

Rationale and Recommended Response for Reducing Costs: infrastructure development

Policy-makers in developing countries face a major challenge when it comes to the development of infrastructure in communities where there is a gap between what it costs to deliver and maintain a desired level of service and what user charges individuals and enterprises in the community are able to afford.

This challenge is particularly acute in rural areas, and is further compounded by the dilemma of ensuring equity of access to basic infrastructure services for all, versus investing in growth poles where the opportunities to leverage economic growth are greatest.

In the absence of adequate public-sector investment in rural infrastructure, the tendency has been for agro-industries and agri-businesses to gravitate to peri-urban fringes where they can access the infrastructure services they require. This severely limits the options for rural-based value addition which, in turn, constrains the emergence and development of micro, small and medium agro-industrial enterprises in rural areas and restricts rural-based employment opportunities.

Private sector investors and public sector policy analysts will be attracted to invest in rural, agro- industrial infrastructure if it can be demonstrated that relevant, market-oriented business models exist to mobilise and structure such investment and that the economic returns are commensurate with investments in other sectors and locations.

Such business models exist and have been effectively applied in a number of developing countries. Incentives represent an important aspect of these models.

“Good practice” suggests that these incentives should transfer performance risk to the service provider and link payment to verification of the delivery of specified services or the achievement of contracted outputs.

Focus of the Debate

Do you agree with the proposition statement? Please discuss.