



National Reconstruction Fund

Consultation paper

Overview

The Australian Government is establishing the \$15 billion National Reconstruction Fund (NRF) to support, diversify and transform Australia's industry and economy to help create secure, well-paid jobs, secure future prosperity, and drive sustainable economic growth. The NRF is a key initiative of the Government's Future Made in Australia agenda.

The NRF will target projects and investments that help Australia capture new, high-value market opportunities to help our businesses grow and succeed in the economy of today and tomorrow. Investments will help drive economic growth in the regions to ensure a wide range of Australians see tangible benefits.

It will provide finance (including loans, guarantees and equity) to drive investments that add value and develop capability in seven priority areas of the Australian economy. The NRF will partner with industry to unlock private sector investment to create high quality, sustainable industries and jobs.

Modelled on the successful Clean Energy Finance Corporation (CEFC), the NRF will be established in legislation as a new Corporate Commonwealth Entity. The NRF will be administered at arm's length to Government by an independent board appointed jointly by the Minister for Industry and Science and Minister for Finance. The Government will provide guidance on expectations and policy priorities through a legislative instrument and an investment mandate. The board will independently make investment decisions and manage its investment portfolio to achieve both the NRF's objectives and a positive portfolio rate of return.

The establishment of the NRF was [announced in the 2022–23 Budget](#), and its enabling legislation was introduced into the Parliament on 30 November 2022.

The Government is now consulting on the implementation of the NRF.

This consultation paper outlines considerations for the implementation of the NRF, including its priority areas and investment mandate. Input is sought from stakeholders on a range of important questions related to these two areas.

It is intended that the priority areas of the Australian economy and investment mandate will be determined by legislative instruments issued jointly by the Minister for Industry and Science and the Minister for Finance following passage of the NRF enabling legislation.

The Government will also develop co-investment plans with industry, which will outline investment opportunities in priority areas and actions for Government and industry to build Australia's industrial capabilities. The plans are expected to be released by the end of 2023.

Priority areas

Priority areas

The NRF will invest across the seven priority areas outlined below.

Investment across the seven priority areas will seek to leverage Australia's natural and competitive strengths and support the development of strategically important industries and shore up supply chains.

These areas encompass a broad range of activities, sectors and outcomes that reflect Australia's current and emerging advantages:

- **Renewables and low-emission technologies:** Pursue commercial opportunities including from:
 - components for wind turbines
 - production of batteries and solar panels
 - new livestock feed to reduce methane emissions
 - modernising steel and aluminium
 - hydrogen electrolyzers
 - innovative packaging solutions to reduce waste.
- **Medical science:** Leverage Australia's world-leading research to provide essential supplies such as medical devices, personal protective equipment, medicines and vaccines.
- **Transport:** Develop capabilities in transport manufacturing and supply chains including for cars, trains and shipbuilding.
- **Value-add in the agriculture, forestry and fisheries sectors:** Unlock potential and value add to raw materials in sectors like food processing, textiles, clothing and footwear manufacturing.
- **Value-add in resources:** Expand Australia's mining science technology, and ensure a greater share of raw materials extracted are processed domestically. For example, high-purity alumina from red mud in bauxite processing or lithium processing for batteries.
- **Defence capability:** Maximise sourcing of requirements from Australian suppliers employing Australian workers, whether they be technology, infrastructure or skills.
- **Enabling capabilities:** Support key enabling capabilities across engineering, data science, software development – including in areas such as fintech, edtech, artificial intelligence, robotics and quantum.

The NRF will be an important component of Australia's innovation system, and will provide capital to capture new, high-value market opportunities.

Given a focus on transformation and diversification, the NRF is not intended to make investments in projects that support business as usual or low value-add activities.

The NRF will complement (and not duplicate) existing Government initiatives that support innovation, early-stage research and development, and commercialisation.

The NRF will be required to generate a positive return across its investment portfolio, and will conduct operations on a commercial basis. The NRF will not provide grants.

The NRF is intended to help secure and crowd-in funding from private sector investors for priority areas of the economy. The Government will consider and further define the role and scope of the NRF and how it complements other investors in the market as it develops the investment mandate.

Once established, the NRF will work collaboratively with existing Government funds to maximise outcomes for Australia.

Target investment levels

The Government has announced target investment levels for specific priority areas:

- **Up to \$3 billion** for renewables and low emissions technologies.
- **\$1.5 billion** for medical manufacturing.
- **\$1 billion** for value-adding in resources.
- **\$1 billion** for critical technologies.
- **\$1 billion** for advanced manufacturing.
- **\$500 million** for value-adding in:
 - agriculture
 - forestry
 - fisheries
 - food
 - fibre.

Questions

The Government is seeking input to inform further definition of the seven priority areas of the Australian economy.

- What types of projects or investments should the Government direct the NRF to focus on, or not invest in, within each of the seven priority areas to achieve the NRF's purpose?
- How should industry 'transformation' and 'diversification' be defined and measured for each of the seven priority areas?
- How should 'value add' be defined and measured in relation to relevant priority areas?
- How much detail should be provided on each of the priority areas? How should greater detail and the need for flexibility be balanced?

Investment mandate

The investment mandate will guide the NRF Board on the outcomes expected to be delivered by the NRF in exercising its investment functions and powers. This includes matters of risk and return, limits on the use of specific types of financial instruments, investment governance, and any Government policy priorities or public benefits the Board should have regard to when making investment decisions.

The investment mandate must define intended outcomes, but also empower the Board with the tools needed to deliver them. Being too prescriptive may hinder the Board's ability to determine the best approach to delivering expected outcomes. On the other hand, more flexibility may not achieve intended outcomes from a broader policy perspective.

As with the enabling legislation for the NRF, the NRF's investment mandate will be modelled on the framework for the CEFC. Consistent with this approach, the investment mandate will be a 'direction' to the NRF Board through a legislative instrument.

The investment mandate will guide the NRF Board on a range of matters, including:

- Risk and return, including achieving a positive portfolio rate of return and managing risk appropriately.

- Limits and conditions on types of financial instruments that may be used, such as guarantees, equity or derivatives, and any associated concessionality limits or requirements.
- Investment governance requirements, such as developing policies on environmental, social and governance risks.
- Particular Government policy priorities the Board should have regard to when making investment decisions, such as:
 - legislated emissions reduction and net zero targets.
 - sustainability and circularity principles.
 - regional development.
 - achieving gender equality outcomes.
 - creating opportunities for regional and remote communities, including rural and First Nations communities.
 - creating secure, well-paid jobs.
- An approach for managing national security risks relating to NRF investments.
- Any other considerations that might influence or determine outcomes.

Two of these elements are discussed in more detail below.

Benchmark rate of return

It is expected the investment mandate will specify a positive rate of return for the NRF's investment portfolio, which the Board will aim to achieve over the medium to long-term.

The Government's intention is to set it at a level that provides the NRF Board with the flexibility to appropriately manage risks and returns across the NRF portfolio, while also delivering on the NRF's purpose.

For example, the rate of return could be set at the 10-year Australian Government bond rate plus a margin over the medium to long-term.

Investment limits

It is expected the investment mandate will set specific limits in relation to the types of financial instruments that can be used and the investment terms the NRF can provide. This may include limitations on the value of equity investments, the amount of concessional loans, and use of guarantees.

The investment mandate will not be able to directly or indirectly require the Board to make (or not make) specific investments.

The investment mandate may be supplemented with more detailed guidance from the Government, including via a statement of expectations.

Questions

Investment needs and opportunities

- What are the opportunities for value-add, growth and diversification in each of the priority areas?
- What are the manufacturing capabilities needed to support each priority area?
- What are other capabilities needed to support each priority area?
- What are the strategic priorities for supply chains / enabling inputs in each priority area?
- What are the gaps in or barriers to private sector investment in each of the priority areas?

- How can the NRF help build or encourage stronger pathways for Australian developed innovation and research, and encourage additional private investment in priority areas?
- How could the NRF consider Government policy priorities in performing its investment function?

Returns, financial instruments and working with other investors

- What factors and considerations should inform the portfolio rate of return for the NRF?
- What factors and considerations should inform the setting of acceptable but not excessive level of risk? Should the acceptable level of risk differ between priority areas?
- What types of concessional offerings would be preferred if these were offered (for example, lower interest rates) and why?
- What factors drive or constrain co-investment (for example, by industry, financial sector or domestic or offshore investors) and how should these be taken into account?
- What are the mechanisms and types of finance which will best attract co-investment from the private sector? How can the NRF best crowd-in investment?

Complementary reforms

- What are the non-financial barriers preventing businesses from making the most of opportunities for value-add, growth and diversification in the priority areas?
- Are there non-financial mechanisms that could support priority areas and the objectives of the NRF?
- How could the NRF work alongside other complementary reforms to best deliver on the Government's policy priorities?
- To what extent are other levers required to support the objectives of the NRF (for example, skills, trade, supply chains)?
- How does the NRF, with other private and Government settings, drive the right ecosystems for sustainable industry growth?

How to get involved

We want to test and refine the high-level ideas presented in this paper. It is your opportunity to help shape how we can diversify and transform our industry and economy to create more secure, well-paid jobs for Australians. To join the discussion visit: consult.industry.gov.au/national-reconstruction-fund

More information

For more information on the NRF visit industry.gov.au/nationalreconstructionfund