Discussion Points on Enhancing Domestic Funding for Infrastructure Development - contributed by Melvin D. Ayogu

1. Seaport and or access to one or several ports is important but not decisive for external trade. This argument has been amply demonstrated by many examples of successful landlocked economies and lagging coastal economies. Therefore, what matters is the mix of resource endowment, accessible technology and the structure of economic activities because these factors interact to determine the extent to which landlocked is a binding constraint.

2. To the specific question of domestic resource mobilization for infrastructure the first order of business, given resource constraints, is a clear articulation of the country development strategy and policymaking process. Within this context emerges the basis of what to build, when, where, and at what capacity, incrementally if feasible or lumpy if modularity is precluded through either technological constraints or by the resulting high cost of splitting the transactions.

3. It should b noted also that performing a needs assessment within an integrated developmental framework is master planning which in this instance serves to secure buy in of the private sector. Depending on the nature of what, where, and when to build the private sector can view favorably the investment demand on the market as contributing directly to economic activities because it augments the productivity of private capital (the crowding in view of things but this perspective has to be sold not assumed). The clever sequencing and selection of what to build can achieve that.

4. In this connection, any existing infrastructure gap defined by the difference between installed capacity and operable capacity must be explained because it could be seen to be indicative of existing inefficiency arising from neglect or under-resourcing or simply poor management. If a power plant capable of generating 10GW of electricity is operating at 40% of its capacity while the power utility is in the domestic market seeking funding for expansion, such a prospectus is unlikely to attract investor interest absence some cogent explanation for the obvious performance gap.

5. The nature of the gap between installed and operable capacity also draws attention to both service delivery and fiscal discipline.

6. Because consumers who pay user costs will typically care about the quality of the stream of services and less about the size of the facility, the quality of services is an important part of the value proposition or social compact in the case of social infrastructure. For a government anxious to access domestic markets, it must demonstrate long run sustainability or viability of the borrowing. That demo comes from showing performance mettle. Would it not be encouraging if a government seeking to attract investment can show that it has achieved ISO 9001:2015 certification in its existing services? Such is the quid pro quo

7. Where government issues general obligation bonds for instance, it should project fiscal discipline by demonstrating how it will grow its revenue base, typically through more jobs and higher aggregate income as well as restraining its spending proclivities. The latter shows up in the important parameter called fiscal support ratio that measures
the relative number of effective taxpayers to effective recipients of public transfers, indicative of long run fiscal sustainability or public solvency. On the other hand, the aggregate lifecycle deficit measures the difference between domestic absorption and labor income, indicative of private savings. The sum of private and public savings is national savings which is the fountain of that sought after money pot in the domestic arena.

8. Alternatively or additionally, where government issues revenue bonds, which is supposed to be self-liquidating, the need to deliver on services becomes even more pressing in order to avoid a default. If the services are not there, users may not pay. When users revolt, revenue dries up and the payments go into arrears or technical default.

9. Presumably where public sector borrowing requirements [PSBR] are high, projects amenable to revenue-bond financing can be given to a concessionaire if the asset cannot be privatized outright perhaps due to a high risk of technological obsolescence. However, in such a case, government through the regulator must insulate the operator from political pressure arising from consumer objections to ad hoc rate adjustments.

10. Clearly, domestic resource mobilization is very stressful for governments which is as well because PSBR can crowd out private borrowing and therefore must show cause.

11. Overall, financing infrastructure is without doubt key. But the funding at all times ought to show due diligence otherwise it is reckless. If aid, such an external assistance absent due diligence can lead to dead aid as in perpetuating dependency. If a loan, such an external borrowing without safeguards but in the presence of poor governance and weak institutions can create odious debts. Odious debts arise when lenders recklessly or knowingly extend loans under circumstances that places the lending at a high probability of default. Ultimately the loans go bad or countries struggle to repay borrowings that conferred zero benefits on the society saddled with the repayments. An example is the case where the money leaves the borrowing country either through the front door or the rear door as capital flight back to foreign bank accounts, sometimes to the country of origin of the debt. So, in effect, developing countries owe monies that is sitting in the pockets of the creditor and serving no purpose to the borrower except grief in the sense that debt repayments deprive current and future generations of valuable resources for human development.