ENCOURAGING INVESTMENT IN SMALL SCALE REGIONAL INFRASTRUCTURE : An Opinion Piece Prepared by Dr Greg Walsh for Champions of the Bush

In February 2000, the Federal Parliamentary Standing Committee on Primary Industries and Regional Services produced a detailed report based on an inquiry into infrastructure and the development of Australia's regional areas. The report was entitled "Time Running Out"

In a forward to the report the Committee Chair, Fran Bailey, stated that: "Without action to stop the reduction of services still occurring throughout many areas and a new focus for investment in regional Australia, we face the danger of Australia being divided into "two nations"; those in the metropolitan area and some large provincial areas continue to gain improved access to all areas of infrastructure and, in particular telecommunications, while those in the traditional heartland of regional and rural Australia face the prospect of declining access to many services and a lack of improvement in infrastructure"

Five years later the national divide remains, despite progress made in improving the provision of telecommunications to rural and regional areas.

A key reason for the persistence of the "two nation" divide in Australia is capital market failure: the lack of available investment vehicles and instruments appropriate to the infrastructure needs of regional communities.

Investment arrangements such as public private partnerships that have been used to encourage private sector investment in large scale metropolitan infrastructure such as roads, bridges, tunnels, railway and airport terminals are not appropriate to the provision of infrastructure in regional areas.

This is because regional infrastructure requirements are usually of a small-scale, local nature. They include the building of a natural gas spur line, repairing a bridge or the construction of a water treatment plant.

The capital required for these projects is commonly less than $20m.

While large-scale metropolitan projects of $200m or more can usually source their capital from traditional markets, it is often difficult for local communities and authorities in regional areas to generate funds for small-scale infrastructure.

The projects are simply too small to attract the attention of the major fund managers.

But there is another way to meet the "equity gap" in regional Australia.

Australian regional communities have a strong tradition of being cooperatively spirited and using money wisely.

This has been apparent for years in the capacity of regional industries like the dairy and horticultural industries to source their growth capital from within.

Community banking provides more recent evidence that this spirit is alive and well.

Governments in the United States and Europe have something to teach us about how regional communities can be helped to help themselves by allowing local authorities to issue tax-advantaged local bonds.

Munibonds, as they are called overseas, are prudentially supervised financial instruments used to fund regional projects that are too small to warrant the interest of large fund managers.

They attract funds from investors such as established farmers looking for off-farm income, or self-funded retirees looking for fixed interest returns and more secure ways of investing money than the share market.

A similar Australian investment instrument could be used to redevelop commercial or industrial land in Mildura, or assist in the establishment of an intermodal freight centre at the Port of Portland or make use of the unused water in the Blue Rock dam in Gippsland by piping it to new irrigation districts along the Latrobe River.

Munibonds in the United States are fully or partially tax exempt.

Investors in a similar Australian regional security should also enjoy tax advantages, just as investors in city-oriented property trusts and infrastructure funds do.

Superfund managers have indicated that they would also be interested to invest in a "fixed interest" security such as an Australian regional investment bond if they existed.

Since 1992 Federal Governments of both political persuasions have harmed regional economies by intervening in the capital market to divert savings to superannuation in order to reduce the impact of the rising costs of retirement on federal budgets.

Each year in excess of $5billion in compulsory superannuation contributions is drained out of regional Australia and invested in metropolitan-based and overseas equities.

Since the 2000 "Time Running Out" Report, the mayors of many regional and rural areas throughout Australia have voiced their view that federal and state governments have a primary responsibility to establish secure regional investment vehicles, like a tax-advantaged regional investment instrument, that will facilitate investment into productive regional endeavours.

Over the coming months these Mayors and their constituents, who represent an increasing proportion of the national voting population, will be interested to learn what the fourth Howard Government might do about this.

Dr. Greg Walsh is a regional economist and a director of regionally-based companies in the baking and cattle industries. He lives in Warrnambool, Victoria. His contact number is 0407 041 604.