



# Part 4



## 4.2 Policy brief 12

### Developing a Strategic Policy Framework (SPF) using the 17 Sustainable Enterprises Policy Pillars

## PHYSICAL INFRASTRUCTURE

- ❑ Strong infrastructure enhances the competitiveness of an economy and generates a business environment conducive to enterprise growth and development. Good infrastructure efficiently connects enterprises to their customers and suppliers, and enables the use of modern production technologies.
- ❑ Technical inefficiencies in roads, railways, power, and water cost billions in losses every year. These forfeitures fall on enterprises large and small as well as on individuals. Low quality roads can shut small producers off from regional markets and encumber large producers with shortages of critical inputs.
- ❑ Well-maintained infrastructure improves commerce by increasing the speed of transport of goods and raw materials, sustaining energy-intensive production, making information readily accessible, and communication timely. Poor physical infrastructure often precludes business activity.<sup>1</sup>
- ❑ Productive public investment in areas such as infrastructure, energy supply, education, and health can pave the way for new industries to emerge and raises the returns of private enterprise. It is additionally a crucial aid to structural transformation and export diversification.
- ❑ Good infrastructure allows firms to have lower transport and communication costs, lower the total costs of competition with their rivals and the costs of exporting. Because of good infrastructure, a larger available size of the market also facilitates a greater scope for specialization, which further reduces unit production costs.
- ❑ Maintaining high quality physical infrastructure is largely, but not solely, a matter of capital investment. Efficient contracting, open bidding, regulatory credibility, together with private and public managerial capability are all important.
- ❑ Modernizing ports, maintaining and extending the network of highways and railways, increasing the supply of energy and telecommunications are all areas in which private investment has or can have an important role to play in the supply of goods and services.
- ❑ Infrastructure also has important multiplier effects: an improvement in road quantity and quality lowers travel time and reduces vehicle running and maintenance costs, which in turn lowers the actual costs of marketing produce and reduces the costs of delivering inputs.

<sup>1</sup> UNDP: *Unleashing entrepreneurship: making business work for the poor*, Chapter 2, 2005.

- ❑ Public spending on labour-intensive public works projects, such as building roads, can combine the benefits of increased infrastructure support with those of income support for low income groups.
- ❑ In many developing economies with large agricultural sectors there is a need to develop effective rural-urban linkages. The majority of urban dwellers in developing countries live in medium-sized cities; these are the key 'market centres' for rural communities.
- ❑ Farms and rural enterprises frequently serve very local, restricted, typically low income markets. They need to reach out to richer and larger urban markets, on national and/or international scales.
- ❑ Growth can be facilitated by fostering more effective public-private partnerships, particularly in the provision of such services as energy and water. Energy production and basic water supply projects can use the most effective ownership structure necessary, including public ownership; however, final delivery to the customer can often be managed by smaller domestic companies. Decentralized power production, through distributed energy of various kinds, can also be contracted to the private sector through agreements with the public sector grid. Solar power and small run-of-the-river hydroelectric plants are examples.<sup>2</sup>
- ❑ Deficiencies in infrastructure create barriers to productive opportunities and increase costs for all enterprises, from micro-enterprises to large multinational corporations.
- ❑ Increasingly many countries are bypassing the constraints on publicly available funding by exploring private or joint Public-Private provision of infrastructure facilities. Public-private and private-private are a practical means of delivering on major infrastructure deficits.
- ❑ Weak infrastructure linkages limit growth because they obstruct the flow of resources to where they have the largest net economic and social benefits. A lack of economically optimal rural-urban linkages is bad for economy-wide growth in that it divides societies, leads to inefficiencies, and is a cause of inequality.
- ❑ Policy solutions require investment in local infrastructure and services in order to enable suppliers access to domestic markets.
- ❑ Electricity matters for private businesses, along with other infrastructure services such as roads, water, and telecommunications. Where the quality and accessibility of infrastructure services are good, they encourage investment, productivity, and growth.

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<sup>2</sup> Ibid, Chapter 4, 2005.