

**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

DAC Network on Poverty Reduction

**INFRASTRUCTURE FOR POVERTY REDUCTION
DRAFT PROGRAMME OF WORK**

(Note by the Secretariat)

OECD, Paris, 13-14 November 2003

This draft program of work was developed based on the discussion in the brainstorming meeting on the focus of POVNET work on infrastructure and poverty reduction, held in Paris on 27 October 2003. The proposed program is recommended for discussion and endorsement in the POVNET meeting on 13-14 November.

Prior to the discussion in POVNET, an expert meeting on infrastructure and poverty reduction will take place on the morning of November 13, from 9:30 to 12:30 am. The objectives of this meeting are to select topics for each proposed workshop and discuss on timelines and responsibilities. The outcome will be carried forward into the subsequent POVNET discussion on infrastructure.

For the POVNET meeting, the task team on infrastructure has voiced interest in discussing ways of linking the work on agriculture, private sector and infrastructure early on in the work program.

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INFRASTRUCTURE FOR POVERTY REDUCTION DRAFT PROGRAMME OF WORK¹

I. Background

1. It is widely acknowledged that infrastructure plays a crucial role in generating economic development and subsequent poverty reduction in developing countries. Up until the 1980s, substantial development assistance was directed towards the creation of infrastructure. In retrospective, donors began to question the effectiveness of large scale infrastructure projects since they were supply driven, lacked maintenance provisions and sustainable institution building. In addition, loan financing contributed to debt sustainability issues. Consequently, following the “structural adjustment period” of the 80’s and 90’s, the focus of development assistance shifted to social service delivery, leaving the private sector to assume the role of main financial contributor to economic growth and investment in infrastructure. It was argued that the limited financial resources of the public sector would have a more notable impact on poverty reduction if they were channelled into projects and programmes which directly affected the poor, while the more ample resources of the private sector could be used to build and operate infrastructure.

2. After the Asian financial crisis in 1997, it became evident that the private sector’s declining support for infrastructure would no longer satisfy ever-increasing demands. Even before the crisis, private sector investment in infrastructure had been chiefly concentrated on specific sectors and countries, often leaving the urgent infrastructural needs of the poorest countries unaddressed. Similarly, the direct intervention approach towards poverty reduction tended to neglect the importance of economic growth which was assumed to help sustain the efforts in poverty reduction. Since 2001, while the first Poverty Reduction Strategy Papers (PRSPs) were being devised, officials from developing countries began to voice their concerns in this regard. At the International Conference on Financing for Development held in Monterrey, Mexico, in March 2002, both developed and developing countries recognized that addressing social service development alone would not be sufficient to achieve the Millennium Development Goals. It was for this purpose that the POVNET was mandated during the DAC High Level Meeting of 2003 to discuss the relationship between economic growth and poverty reduction.

3. Though it is commonly recognized that infrastructure contributes to economic development, the mechanism between infrastructure development and poverty reduction has not yet been clearly identified. This lack of conclusive evidence is due to the technical difficulties of econometric analysis in measuring correlations and causality among the various elements that lead to poverty reduction. Nevertheless, it is important that the development assistance community establishes clear links between infrastructure development and poverty reduction and provides guidance and tools on how to make infrastructure pro poor.

¹ This programme of work was developed based on the discussion in the brainstorm meeting on the focus of POVNET work on infrastructure, held in Paris on 27 October 2003. The proposed programme is recommended for discussion and endorsement in the full POVNET meeting on 13-14 November 03. For further technical information, please contact Mr. Hitoshi Shoji, the Vice Chair of the POVNET and Deputy Director General of the sector Strategy Development Department of the Japan Bank for International Cooperation (JBIC); tel: 0081-3-5218-9657, e-mail: h-shoji@jbic.go.jp. For further issues, please contact Mr. Bill Nicol at william.nicol@oecd.org.

4. The task which follows has been designed with the above-mentioned considerations in mind.

II. Objectives

5. The objective of the working group is to formulate – in the context of the new discussion on the Millennium Development Goals (MDGs) – a joint position of the DAC members to enhance the impact of infrastructure on poverty reduction. To this end, the working group will

- summarize the contribution of sustainable infrastructure services to poverty reduction, and assess the donors involvement and approaches in such projects and programmes (discussing the policies and the framework for the impact of infrastructure on poverty reduction);
- assess the conditions that make infrastructure programmes and projects pro-poor and show systemic poverty reduction impact (showing good practice examples and developing guiding principles);
- make recommendations to enhance donor coordination (including bilateral DAC members as well as multilateral stakeholders such as the World Bank and multilateral development banks) for better impacting on poverty through infrastructure programmes (promote coordination); and
- strengthen complementarity between infrastructure inputs for sector outputs, particularly between the various DAC POVNET working groups on private sector development, agriculture, and on infrastructure (strengthening coherence of sector inputs for poverty reduction impact)

6. The above-mentioned work will cover the following sub-sectors of sustainable infrastructure service development:

- Transport (rural roads, highways, railways, ports, transport network services.);
- Power and Energy (power generation, renewable energy resources, rural grid electrification, household energy including cooking and insulation.);
- Municipal services, including water supply and sewerage, waste management, and shelter/urban development,
- Irrigation water, including large and minor dams, and
- Telecommunications, including Information and Communication technologies (ICT).

7. There is also a need to link up with financial services for the poor (including banking and microfinance).

8. **Expected Outcome:** The task team will produce a coherent set of discussion papers and policy recommendations for bilateral donors. In particular two sets of documents will be produced:

- Member countries will produce short discussion papers summarizing the approaches and portfolio of the DAC members. Key topics might include specific policies, conditions to be met prior to the implementation of such policies, methods of designing infrastructure projects that target the specific needs of the poor, appropriate policy and institutional settings, etc. The papers will be summarised along thematic approaches. Sector recommendations will be included therein.

The papers shall serve as an easy reference for aid agencies. The modalities for elaborating these guidelines will be discussed among interested parties during the first workshop.

- As a final product of the task team, an agreed poverty impact assessment and monitoring tool for bilateral infrastructure projects and programmes will be prepared.

III. Themes for Discussion

9. The task team will discuss three major areas to assess the impact of infrastructure for poverty reduction: (A) policies and frameworks for infrastructure investment; (B) programmes and project approaches to make infrastructure pro poor, and (C) implications for bilateral donors. These will be discussed along cross-sectoral themes with recommendations for the global, national and local levels. Sector discussions shall be interwoven into thematic work. Annex 1 gives an overview of possible topics.

A. *Policies and frameworks for infrastructure investment: The big picture*

10. The objective of this first theme is to *i*) get a broad picture of the relationship between infrastructure development and poverty reduction, while *ii*) trying to identify which elements of infrastructure development contribute to poverty reduction. Numerous aid agencies and academics have been producing an increasing number of studies which have provided quantitative evidences (including economic development time series data, statistics on infrastructure investment expenditure and national poverty reduction rates) of the positive impact of infrastructure projects on the poor. By examining macroeconomic time series data for increases and decreases in economic growth and poverty reduction, the factors which contribute to the latter could be identified. Furthermore, a comparison of regional poverty levels could bring useful insight. This analytical work should help to uncover factors contributing to the current economic situation and conditions necessary for effective poverty reduction. Two types of propitious conditions are expected to be identified: the first regards the policies and institutional setting of a given country, while the second deals with the specific design of infrastructure development projects. It is hoped that once these conditions have been determined, the specific factors which make infrastructure pro-poor on a macro-economic level will also be brought to light.

11. Another way of measuring poverty reduction is through analysis of poverty-reduction-specific projects. Workshop participants could examine comprehensive project studies and evaluation exercises that may contain useful econometric analyses, and present any findings that demonstrate the impact that infrastructure policy interventions have had, as well as highlighting which policy measures and areas of intervention have been the most effective in reducing poverty. In conclusion of the session, the workshop is expected to produce a list of micro-economic factors conducive to pro-poor infrastructure projects. As this analytical work is sector- and country-specific, common denominators will be sought and deliberated during the discussion session. A set of policy measures categorized by sector and by intervention type should also be formulated to serve as a reference for practitioners of donor agencies. For example, econometric analysis of irrigation infrastructure construction should clarify the impact of specific policy measures on different categories of the poor, thereby helping to define an appropriate set of policy measures for the irrigation sub-sector. Thus, the purpose of this exercise is not only to reveal the effectiveness of the construction of rural irrigation systems in reducing poverty, but also to define necessary policy measures for effective irrigation projects.

12. Against this background, member countries are expected to provide information on *i*) the status of sustainable infrastructure services in the developing world; *ii*) a summary of the current discussion on the contribution of infrastructure for poverty reduction and the inter-linkages to the MDGs; and *iii*) give an overview of the bilateral donors approach and programme (including good project examples) on infrastructure for poverty reduction for discussion in the first workshop.

B. *Infrastructure Policies and Programmes Which Contribute to Poverty Reduction*

i) Required conditions for infrastructure projects to effectively reduce poverty

13. The second session is an attempt to understand the mechanisms and conditions which enable infrastructure projects and programmes to efficaciously contribute to poverty reduction. Donor agencies should be able to provide many successful examples of such undertakings, some of which may have already been evaluated. Presentations will be based on donor experiences and will focus on specific topics. Relevant themes will be drawn from discussions on the analytical work mentioned above.

14. Recently, more attention has been paid to the delivery of infrastructure services, particularly focusing on the efficiency and effectiveness of delivery methods. The private sector is expected to play a major role in this context. In developing countries that are experiencing decentralization, infrastructure-related planning and decision-making often occurs at the sub-national level, although the private sector is still considered to be essential to the efficient and effective delivery of services. Accordingly, donors must not only pay attention to private-sector investment at the national level but also at the local level, as well as examining the role of sub-national government in facilitating investment. Discussions topics will therefore include the role of sub-national government and the types of assistance necessary for capacity building within a sub-national PPP context.

15. Possible themes therefore include: participation of the poor in the project formulation and implementation process, governance of specific sectors and local government, the link between national and local infrastructure, achieving complementarity between economic and social infrastructure, decentralisation issues (organisational and institutional decentralisation, local-level resource mobilisation, budget allocation, capacity building, etc.), national and local regulatory frameworks for infrastructure service provision, and the individual roles of the public and private sectors in public-private partnership.

16. Presentations will be followed by discussions aimed at identifying and summarising elements common to mechanisms and conditions conducive to successful poverty reduction.

ii) Designing Infrastructure Projects That Contribute to Poverty Reduction

17. Based on the discussions during the previous sessions of workshop, the purpose of this session is to pinpoint critical elements which could make the elaboration and implementation of infrastructure projects pro-poor. Topics for presentation and discussion will include: specific methods of targeting the poor in individual infrastructure sub-sector projects, how to design effective and efficient poverty assessment methods for infrastructure projects, and effectively integrating poverty assessment results into project design. Similarly, it will address the question of which mechanisms and institutional settings assure reliable, quality infrastructure services, as well as how to involve the private sector in the provision of such services.

C. *Assistance Strategy for Infrastructure Development: Enhance Coherence and Cooperation between Donor Programmes*

18. The final session will deal with methods of applying infrastructure investment policy and project design to the actual assistance process.

i) Incorporating Infrastructure into Poverty Reduction Strategies

19. The first round of Poverty Reduction Strategy Papers (PRSPs), which were prepared between 2000 and 2002, are still in the implementation stage, for PRSPs are considered as “living” documents which must be updated every three years. In this context, it is possible for governments of developing

countries to review their poverty reduction strategies (PRSs) during the implementation stage. In fact, discussions to incorporate growth factors into the Vietnamese PRSP (called the Comprehensive Poverty Reduction and Growth Strategy or CPRGS) are now underway. As donors are expected to provide input during the PRSP updating and renewal process, it is an ideal moment to present infrastructure-related mechanisms and methods that contribute to poverty reduction. Thus donor experiences in the PRSP process should be presented and discussed. Discussions will focus on the mechanisms and elements of policy and project design mentioned earlier. Furthermore, better donor coordination for PRS implementation should also be discussed.

ii) Recommendation for a Region-Wide Approach to Infrastructure Development

20. As the acquisition of territorial independence has often resulted in the creation of artificial boundaries, there are many regions where economic activity goes beyond national borders. This tendency is particularly evident in Sub-Saharan Africa, where a single country's economy is generally too small to benefit from large-scale economic development. Hence the trans-national development approach merits further attention and focus. An essential element to cross-border economic development is promotion of trans-national infrastructure beyond national boundaries as regional public goods. Transport and power infrastructure play very important roles in this context. Discussions will focus on the challenges and impediments to cross-border infrastructure development and on effective methods for reducing poverty in a regional context.

iii) Developing checklists to make infrastructure sector projects pro-poor

21. Given the fact that the primary data collection plays a decisive role in designing pro poor infrastructure project, there exists a strong need for establishing poverty impact assessment and monitoring methodology for the infrastructure projects. It is expected that the result of the workshop discussion described in Section B *ii)* above will provide orientation to develop a tool for providing guidance on poverty impact assessment and monitoring for infrastructure projects.

IV. Work Methodology

22. The task team will follow a dynamic and iterative process of discussing positions in task team meetings, with a view to prepare a series of workshops as the analytical work matures. For the time being, 3 technical workshops (1-2 days each) are planned back to back to the general POVNET meetings (see table 1). The result of the 3 technical workshops shall be summarized and discussed in the following POVNET meeting. Recommendations shall then be endorsed within 3 months by the capitals. Bilateral donors may also be interested in hosting the workshops.

23. Member countries will prepare the input papers for these workshops, written as short (5-20 pages) policy documents, summarizing the global discussions, the approaches and portfolio of the various donors and major recommendations for the DAC working group. They are expected to submit discussion papers, explanatory notes, and other relevant information of donor-financed projects and programmes (including good practice examples) and approaches. In addition, special experts from multilateral development banks, and other institutions will be invited to make presentations. In particular, selected researchers and policy makers from developing countries will be encouraged to make presentations based on their experiences. Equally civil society and private sector participants may join the working group meetings and help bridge potential divergence in views between DAC member countries, the poor, and developing countries. Submitting countries are expected to make a presentation and to lead the discussions thereafter.

24. The task team will be expected to liaise with other POVNET task teams on overlapping issues such private sector development, agriculture and pro-poor growth.

V. Timeframe

25. Three one to two-day workshops will be held in 2004 and early 2005. It is expected that selected bilateral donors may host some of these workshops. The workshops could be back to back with the POVNET meetings which still have to be scheduled. After each workshop, the papers presented and the record of discussions will be combined to form a set of guidelines. It is expected that the final recommendations will be endorsed by the Senior Level Meeting to be scheduled latest April 2005. Joint meetings with other task teams under POVNET may also be proposed in order to link the activities of the three task teams. The timing and work programme may, however, be further advanced during implementation.

Annex 1. Possible Task Team Topics

		Technical Workshop A	Technical Workshop B	Technical Workshop C
	Themes	Framework and Policies	Pro-poor Programmes and projects	Donor Coordination and Coherence
	Time	Spring	Fall	Spring
	Place	Paris	Frankfurt	Unknown
	Duration	1 Day	2 Days	1 Day
1	Infrastructure for poverty reduction and pro poor growth	x		
2	Status of infrastructure in different regions	x		
3	Donor approaches to infrastructure development	x		
4	Donor Programmes in infrastructure development	x		
5	Good practice examples	x		
6	Summary of World Bank activities and approaches of multilateral development banks	x		
7	Complementarity of infrastructure for achieving the MDGs; complementarity between social and economic infrastructure	x		
8	National and local regulatory frameworks for service provision		x	
9	Decentralization		x	
10	Local resources and maintenance		x	
11	Role of private sector, public-private partnership		x	
12	Tariffs and subsidies		x	
13	Institutions, accountability of agencies		x	
14	Technologies and labour-based approaches		x	
15	Infrastructure to promote trade		x	
16	Direct targeting and achieving direct impact		x	
17	Participation and voice of the poor		x	
18	Infrastructure in PRSPs			x
19	Service delivery, what works best?			x
20	Poverty impact assessment tools; aid effectiveness			x
21	Regionalization; what to do with small landlocked countries; approach to Africa			x
22	Connectibility, donor coordination, joint monitoring			x