin %pa	Cost recovery margin % pa	All up rate % pa
1	3.62	1.50	0.5	5.62
2	3.79	1.50	0.5	5.79
3	3.70	1.50	0.5	5.70
4	3.60	1.50	0.5	5.60
5	3.61	1.50	0.5	5.61
6	3.66	1.50	0.5	5.66
7	3.68	1.50	0.5	5.68
8	3.70	1.50	0.5	5.70
9	3.73	1.50	0.5	5.73
10	3.75	1.50	0.5	5.75

3.9.2.2. NTLJF funded component

NTLJF monies advanced to Eligible Borrowers are priced as follows;

Price mechanism	Pricing	Payment
Establishment Fee	1.0% of the amount advanced	Payable at drawdown
Interest rate; Cost of funds[3] Credit margin Cost recovery margin	 Tenor based per 3.9.2.1 1.50% 0.50%	 100% receivable from eligible borrowers 100% receivable from eligible borrowers 100% receivable from eligible borrowers

LJF may at its discretion, include a further margin to its funded component outlined above for the purposes of portfolio profitability. LJF's pricing discretion may be applied on an individual loan basis. Any total margin is capped at 3.0% under agreement with NAIF.

[3] Commonwealth cost of funds for each relevant tenor as determined on the date of signing of the loan agreement between NAIF and the Territory. The cost of funds is fixed for the term of the advance

3.10. Loan management

Project assessment, credit assessment and administration is delegated to NTLJF.

NTLJF assumes responsibility for managing individual loans issued until they are fully repaid.

3.10.1. Transaction documents

Eligible Borrower NTLJF-NAIF Loan agreements and security documents will be documented on NTLJF precedent templates. Documentation is to be tailored to include all applicable conditions and provisions specific to the Small Loans Program, including;

- Voluntary prepayment
- Mandatory repayments
- Conditions precedent
- Representations
- Undertakings
- WHS
- Events of default
- Review events

3.11. Ineligible businesses

The following sectors are excluded from participation in the program;

- Arms & weapons
- Brothels and adult entertainment
- Illegal substances
- Unapproved deforestation activity

4. Risk Appetite

Loan assessment and program management shall observe the following Risk Appetite framework;

Project assessment risk (Due Diligence and post-deal monitoring)		
Risk Appetite	**Risk Tolerance**	**Due Diligence**
Low appetite for inadequate due diligence and for inadequate post-deal monitoring	No tolerance for material failures of due diligence, documentation or loan management processes	Robust loan assessment processes must be in place and implemented
Low appetite for proponent capability and integrity risk. Due diligence process must demonstrate proponents financial, commercial and project experience, capacity and capability		

Credit risk		
Risk Appetite	**Risk Tolerance**	**Concentration Risk**

Credit risk		
Medium appetite for return-of-capital risk; • Support for projects where commercial finance cannot be obtained on reasonable terms. • Consideration of broader outcomes including public benefit and Indigenous outcomes • Requirement to reasonable expectation of full return of capital • Requirement to regard to reasonable allocation of risk amongst all sources of finance including satisfactory equity contribution	Transactions to fall within the Risk Grade scale 1 to 6 as specified under sub-heading **Risk Grading Scale**	Medium appetite for concentration risk across industry sectors, noting that geographically the program is focussed in the NT.
	Low tolerance for unproven technology	
	Medium tolerance for technology proven offshore or in pilot conditions within Australia	
	Medium tolerance for currency / commodity price risk particularly where risk mitigation is not cost -effective or desirable	

Compliance (and external fraud) risk		
Risk Appetite	**Risk Tolerance**	**Compliance**
Low appetite for failing to comply with material legal, regulatory and policy obligations	No material legal, regulatory and compliance breaches	No funding to projects that have not obtained all applicable legal, regulatory or environmental approvals (including FIRB, WHS and TBP) Assessment by LJF of reasonable likelihood of proponent's capacity to comply with regulatory, Native Title and ESG approvals is required. No funding of proponents that have a record of non-compliance with relevant laws and approvals. No funding for projects likely to adversely impact the brand and reputation of NAIF, NTLJF, the NTG or the Commonwealth government or where likely adverse implications for Australia's national or domestic security exist.
Low appetite for failure to have robust and compliant processes in place for assessing and implementing AML/KYC requirements	No incidence relating to AML / CTF non-compliance	Robust and compliant processes to be in place for assessing and implementing AML/KYC requirements
Low appetite for failure to implement transaction monitoring procedures	No material audit findings in respect of LJF operations	

4.1. Security requirements

All loans must be secured to a level commensurate with the amount of the loan.

Security must rank either equal with or senior to the security of other lenders to the borrower.

Cash flow priority must rank equal with or senior to other lenders to the borrower.

4.2. Risk grading scale

The following Risk Grade scale will be applied to new and existing loans made under the program and assessed on an ongoing basis at loan origination and periodic review;

RISK GRADE	CHARACTERISTIC	DESCRIPTION
1	Exceptional	Of the highest quality by any standard. No significant downside risks apparent. Operating trends are very stable.
2	Strong	Strong market and financial position. Solid, stable track record and strong liquidity position. Some risk of possible lower credit quality over the medium/long term.
3	Satisfactory	Above average performance with solid financial condition which has been relatively stable or improving over several years. Should be able to perform even under normal cyclical downturns. Risk elements exist but near term performance is of little or no concern.
4	Adequate	Acceptable asset protection and cash flow. Adequate performance trends but subject to more variability due to economic/market uncertainties. No short term threats assuming stable economic conditions.
5	Barely Adequate	Close attention warranted as its financial condition, operating performance or outlook is barely adequate.
6	Vulnerable	Weaknesses are present that deserve close attention. May be yet to establish a track record and/or dependent on ongoing favourable business and economic conditions to meet obligations. If left uncorrected, these weaknesses may result in deterioration of repayment prospects for the exposure at some future date.
7	Highly vulnerable	Significant weaknesses (e.g. significant operating losses) to the point where orderly repayment is jeopardised and restructuring or liquidation of collateral is likely.
8	Doubtful	Has all the weaknesses of a Highly Vulnerable exposure with the added characteristic that weaknesses are so severe that full repayment is highly improbable. Probability of loss is very high, but the amount of the loss cannot be estimated with any degree of accuracy based on information to hand.
9	Loss	Debt written down. Specific provisioning undertaken.

5. Environmental, Social and Governance (ESG)

NTLJF is required to verify the following as a matter of due diligence;

- Each project has obtained all relevant regulatory, environmental and Native Title approvals prior to release of funds.
- There exists a reasonable basis to conclude individual applicants have the capacity to comply with all applicable ESG approvals
- Applicants do not have a record of non-compliance with relevant laws and approvals.

6. Public Benefit

NTLJF must be satisfied that the Project will produce benefits to the broader economy and community beyond an economic return to the Applicant.

The benefit to the NT Economy could include, but is not limited to, employment opportunities, regional income, diversifying and/or deepening industry capabilities, business for local suppliers, and Indigenous employment opportunities.

Proponents are required to expressly address Public Benefit within the *NT Economic Benefit* component of its funding submission.

NTLJF shall document the reasons it is satisfied that the Project will produce benefits to the broader economy and community beyond an economic return to the Applicant.

7. Application process

7.1. Consultation Protocol

On or about the time an applicant lodges an application to the program, NTLJF is required to prepare a Consultation Brief to NAIF that sets out details that include the Proponent, project description, purpose of funding sought, contractors and suppliers, project location, project economic and social impacts and regulatory requirements.

NAIF has 10 business days from receipt of the Consultation Brief to issue either an 'opt out' notice or an 'extension of time' notice.

If NAIF issues an 'opt out' notice such notice will be shared with the applicant. NTLJF as the program administrator shall not be permitted to apply NAIF funds towards the application. NTLJF may still choose to proceed with the application without NAIF participation. Where the NTLJF may share the same concerns as NAIF it shall retain the ability not to proceed with an application at its own discretion.

If NAIF issues an 'extension of time notice', NAIF shall have an additional 5 business days in which to issue an 'opt out' notice. NAIF may issue up to two 'extension of time' notices.

If NAIF does not issue an 'opt out' notice within the required timeframes, NTLJF as the program administrator shall be permitted to continue with an assessment process pursuant to the application.

7.2. Non- Disclosure agreement

NTLJF is required to enter into Confidentiality Agreements with Applicants, which will incorporate NAIF Confidentiality and Disclosure Requirements

7.3. Application lodgement

Eligible proponents are required to lodge applications for funding through the NT Government 'Smarty Grants' portal. Compliant submissions will be constituted by a robust business case as defined in the Local Jobs Fund Policy Framework that addresses all eligibility criteria as set out.

7.4. AML / CTF / KYC

The Northern Territory Government and the LJF by association has been assessed a non-reporting entity for purposes of the *The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (*the Act*).*

LJF will apply '*Know Your Customer'* disciplines relevant to the Act in undertaking due diligence activities pertaining to applicant entities in accordance with the AML Policy.

As a non-reporting entity, NTG is not required to enrol with AUSTRAC, the Commonwealth regulator responsible for detecting, deterring and disrupting criminal abuse of the financial system. In undertaking

KYC processes, LJF will report any suspicious matters or persons or Politically Exposed Persons to NAIF for its consideration.

7.5. Regulatory compliance

Applicants to the Program must obtain all applicable Commonwealth and Northern Territory legal, regulatory or environmental approvals necessary for relevant projects, including but not limited to Foreign Investment Review Board (FIRB), Commonwealth Work Health and Safety (WHS) and Australian Industry Participation (AIP) or Territory Benefit Plan (TBP) to be deemed eligible for funding.

8. Assessment of Applications

Applications for NTLJF-NAIF loans are assessed by NTLJF using its existing policies and processes, whilst observing NAIF criteria, requirements and risk appetite.

The NTLJF Investment Committee is required to review applications assessed by NTLJF and provide its recommendation for approval or non-approval and any associated transaction terms.

9. Approval process

The NTLJF Investment Committee must recommend supporting an application for it to be approved. The NTLJF portion of the loan must be consistent with NAIF criteria, requirements and risk appetite. NAIF will not be liable for funding a loan if the terms approved by the Territory are inconsistent with the recommendation of the Investment Committee and NAIF's requirements.

10. Governance

10.1. Reporting

The Territory must provide the following reporting to NAIF;

- Annual Reports for each financial year prepared in accordance with section 28 of the Public Sector Employment Act 1993 and sections 11 and 13 of the Financial Management Act 1995
- Quarterly reports in relation to:
  - ➢ Progress on commitments and deployment of program funds
  - ➢ Eligible loan portfolio composition and financial performance, including details of any loan arrears or bad debts in the portfolio
  - ➢ Reconciliation of all deposits and withdrawals to and from the dedicated program account, and
  - ➢ Summary of all employment effect of eligible loans
- Copies of all credit papers for Eligible Loans in excess of $5 million and with respect to such Eligible Loans
- Notice of material events with respect to the Program, including;

- Review Events, Events of Default or IES Events
- Litigation
- Native Title claims
- Environmental events
- Amendments to template finance documents
- Amendments to any changes to the agreement with QRIDA for provision of loan administration services
- Changes in the composition of the LJF Investment Committee
- Any other information reasonably requested by NAIF

11. Costs

Costs and expenses incurred by the Applicant associated with the development, preparation and submission of an Application, including but not limited to attendance at meetings, discussions, etc. as well as providing any information required by the Northern Territory Government will be borne entirely and exclusively by the Applicant.

12. Territory Benefit Plan

Proponents are required to submit a Territory Benefit Plan (or Australian Industry Participation plan) for approval that is required prior to draw down of any funds under the program.

13. Indigenous Engagement Strategy

NTLJF and NAIF have agreed to enter in to an Indigenous Engagement Strategy (IES) pursuant to the Small Loans Program.

The objective of the strategy is to embed ongoing, effective and appropriate engagement with Aboriginal groups and organisations to inform the delivery and performance of IES commitments by eligible borrowers.

13.1. NTLJF

Under the IES, NTLJF is required to;

- Engage a suitably qualified person to advise the LJF Investment Committee on the IS component on NAIF applications recommended by the committee.
- Work with an appropriate advisory group to provide advice to eligible borrowers on options to engage with Territory Indigenous businesses in their service and supply chains.
- Ensure all NTLJF staff undertake Cultural Capability Training from an appropriate Traditional custodian or endorsed regional group.
- Offer support to eligible borrowers in becoming aware of Indigenous business capabilities.
- Promote availability of financial support available to Indigenous businesses.

- Promote Aboriginal employment within eligible borrower businesses through awareness of Aboriginal employment agencies.
- Consult with NAIF's Indigenous Outcomes team to ensure Indigenous Engagement strategies and initiatives proposed by Eligible Borrower applicants appropriately reflects the amount borrowed as outlined under **Section 13.2**.
- Report six-monthly against IES obligations.

13.2. Eligible Borrowers

Under the IES, Eligible Borrowers are required to align the scale of their total commitment to supporting and developing the Territory Aboriginal workforce and Aboriginal businesses to the scale of their funding application. Methods of achieving alignment are as follows;

- Delivery of Cultural Capability Training to all staff who are directly employed for more than 3 months.
- Reporting every 6 months to the LJF against their IES obligations, commensurate with other NTLJF reporting requirements.
- Ensure engagement between LJF-NAIF Borrowers and Aboriginal employment agencies and related service provided including workshop sessions.
- Engage Territory Indigenous businesses in their Territory service and supply chains.
- Undertake a range of initiatives, depending on the scale of their funding application as follows:

Level of approved LJF-NAIF financing:	**Required additional initiatives**
$500k or less	No additional commitment required
Up to $3m	At least two additional initiatives
Up to $5m	At least three additional initiatives
The additional initiatives LJF-NAIF Borrowers can elect to choose from include:	
1. Develop or continue to implement a Reconciliation Action Plan.	
2. Contract an Aboriginal business(es) to deliver part or all of the work.	
3. Directly employ Aboriginal staff, trainees and/or apprentices for a minimum of 3 months.	
4. Provide training support, scholarships or other investment in training/education opportunities to Aboriginal people, including staff employed by the LJF-NAIF Applicant or by contractors/sub-contractors.	
5. Other initiatives supported or recommended by Aboriginal communities in the areas the LJF-NAIF Applicant is working in, including initiatives supporting community development, cultural heritage management, and/or caring for country activities etc.	

14. Debt recovery

The objectives of any debt recovery process, which will be administered by NTLJF, are:

- Protect NAIF's and NTLJF's brand and reputation;
- Treat customers professionally, with respect and courtesy;
- Maximise the net return by balancing the benefit of recovery with the cost of collection;
- Improve lending processes and policies by reporting on the information gathered during the recovery process; and
- Comply with all NT and Commonwealth laws.

The Territory will avoid conflicts of interest associated with debt recovery in relation to Eligible Loans by not subscribing for equity in the underlying borrower or project, unless otherwise agreed with NAIF.

For all impaired or troubled exposures, NTLJF must provide to NAIF:

- A tailored debt management plan; and
- Comprehensive monthly reporting.

14.1. Debt recovery costs

Any external costs incurred by NTLJF in the recovery of interest and/or principal in relation to Eligible Loans will be recovered by NTLJF from the recovery proceeds of the Eligible Loan.