

Reducing costs: infrastructures development

The Proposition

Failure by policy-makers to prioritize investment in the infrastructure services needed by agro-industry creates a self-fulfilling prophesy of limited economic growth in rural areas.

Given resource limitations, public policy in developing countries needs, therefore, to promote, and directly support, new business models for infrastructure development in rural areas that involve the direct participation of the private sector.

Rationale and recommended response

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

- 1 What are the essential infrastructure requirements of rural-based agro-industry and agri-business?
- 2 What are the successful examples of private sector investment in rural infrastructure that is tailored to the specific needs of the agro-industrial sector? What are the factors that have most influenced their success and impact on cost-reduction? What experiences and lessons are of common relevance to policy-makers in developing countries?
- 3 What are the fundamentals of a good “market oriented” business model for rural-based investment in infrastructure for agro-industries? What is the role of national, regional and local government in promoting, and directly supporting, such models? Is a public-private partnership essential to the success of these ventures?
- 4 Are incentives the key to the promotion and long-term success of investment in rural-based infrastructure? How can contracts be structured so that they are attractive to investors and operators, whilst meeting the economic and social objectives for rural development?



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Hari Sankaran is the Managing Director of Infrastructure Leasing & Financial Services Limited (IL&FS) in Mumbai, India. IL&FS is a leading Indian Investment Banking Institution that plays a variety of roles in the infrastructure sector, working closely with private and public partners. Its roles range from project advice to project sponsorship, development, and management of infrastructure projects. Mr Sankaran developed a career in the areas of Project Finance, Infrastructure Development and Management, Regulation and Public Policy and holds a Masters in Economics.

Pham Cong Binh is a planning expert in charge of urban and rural infrastructure in the Department of Architecture and Planning of the Ministry of Construction in Viet Nam. He has a wide experience in the preparation of policies, strategies and orientations studies on Infrastructures as well as on the implementation and the monitoring of projects related to infrastructure urban as well as rural. He started working at district level as participant of core teams then progressively as chief planning of the core teams and chief planner. He is now planning expert for the Ministry of construction in charge of urban and rural Infrastructure. He has a Master of Philosophy in Urban Management.



Aly Abou-Sabaa is Director of the Agriculture and Agro-Industry Department of the African Development Bank headquartered in Tunisia. His department manages a portfolio of 250 operations with ongoing commitment of 3 billion USD in 30 African Countries. The African Development Bank Group was established "to contribute to the economic development and social progress of its regional members, both individually and collectively," and to mobilize resources for the financing of development projects and the promotion of economic integration on the African continent. Mr. Abou-Sabaa has 25 years of experience in management and administration in agriculture, natural resources development and infra-structural development within large and small scale public and private sector projects in 30 countries in Africa, Asia, and

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Moderator: Maximo Torero is Division Director of Markets, Trade, and Institutions and was Senior Research Fellow at IFPRI and leader of the Global Research Program on Institutions and Infrastructure for Market Development. Prior to that, he was a senior researcher and member of the executive committee at Group of Analysis for Development (GRADE). Dr. Torero's major research work analyzes poverty, inequality, importance of geography and assets (private or public) in poverty alleviation based on the role played by infrastructure, institutions, and on how technological breakthroughs (or discontinuities) can improve welfare. He has twice won the World Award for Outstanding Research on Development given by the Global Development Network (GDN). He has a Ph.D. in economics and is a professor on leave at the Universidad del Pacifico.

