

FIVE POINTS ON THE FUTURE OF INFRASTRUCTURE
IN BANGLADESH¹

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Excellencies, distinguished guests, colleagues, let me (all too briefly, for the sake of time):

- express my gratitude for the honor of addressing you today,
- skip over the need of infrastructure in the development process of Bangladesh, both now and after 2030, because this is well understood by everybody in this audience.

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I would rather focus on the idea that an infrastructure policy cannot be defined as a laundry list of infrastructure projects. It might include such a list of course, but it should also, and primarily, take into consideration some of the key characteristics of infrastructure. Let me mention 5 of them.

1) **Infrastructure is a heterogeneous concept** – Public infrastructure investments are not borne equal, but are very different from each other.

Compare with private productive investments. These come with different rates of return: there are failures, and there are successes; but in the end, they are largely homogenized by market forces: failures are punished, and successes are imitated. Global policies, monetary or fiscal, to control or orientate them, make sense.

This is not the case with infrastructure investments, which are (and should be) basically selected by politicians. Some are good or very good; other are white elephants. There are no automatic mechanisms to ensure similarity or quality.

This means they cannot be controlled by ready-made global policies. They require made-to-measure, case by case, decisions. In order to prevent or limit the risks of resources misallocations, cost-benefit analyses and systematic evaluations must do for public investments what market forces do for private investments. This is easier

¹ Synopsis of a presentation at the seminar organized by the DCCI on « New Economic Thinking : Bangladesh 2030 and Beyond », Dhaka, December 21st, 2016

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said than done. Development banks such as the World Bank of the ADB have, over the course of decades, developed useful tools and an extensive experience to that effect. I remember a meeting with a province minister of Finance in Central China telling a World Bank mission: *"here we like the World Bank. Not for its money (we have money), but for the good advice it can give us, even if we don't always follow it"*.

2) Infrastructure is a means to an end, not an end in itself. It produces a service, in combination with labor, subsidies, taxes, regulations. The focus should be on the service provided, not on the investment. Trade-offs between capital (infrastructure) and labor, or regulations, must be considered.

Think of urban road congestion, for instance. It can be relieved by appropriate infrastructure investments, such as elevated highways (as in Bangkok, or Tokyo in the 1960ies), or underground tunnels, particularly double-deck (as in Shanghai, or Kuala-Lumpur. But it can also be relieved by tolls (as in Singapore, London, or Stockholm), traffic engineering measures, or traffic restraint (Singapore). The same could be said of road safety, another very serious issue. It can be enhanced by better road infrastructure, but also by better vehicles, and by better behaviors (in terms of speeds, safety belts, rules respect, etc.).

3) Infrastructure maintenance is key. Infrastructure utility decreases with wear and tear. For politicians and engineers, maintenance is not as glamorous and rewarding as construction, and is all too often neglected. Yet it is well established that maintenance expenditures have in most cases a much higher rate of return than construction. Maintenance systems must receive great attention and funding. They must be considered at the time of infrastructure design, because of potential trade-offs between construction costs and maintenance costs.

4) Infrastructure cannot be 100% public or 100% private. It is and must remain primarily a public responsibility. In many cases it is a public goods that has to be financed by taxes. At the same time, it can benefit greatly from a dose of private involvement, in terms of financing, design, innovation, efficiency, operation, maintenance. The potential for technical and economic innovation in infrastructure in particular has now shifted to the private sector. I have seen it happen in my own country, France, over the past 30 years, in the area of road construction. Research, knowledge and expertise used to be

located at 90% in the ministry of Public Works; it now is at 90% in two or three large private enterprises. We may like it or regret it, but we must take it into account. It means that some forms of PPP are needed.

This, however, is easier said than done. Designing contracts with appropriate responsibilities, guarantees, and incentives is a difficult road, often alien to the tradition and practice of Public Works administrations. It requires specialized economists and lawyers as much as engineers. It is a challenge for the public sector. Developing the proper expertise will take time and effort: that is a good reason to begin now, with a mix of prudence and determination.

5) **Infrastructure is space-specific.** Unlike commodities, infrastructure cannot be moved, and it serves local needs. This has two implications.

The first relates to **urbanization**. Many countries (including India and China) have been afraid or rural to urban migrations, and have tried to stop them or to slow them down – usually without much success. This is not a wise policy. The productivity of labor, and also of capital, is definitely higher in cities, particularly in large cities, than in villages. By itself, the shift from low to high productivity areas creates growth. The development of Korea has largely been the development of Seoul.

However, to deliver its great potential, urbanization requires heavy and specific investments in transportation, water, housing. The benefits of urbanization are contingent upon the creation of adequate infrastructure. Infrastructure policies must be closely associated with urban policies.

The second relates to **decentralization**. Because infrastructure is often tailored to local needs and specificities, it cannot be provided by the central government only. It must involve local governments. Indeed, in many countries, the bulk of infrastructure investments is undertaken by subnational governments. It does not mean that the central government can wash its hands of infrastructure provision, but it means that a top-to-bottom approach is unlikely to be optimal. The central government must learn to cooperate with subnational governments, in terms of design, standards, expertise, subsidies, and constraints. Infrastructure must be co-produced by the various layers of government.

This marriage of centralized and decentralized governments is like the marriage of public and private initiative: desirable and even necessary, but difficult. 2030 is only 14 years ahead. Forging the required people, institutions, studies, and partnerships for cost effective infrastructure will take years. The time to start is now.

Thank you for your attention.