

# Does Australia need an Infrastructure Bank?

Presentation by Gene Tunny to IAQ Queensland  
Infrastructure Summit, Tuesday 29 August 2017

# Why is this topical?

- New international infrastructure banks:
  - Asian Infrastructure Investment Bank
  - Canada Infrastructure Bank
- Australian Infrastructure and Project Financing Agency (IPFA)
  - Minister Angus Taylor has said “Federal Gov’t needs to be an active infrastructure investor”
- During Rudd Government, Opposition Leader Turnbull asked PM Rudd about whether he was setting up an infrastructure bank

## Infrastructure financing was important issue for Australian Gov't & Treasury during the GFC



## Banking

**Mr TURNBULL** (3.19 pm)—My question is to the Prime Minister. Can the Prime Minister confirm that the New South Wales government has complained that his mismanaged unlimited bank deposit guarantee has made it extremely difficult for the state of New South Wales to compete in the public funding markets? Is the Prime Minister planning to establish a national infrastructure bank which would see the Commonwealth government borrow billions of dollars to on-lend to state governments—all carefully structured in a way that would not impact on the level of the Commonwealth's final budget result? How will the Prime Minister assure the House that his new Labor bank will not go the same way as the catastrophic Labor banks in Victoria and South Australia?

Hansard,  
3<sup>rd</sup> December 2008

# State Banks in Australia

## THE BUSINESS AUSTRALIA

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### Reserve steps in to push currency below US\$83c

**By IAN MURPHY**

The Reserve Bank today stepped in to push the Australian dollar below US\$83c, a move which is expected to have a significant impact on the economy.

The bank's intervention was aimed at reducing the value of the dollar, which has been trading at a high level in recent months. This move is seen as a necessary step to address the balance of payments deficit and to support the export sector.

The bank's actions are expected to lead to a depreciation of the dollar, which will make Australian exports more competitive in international markets. This is particularly important for the mining and manufacturing sectors, which rely heavily on exports.

The move is also seen as a signal of the government's commitment to maintaining a flexible exchange rate. This is a key element of the economic strategy, which aims to promote growth and employment through a competitive and export-oriented economy.



# THE AUSTRALIAN

NUMBER 4334 MONDAY FEBRUARY 11 1981 40 CENTS

## \$1bn bailout to save SA State Bank

**By PETER WARD**

THE Federal Government is facing its gravest political crisis since coming to power eight years ago following the announcement yesterday that it has been forced to cover State Bank of South Australia with some \$1 billion.

As the Finance Minister and his cabinet members struggle to find a way to save the bank, the government is expected to announce a bailout package worth \$1 billion. This move is seen as a significant step to prevent the collapse of the bank, which has been in a state of financial distress for some time.

The bailout is expected to be structured as a loan to the bank, which will be guaranteed by the government. This will allow the bank to continue its operations and to service its existing obligations. The government is also expected to provide additional support to the bank, including the appointment of a new board of directors.

The bailout is seen as a necessary measure to prevent a major financial crisis. The collapse of the bank would have had a significant impact on the economy, particularly in the areas of banking and finance. The government's actions are expected to restore confidence in the financial system and to ensure the stability of the economy.

## ALLIES ASSESS THE ROLE OF AIR POWER Cheney concedes bomb alone will not win Gu



Mr Cheney insists air bombing in Riyadh attacked by General Powell (opposite left)

**By TONY PARSONS**

US allies and the British have assessed the role of air power in the current conflict in Saudi Arabia. General Powell has stated that air bombing alone will not win the war, and that a combination of air and ground forces is necessary to achieve a decisive victory.

The assessment is based on the experience of the conflict in Saudi Arabia, where air power has been used extensively to target military and infrastructure. However, it is clear that air power alone is not sufficient to defeat the enemy, and that a ground offensive is also required.

The allies are expected to continue to use air power as a key element of their strategy, but they are also expected to increase their ground forces. This move is seen as a necessary step to ensure the success of the military campaign. The allies are also expected to continue to provide support to the Saudi forces, including the supply of weapons and ammunition.

The assessment is also expected to have a significant impact on the diplomatic situation. The allies are expected to continue to work closely with the Saudi government to coordinate their military and diplomatic efforts. This is seen as a necessary step to ensure the success of the overall campaign.

**PROPERTY FAILURES ADDED TO LOAN WOE**

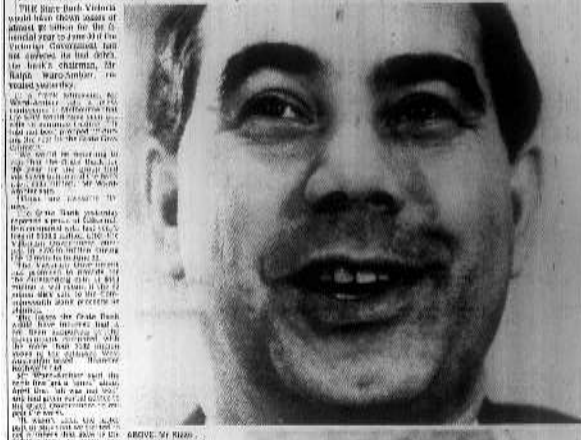
THE collapse of a number of property companies has added to the loan woe in the banking sector. This move is seen as a significant step to prevent the collapse of the bank, which has been in a state of financial distress for some time.

The property companies have failed to meet their obligations to the bank, which has led to a significant increase in the bank's non-performing assets. This has put the bank in a difficult financial position, and has forced the government to intervene.

The government is expected to provide support to the bank, including the appointment of a new board of directors. This move is seen as a necessary step to prevent the collapse of the bank, which would have had a significant impact on the economy.

The government is also expected to provide additional support to the bank, including the supply of funds to cover its obligations. This move is seen as a necessary step to ensure the stability of the financial system and to prevent a major financial crisis.

## THE BIG BANKING SHAREUP SBV would have lost almost \$2bn: chairman



Mr Cheney insists air bombing in Riyadh attacked by General Powell (opposite left)

**By IAN MURPHY**

The chairman of the State Bank of Victoria (SBV) has revealed that the bank would have lost almost \$2 billion if it had not been rescued by the government. This move is seen as a significant step to prevent the collapse of the bank, which has been in a state of financial distress for some time.

The chairman's statement is expected to have a significant impact on the banking sector. It is seen as a warning to other banks to be more cautious in their lending practices and to be more prepared for a potential crisis. The government is also expected to provide support to the bank, including the appointment of a new board of directors.

The chairman is also expected to provide additional support to the bank, including the supply of funds to cover its obligations. This move is seen as a necessary step to ensure the stability of the financial system and to prevent a major financial crisis.

## Extent of scandal calls for a royal commission

**By IAN MURPHY**

The extent of the scandal surrounding the bank has called for a royal commission. This move is seen as a necessary step to investigate the scandal and to ensure that the appropriate actions are taken to prevent a similar incident from occurring in the future.

The scandal has led to a loss of confidence in the bank and in the financial system. A royal commission is expected to provide a thorough investigation into the scandal and to identify the causes of the problem. This will allow the government to take the appropriate actions to address the problem and to restore confidence in the financial system.

The royal commission is also expected to have a significant impact on the banking sector. It is seen as a warning to other banks to be more cautious in their lending practices and to be more prepared for a potential crisis. The government is also expected to provide support to the bank, including the appointment of a new board of directors.

## Doubt danger THE WAR TODAY

**By IAN MURPHY**

There is a growing sense of doubt and danger in the current conflict. This move is seen as a necessary step to prevent the collapse of the bank, which has been in a state of financial distress for some time.

The sense of doubt and danger is based on the uncertainty of the military situation and the potential for a major escalation of the conflict. This has led to a loss of confidence in the military and in the government's ability to manage the conflict.

The government is expected to provide support to the military, including the supply of weapons and ammunition. This move is seen as a necessary step to ensure the success of the military campaign and to prevent a major escalation of the conflict.

## Commonwealth may be listed for \$1.4bn raising

**By IAN MURPHY**

The Commonwealth Bank may be listed for a \$1.4 billion raising. This move is seen as a significant step to increase the bank's capital and to improve its financial position. The bank is expected to be listed on the stock exchange, which will allow it to raise funds from a wider range of investors.

The raising is expected to have a significant impact on the banking sector. It is seen as a warning to other banks to be more cautious in their lending practices and to be more prepared for a potential crisis. The government is also expected to provide support to the bank, including the appointment of a new board of directors.

The raising is also expected to have a significant impact on the financial system. It is seen as a warning to other financial institutions to be more cautious in their lending practices and to be more prepared for a potential crisis. The government is also expected to provide support to the bank, including the appointment of a new board of directors.

**Citibank**

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# Australia's experience with State Banks

- Tricontinental / State Bank of Victoria
- State Bank of South Australia
- Australian Governments have got out of banking (e.g. privatisations of CBA, Suncorp & QIDC)
- Not recommending the creation of a new state bank with explicit economic development mandate: recipe for political interference and financial disaster

# What I'm going to talk about

- International developments
- Australian developments
- What is the problem we're trying to solve?
- What could an Australian Infrastructure Bank look like?
- Pros and cons
- Alternatives
- Conclusions

# Examples: Euro. Investment Bank projects

- London Cross Rail (£1B) and Super Sewer (£700M)
- Transmission link to offshore wind farm, Suffolk (EIB guarantee/credit enhancement to AAA (£46M / 15%))
- Bosphorus tunnel, Istanbul (USD 350M)
- Eastern Africa Transport Corridor (EUR 55M), Uganda
- Seychelles Water & Sanitation (EUR 27M)





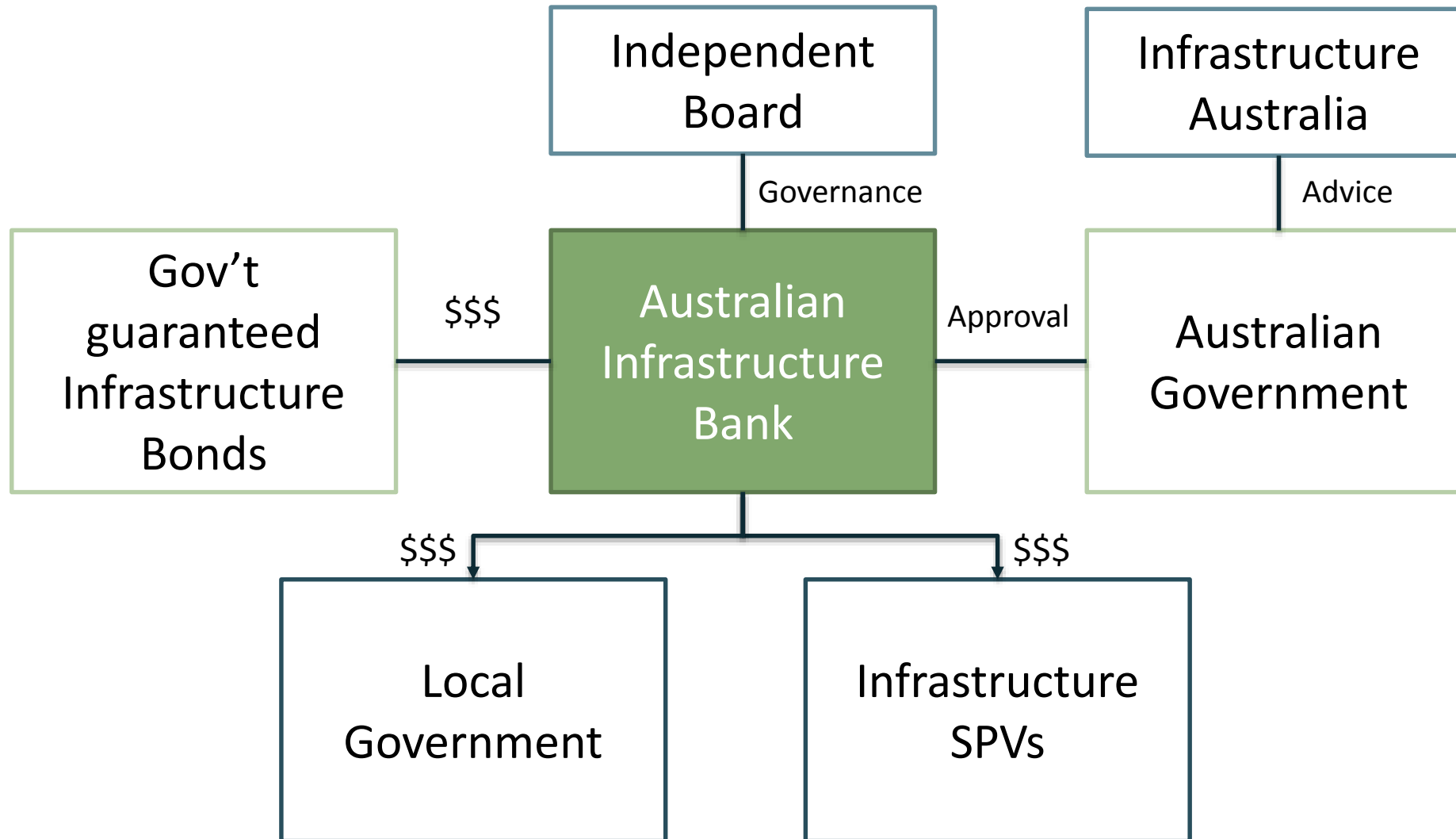
# Some Int'l examples of infrastructure banks

Bank	Mandate	\$
European Investment Bank (est. 1958, Luxembourg)	Finance & expertise for sustainable investment projects contributing to EU policy objectives (90% of activity in Europe)	World's largest multilateral borrower / lender (EUR 76B of lending in 2016)
Asian Infrastructure Investment Bank (est. 2016, Beijing)	Multilateral bank focused on infrastructure investment in Asia across a range of sectors, including transport, energy, water and communications	US\$100B in equity (Australia will contribute US\$738M paid-in capital over five years; 6 <sup>th</sup> largest shareholder)
Canada Infrastructure Bank	Invest in greenfield infrastructure projects with revenue-generating potential & in the public interest; Attract private sector investors to projects to boost CAPEX	CD\$35 billion in equity from Canadian Gov't

# Relevant Australian entities

Entity	Role / mandate	Funding / Financing
Infrastructure & Project Financing Agency	Identification, development and assessment of innovative financing options major infrastructure projects	\$17M of budget funding over next four years
Clean Energy Finance Corporation (CEFC)	To facilitate increased flows of finance into the clean energy sector...CEFC seeks to make targeted commercial investments, to counter market failures and financing impediments and to generate positive public policy outcomes	\$2 billion each 1 July, for five years from 1 July 2013
Northern Australian Infrastructure Facility (NAIF)	Concessional finance to encourage and complement private sector investment in infrastructure that benefits Northern Australia. This may include developments in airports, communications, energy, ports, rail and water.	\$5 billion over 5 years

# Greens' Australian Infrastructure Bank



# What is the problem we're trying to solve?

Infrastructure bank proposals come from a variety of contexts

1. Financial crisis (temporary consideration)
2. Current heavy reliance on relatively short-term bank lending in Australia (up to 7 years)—mismatch with long-lived infrastructure assets
3. Problems with traditional PPP model—time inconsistency & political/regulatory risk

# Pros

- Finance at appropriate cost and tenor; not short-term debt
- May boost infrastructure investment
- Can address problems with PPPs
- Possibly reduces political interference if the governance is right

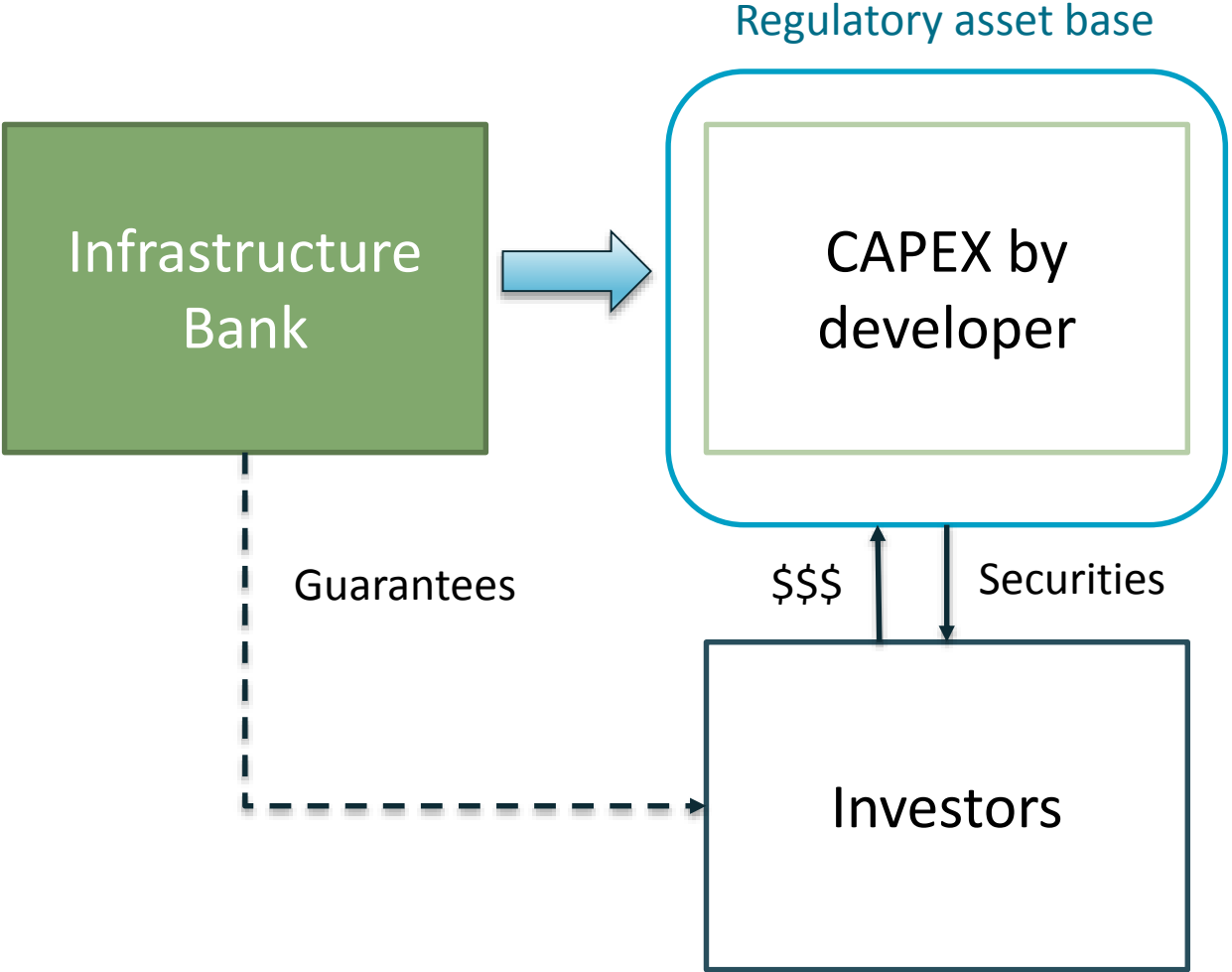
# Cons

- Unclear if there is really a market failure here (Brendan Lyon's point)
- There is the significant risk to the public balance sheet from a financial institution → possible credit rating implications
- Risk of funding bad projects (from over-zealous pursuit of mandate or political interference)
- Role creep

## What sort of Infrastructure Bank could make sense?

- Dieter Helm's model of an infrastructure regulatory asset base (RAB)
- Buys assets, puts RAB structure around them, and sells to investors (e.g. super/pension funds)
- Attacks a fundamental problem with PPP: time inconsistency
- Bank commits Gov't to political/regulatory risks; sunk costs protected from expropriation *ex post*
- Infrastructure bank is temporary intermediary

# Limited Infrastructure Bank





# Alternatives

- **Availability-based PPP:** availability payments to mitigate demand/patronage risk; could also extend concession length
- **WestConnex model:** Gov't owned company constructs first section to establish patronage, borrows against toll revenue to build next section, with view to then selling shares in company (NB financing incl. concessional loan from Australian Gov't)
- **Industry Super Australia Inverted bid model:** equity secured first in two-stage bidding process; appears to require guaranteed rate of return

# Conclusions

- A revival of traditional state banks is not recommended
- Infrastructure Financing Working Group and Productivity Commission should not have so quickly dismissed the concept of an infrastructure bank in the past
- Could be scope for a limited infrastructure bank acting as temporary intermediary along the lines suggested by Dieter Helm
- Australian Treasury should examine the merits of an infrastructure bank that could encompass the IPFA and possibly the NAIF & CEFC (Also AOFM could explore greater issuance of very long-term debt e.g. 30 years)

# Thanks for listening

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