The Pathfinder Economic Alert

Infrastructure Development: The Case for Maintaining Momentum Role of Infrastructure

Development economists and Agencies have considered infrastructure and human resource development to be at the centre of the development process. Infrastructure refers, in this note, to physical structures, such as roads, electricity, irrigation, water and sanitation and telecommunication. These infrastructure facilities not only support the production of goods and services in an economy but they also facilitate day-to-day living of the populace. Infrastructure, therefore, constitutes an important part of the capital stock that is a crucial determinant of any country's development prospects through the provision of essential public goods and services.

Legacy of the Past

Historically, there has been a significant backlog in infrastructure development in Sri Lanka mainly due to the neglect by successive Governments since independence. While considerable progress has been achieved in social development, as reflected in the country's performance on the UNDP Human Development Index and in attaining the Millennium Development Goals, infrastructure development has lagged behind. The failure to achieve an appropriate balance between improved social indicators and wealth creation has been one of the important causal factors for the rise of separatism in the North and East and the two insurrections in the South. Infrastructure development that supports a higher growth trajectory for the economy is, therefore, an important priority for creating a stable and prosperous Sri Lanka.

The Unprecedented Infrastructure Development Since 2006

Previous governments have undertaken some ad hoc infrastructure developments, such as the multipurpose Accelerated Mahaweli Development Program, various irrigation projects and the development of Free Trade Zones. The conditions were also created in the past and expanded in recent years for the private sector led development of the telecommunications/ICT sector where increased competition has improved both penetration and the quality of service.

The current government, however, embarked upon an unprecedented program of infrastructure development while waging an expensive war against the separatist movement. The island-wide road development program is at the centre of this effort. The improved connectivity enabled by road development, particularly rural roads, generates significant economic and social returns. It is having a transformative impact on the lives of people around the country. The completion of the highway network (commencing with the Southern Highway, Katunayake Expressway and Colombo Ring Road) will bring about significant cost-savings that will boost the competitiveness of the economy.

The rural electrification program has now extended power to 91% of the country's households. It is bringing considerable benefits, particularly to poor and vulnerable households (not least through the improved environment for children's studies). The completion of the much delayed Norochcholai coal power station has helped to avoid power cuts or recourse to hiring exceedingly expensive barges for thermal generation.

The rehabilitation of the railway network and rolling stock, combined with the road development, will increase mobility and help to contain transport costs which are an important determinant of an economy's competitiveness.

Port and airport development is also creating the potential for Sri Lanka to become a key transport and tourist/transit hub for Asia. The completion of the Hambantota Port and the Colombo Southport Expansion will increase the capacity to take advantage of the country's strategic location on the major international shipping lanes. The growth of Indian trade and China's appetite for natural resources from the Middle East and Africa creates the conditions for rapid expansion of activity in this sector. The second international airport at Mattala increases the potential for handling increased tourist arrivals and positioning Sri Lanka as a transit hub.

The mega transport projects have come in for criticism from some quarters. In this regard, it is worth noting that such projects tend to have relatively long gestation periods before they become commercially viable. For instance, the sea port of Fujairah and the related infrastructure developments took nearly a decade and a half to become economically viable. Similarly, Jurong Park, in Singapore, and the Kuala Lumpur International Airport, in Malaysia, were considered white elephants, which were essentially "vanity projects" of the respective Prime Ministers of those two countries, at the time they were constructed. The key lessons from such projects are that infrastructure development requires a bold visionary approach. However, success is dependent on implementing the complementary actions required to ensure commercial viability. In this context, it is imperative that commercial principles rather than politics drive these ventures.

Financing Infrastructure in the Future

The government has justifiably capped public investment at its current level of 6% of GDP in order to achieve its targeted trajectory of fiscal consolidation. The fiscal space available for future infrastructure development is further constrained by the reduced headroom available for additional borrowing from international capital markets. (Sri Lanka, which has graduated to lower-middle-income country status, is no longer eligible for grants and concessional funding for infrastructure projects.)

Hence, the authorities would need to consider alternative means of financing, if they are to maintain the momentum of their much-needed infrastructure development program. The authorities in this context should consider promotion of internationally proven arrangements such as Build Operation and Owned (BOO) and Build Operation and Transfer (BOT). It is encouraging that the government is exploring the Public/Private Partnership (PPP) route for the proposed Colombo/Kandy Expressway. Another option is deregulation and de-monopolizing creating a competitive environment. This has yielded positive outcomes in the telecommunication/ICT sector which now has nearly 100 providers with much improved services for customers.

It is commendable that the government has initiated concerted action to improve Sri Lanka's ranking on the Doing Business Index (DBI) of the World Bank. Furthermore, as advocated by the Pathfinder Foundation, the actions initiated by the Private Sector Unit of the Ministry of Economic Development to go beyond the DBI should assist in creating an enabling environment for attracting investment in large-scale infrastructure development projects.

Conclusion

The government's commendable focus on and achievements in infrastructure front is clearly addressing a major bottleneck in the country's development agenda. Significant progress has already been made and more is planned. This is to be welcomed. It is also important to recognize that building infrastructure is not an end in itself. It should be designed to deliver efficient economic services (eg: roads, irrigation, power, ports & airports). Positive outcomes in this respect require high priority being attached to costs, quality, maintenance and regulation. In addition, transparency becomes even more important where contracts are not awarded on the basis of competitive bidding. In this respect, the authorities have a major challenge in balancing the urgent need for rapid delivery to overcome the past neglect of infrastructure development with the imperatives for pursuing processes and practices that ensure that the public's money is well spent. It is important to ensure that the much needed infrastructure development does not result in an intergenerational transfer of an unsustainable debt burden.

It is important to adopt a pragmatic approach to the delivery of economic services. The public sector can deliver world class infrastructure (Singapore). However, the record is extremely mixed. In many countries, both developing and advanced, private providers have helped to improve the quality of services and have generated value for money, provided there is effective regulation.

This is the Thirtieth in the series of Economic Alert articles published by the Pathfinder Foundation. Readers' comments are welcome at www.pathfinderfoundation.org

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