



**DEVELOPMENT CO-OPERATION DIRECTORATE
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DAC Network on Poverty Reduction

**PRO-POOR GROWTH AND THE CONTRIBUTION OF THE PRIVATE SECTOR: DISCUSSION
NOTE**

(Note by the Secretariat)

OECD, Paris, 13-14 November 2003

This note is the product of informal discussions concerning the focus, outputs and timelines of POVNET work on the private sector. It sets out preliminary ideas on these issued for CONSIDERATION by POVNET at its meeting on 13-14 November 2003. It is hoped that POVNET will agree to suggestions on how to commence this work and provide guidance on the other issues raised.

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PRO-POOR GROWTH AND THE CONTRIBUTION OF THE PRIVATE SECTOR: DISCUSSION NOTE

I. Introduction and issues for guidance

1. This note summarises informal discussions that have been taking place among a number of Members and the secretariat on the possible focus and products of POVNET work on the private sector development theme. The objective is to set out preliminary ideas on this for consideration by the POVNET at its meeting on 13-14 November 2003. The note is in the form of “work in progress”; it has benefited from comments and suggestions by some Members, but does not intend to represent an agreed summary of those exchanges.

2. On the basis of these exchanges, issues where POVNET guidance at the present meeting seems particularly required concern the following:

- What should be the product or output of work and its strategic positioning? (Section II).
- How will POVNET work on the private sector connect up to the overarching theme of growth and poverty reduction as well as with parallel work on the infrastructure and agriculture themes? (Section III).
- How best to get started, e.g. by developing a conceptual framework (Section IV).

3. Other issues such as the broader content of work (i.e. the overall report and the specific issues to be addressed), the nature of end products (e.g. guidance, toolkits, etc.), the audience for our outputs, timelines and working methods (Sections V and VI) are also raised. Even if these do not require decisions at present, Members’ comments will help guide approaches to these matters.

II. Output of work and its strategic positioning

4. It is important to have a common understanding on the objectives and outputs of work concerning the private sector. Does the POVNET agree that a major objective will be to show how the private sector contributes to sustainable pro-poor growth and to draw out implications for Members’ strategies and instruments in promoting that contribution? In other words, key tasks will be to better define what we mean by pro-poor growth, to set out the contribution of the private sector to that objective and the ways in which development co-operation can most effectively contribute.

5. It is recalled that the DAC has already produced Orientations on Private Sector Development (1995) and Guidelines on Poverty Reduction (2001). POVNET is asked to consider whether the aim is to revise the Private Sector Guidelines (e.g. to bring in pro-poor growth, globalisation, etc.), to create new guidelines (or guidance) that link the Poverty Reduction Guidelines and the Private Sector Development Orientations (e.g. to include the “growth gap” between them), or to produce something completely new.

III. Connecting up private sector work with the main theme of sustained pro-poor growth

6. The main task of POVNET is to provide a forum for exchange of experience and best practice on pro-poor growth. Thus, work concerning the private sector (and agriculture, and infrastructure) must be

connected up to the main theme of sustainable pro-poor growth. Obviously, these different strands of work are connected in a broader and dynamic picture of sustainable growth and poverty reduction – where the synergies and interactions between these different areas are important for the nature of growth (its magnitude and quality) and its impact on poverty reduction. This is equally true for other related issues “housed” in POVNET, such as the work on SMEs, investment and development, trade capacity building and ICT.

7. While each of the task teams can be implementing specific work programmes on specific issues, it will therefore be important, at the level of POVNET itself, to look at this bigger picture and the synergies between different strands of work. What this means and how it can be exploited and put to effective use should be an ongoing part of the POVNET discussion. POVNET should decide on how it will do this in order to provide guidance to each of the task teams in their specific areas of work and how they can be organised to connect up fully to the bigger picture.

IV. Getting started – a conceptual framework on how the private sector contributes to sustainable pro-poor growth

8. Based on discussions, including the meeting organised by DFID in Richmond UK in November 2002, an initial task and product of the POVNET could be the production of a short (e.g. 15 pages) conceptual framework on the contribution of the private sector to pro-poor growth. From the starting point that sustained pro-poor growth is needed for poverty reduction, the framework would explore the ways in which the private sector can contribute to this objective.

9. As to what this framework could cover, Annexes 1 and 2 set out some preliminary ideas, offered as a basis to help shape an outline for this conceptual work. Annex 1 was developed by DFID as part of its preparations for the Richmond meeting, referred to above, and is generally regarded as offering a good starting point for this work. Annex 2 is a contribution from the US sketching out some of the linkages between economic growth, private sector development and poverty reduction. In addition to these, further inputs are likely to be available from the work of other Members, such as the “Making Markets for the Poor” of SIDA and equivalent reports by other Members. In addition to these, further inputs are likely to be available from the work of other Members, such as the Making Markets for the Poor of SIDA and equivalent reports by other Members.

10. POVNET is therefore invited to agree to start off private sector work by elaborating such a conceptual framework. The task team on the private sector would then refine the thrust and content of this work and proceed with its preparation.

V. Next steps

11. The conceptual framework will also help guide the main outputs of POVNET work on the private sector. Discussions so far suggest that the content, form and uses of those products need not be decided now. Nevertheless, as the conceptual framework develops, a number of issues will require attention. These are likely to include the following:

a) *Substantive components*

12. As the conceptual work takes shape, it has been suggested that we undertake a survey or stocktaking of Members’ private sector development policies through the lens of pro-poor growth. This could be helpful in identifying lessons concerning the effectiveness of policies and instruments in promoting pro-poor growth.

13. The conceptual framework will also guide where work on specific themes is relevant to promoting the pro-poor growth contribution of the private sector, e.g. SME and microenterprise development, the informal sector, making markets work better for the poor, legal and regulatory frameworks, finance and risk mitigation, competitiveness, productivity and innovation, gender, markets and trade, debt sustainability, mobilising and accessing finance, etc.

14. Drawing on the conceptual framework and lessons about aid effectiveness will assist in an important objective of work - bringing growth and the contribution of the private sector more centrally into the PRSs.

b) Focus

15. Should work focus on the poorest countries and to strengthen their PRSs, but bringing in examples of good practices from other countries, as relevant? Should the main target of work be on the domestic private sector, but again looking at the contribution of the foreign sector as appropriate? How can we best deal with the specificities of different situations in different partner countries?

c) Nature of products

16. What will be the “form” of products – guidelines, guidance, best practices, tool kits? A general view, so far, is that outputs should be geared to operationalising the pro-poor growth concept in the private sector area, rather than policy statements (e.g. setting out aspirations).

d) Audience

17. Discussions so far suggest that outputs should be particularly directed to agencies working at the field level, and less so to policy makers in capitals. The idea is to provide agencies, at the field level, with the tools and instruments to work with partner countries (at national and municipal levels) and the private sector to maximise the contribution of the private sector to pro-poor growth.

VI. Work modalities

- The task team on private sector development can be in the form of a lead donor and/or a core group of interested donors working with the secretariat and, as necessary, consultants to advance discussions and prepare papers. The structure and composition of the task team should be clarified as soon as possible.
- Calendar/timetable – the task team needs to decide on the timetable for its work – e.g. date for producing the conceptual framework work outlined above, possible survey/stocktaking, etc., as well as the dates of possible seminars/workshops, with participation beyond Members, that might be useful in carrying out the work programme.
- Resources and budget – again, once the broad orientations of work are approved, the task team will need to consider who will contribute to producing the deliverables of work – in Members, the secretariat and possible contributions by consultants. Also, possible workshops/seminars need to be factored into the overall budget.

ANNEX 1.

(EXTRACT FROM BROADER DFID OUTLINE PREPARED FOR THE RICHMOND UK
CONFERENCE, NOVEMBER 2002)**Poverty Reduction: the Role of the Private Sector – Possible Structure and Contents**

18. The cross cutting themes that will run across all chapters are poverty reduction, capacity building, gender and sustainable development. The document will attempt, whenever possible, to address issues from the point of view of the poor.

1. *Pro-Poor Growth and the role of the Private Sector, Markets and Governments*

⇒ *This chapter will be a summary of knowledge and experience on pro-poor growth and PSD. It will take account of the DAC guidelines on poverty reduction and WDR 2003 (on market & government failure). It will describe the role of the private sector in reducing poverty and its contribution to sustainable development.*

- Growth: A necessary condition for poverty reduction
- What is pro-poor growth and which conditions promote it? Growth with equity.
- The role of the private sector in poverty reduction.
- The role of efficient, market based resource allocation in increasing productivity and its contribution to poverty reduction.
- Market failure and governance failure; what do governments need to do to ensure that markets work efficiently?
- What are the characteristics of pro-poor markets?
- Market access and the returns to the assets of the poor (a livelihoods and rights based approach).
- The role of the private sector in sustainable development (integrating economic and social development with environmental sustainability).
- The role of government in PSD.

ANNEX II.

PRIVATE SECTOR DEVELOPMENT AND POVERTY REDUCTION

Contribution by the United States

19. Sustained economic growth of at least six percent is essential to significantly reduce poverty by 2015. Rapid and sustained growth comes from rapid expansion of exports, rapid agricultural transformation, rapid industrialization, and a rapid demographic transition. The private sector serves as the engine of growth by providing capital investment, technological innovation, and entrepreneurial risk-taking, which multiply the demand and supply of goods and services, resulting in income and employment generation throughout the economy.

20. The impact on growth and poverty reduction of private sector expansion depends on many factors. On the macro side, private sector productivity and competitiveness is conditioned by honest government and capable public administration; sound economic policies; undistorted factor prices; a transparent and predictable legal and regulatory framework, supported by an efficient judicial system based on the rule of law; competitive product markets; basic infrastructure services; a responsive financial sector; and a flexible labor market.

21. Private sector development can be stimulated or hindered by the health of the international economy, the access to foreign markets, the availability of foreign investment, the access to private lending. All of these factors will determine the degree to which a country can realize its comparative advantage in the global economy.

22. At the micro level, to be profitable and competitive, firms must increase productivity, innovate technologically; invest in expansion; manage their operations efficiently; train, motivate and remunerate their labor force, etc.

23. In the poorer developing countries, which are undertaking poverty reduction strategies, such favorable macro-economic conditions are unlikely to be present. At the micro-level, in many countries the small formal private sector acts as a mercantilist, rent-seeking oligarchy rather than an entrepreneurial, profit seeking, modernizing business class. As a result, the poor turn to the informal sector for employment. Such countries may require major structural and economic reform to create an enabling business climate open to new entrepreneurs and business expansion.

24. While private sector expansion in a competitive and enabling environment opens many new business and job opportunities, many other factors determine whether members of poor households can take advantage of these opportunities. These include: the poor person's basic education and skills levels; his/her access to working capital; his/her possession of tools and other assets; the nearness of industry or businesses; access to business services; etc.

25. Depending on natural resource endowments and the distribution of factors of production, some LLDCs may be able to stimulate growth through private sector development by adopting labor-intensive export-oriented strategies that capitalize on their "competitive" advantages (in Michael Porter's sense). A

favorable international economic climate will be essential to the success of an export-oriented strategy. (Here is where a successful DOHA Round is critical.) Whatever the development strategy adopted by an LLDC, it will need to be combined with appropriate policy reforms, sector development plans in partnership with the private sector, coupled with extensive entrepreneurial development and job skills training, and the development of business support services. International development experience suggests that small and medium enterprises and agribusinesses, as well as micro-enterprises, employ the most people, including women and the poor. A major challenge for the poor is organizing themselves to be able to compete better in the market place when selling their own produce or products, as well as developing the skills to qualify for jobs.

26. The challenge for LLDC governments and donors is then how to enable and stimulate private sector development while helping the poor improve their ability: to qualify for jobs; to access business and financial services; to participate in markets; to move from informal to formal sector activities; etc. The role of the Government is critical as policy maker and regulator; as a catalyst for competitive business development by assuring a level playing field for businesses; as provider of public infrastructures and services. By investing in expanded economic activity and generating employment the private sector contributes to economic growth, and, under the right conditions, to sharing progress with the poor. For this to happen, what is needed is a common sustained strategic vision of the country's development; close partnership between the government and the private sector; pragmatic and technically sound policies and approaches; clear and predictable rules; macroeconomic stability; high levels of private investment yielding high returns; and high public investment in education aimed at universal primary education coupled with job skills training, as well as expanded health services; and specific efforts to help the poor participate and succeed in business.