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## DAC Network on Poverty Reduction

**KEY POLICY THEMES OF THE TASK TEAMS ON PRIVATE SECTOR DEVELOPMENT,  
AGRICULTURE AND INFRASTRUCTURE**

4-5 November 2004

*This note serves as BACKGROUND to the discussion under item 5 of the 4-5 November 2004 POVNET agenda. It provides an overview of the key areas of policy focus for each of the three task teams.*

Contact Person: William Nicol - Tel: +33 (0)1 45 24 91 37 - Email: [william.nicol@oecd.org](mailto:william.nicol@oecd.org)

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## **KEY POLICY THEMES OF THE TASK TEAMS ON PRIVATE SECTOR DEVELOPMENT, AGRICULTURE AND INFRASTRUCTURE**

1. Task teams/task team leaders were invited to set out the key policy themes of their work (some refer to these as “hot topics”). These themes are expected to represent critical areas on which policy recommendations will be developed as part of the pro-poor growth (PPG) agenda of the task teams’ work on private sector development, agriculture and infrastructure. POVNET discussion should seek to reach broad agreement that the themes identified cover the appropriate ground and represent critical policy issues for the PPG work in each of the three areas.

2. This note thus provides an overview of the key areas of policy focus for each of the three task teams, and serves as background to the discussion under item 5 of the 4-5 November 2004 POVNET meeting.

### **I. Private Sector Development**

#### ***a) Background***

3. The task team considered nine suggestions for hot topics out of which the following six were chosen to be taken forward and lead donors identified:<sup>1</sup>

1. Firm level assistance.
2. Impediments of market access for women.
3. Competition policy and market access.
4. Institutions and enabling environment.
5. Sectors.
6. Informal economy.

4. In terms of the process for undertaking work on these themes, most donors would be contracting a consultant/researcher for the preparation of the papers. Some will prepare background papers and the actual hot topic paper while some might choose to do the hot topic paper straight away. The hot topic papers should be short 5 page papers while the background papers can be longer.

5. The following points for generic orientation when drafting the ToRs for a hot topic paper were elaborated:

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1. Labour Markets is an additional topic under consideration. Interest for the issue was considerable but no decision has been taken yet as to who will lead on it; we have consulted with the OPPG donor group and it would be fine to use the OPPG sector paper as a background paper for a 'hot topic' on this issue once the paper has been finalised. This will not happen before the deadline of early February 2005.

1. Why is the topic important for PPG?
2. What do we know so far and/or still need to know?
3. What are the big controversies, if any?
4. What sort of policy implications and suggestions for donors can we give?
5. Recommended best practices (more of a prescriptive value).

6. The following description of topics is based on contributions received by the leading donor on each respective topic. These contributions have not yet been discussed with the whole task team; thus formulations and processes still need to be discussed, fine-tuned and agreed by the whole team.

**b) *Brief description of topics***

*i) Firm level assistance – GTZ and Sida*

7. One of the main elements in the "new PSD agenda" relates to the need to bring about systemic change, i.e. changing the incentives within markets (and analysing market failure not just its symptoms) to deliver pro-poor outcomes rather than providing direct support to firms. Most bilateral and multi-lateral donors are at various stages of transition towards approaches more in line with "the new agenda". One example is the new market based approach agreed by donors working in the field of business development services (BDS). This approach can be translated and used in a broader sense to incorporate activities in other areas of work than "pure" BDS. However, little work has been done so far in analysing the practical experience among donors from working with such new approaches. There is a need to take stock and learn from recent experience among DAC members of transforming their way of providing support to private sector development.

8. Are there any contradictions (trade-offs?) between the new agenda and the need to target specific markets, regions, sub-sectors, etc. with a pro-poor perspective?

9. Under what circumstances are direct support or selective interventions to firms justified under "the new agenda", (i.e. for demonstration purposes but with a clear exit strategy, for intervention in a transformation context, for promoting particularly dynamic firms with high potential for linkage effects, etc.)?

10. Which lessons can be drawn from our support to the enlargement, diversifying or deepening of markets? Have successful cases been disseminated to other segments of the economy?

11. What are the experiences made with our present approaches to firm level support regarding "crowding out" and "crowding in" effects on private initiatives?

*ii) Impediments to Market Access for Women – USAID*

12. The "hot topic" analysis relating to gender will provide an overview of impediments to market access for women. It will describe the nature and magnitude of constraints affecting women, and explain why this topic is important for pro-poor growth. It will be based on a comprehensive literature review that will serve to highlight what is (and is not) known on the subject thus far, where there is broad consensus among donor agencies, where there are disagreements, and potential policy concerns. It will culminate with a review of donor interventions, best practices, and recommendations for addressing gender impediments "to participation in market activities", from an operational perspective.

iii) *Competition Policy and Market Access – DFID*

13. Few would dispute the need for a vibrant private sector as a key part of any programme to achieve worthwhile economic growth and to reduce poverty. If the private sector is to work to society's benefit, a competitive market environment must be established to ensure an economy's resources are allocated efficiently, and to help maximise growth and poverty reduction. Competition benefits consumers and firms by reducing prices of goods and services, and by improving quality. It also provides continuing incentives for firms to adapt their products to reflect the needs of buyers, and to seek more efficient methods of production and distribution.

14. But markets don't always work this way by themselves. Firms may face barriers to competition, created either by other firms (e.g. through the formation of cartels) or by inappropriate government regulation, and consumer interests are frustrated by many restrictive business practices. Competition problems are widespread in developing economies, many of which do not have effective competition regimes. Competition policy, which includes all public policies that affect competition in markets, seeks to foster competitive markets in order to achieve both efficiency and equity. Donors can help by building capacity in developing countries in relation to the introduction and implementation of appropriate competition policy regimes, and in relation to regulatory reform more generally.

iv) *Institutions and Enabling Environment - Netherlands*

15. How do donors work towards institutional reform? What triggers institutional change? What do we know so far? [More detailed description to be provided.]

v) *Identifying sectors which could kick-start growth – Co leader (tbc) plus Finland*

16. Private sector development has thus far been greatly dealing with the creation of enabling environment for business and investment in general on one hand and support at firm level (subsidies or BDS) on the other. Sectoral allocations and considerations have received less attention. For example, SME development and promotion of primary production have been perceived as most pro-poor interventions without adequate analytical work to substantiate the assumption.

17. The proposed hot topic paper "Identifying sectors which could kick start growth" will study how donors should modify their aid allocation processes to be able to identify sectors with most potential for pro-poor growth. The question can be summarised as "How to identify sectors that provide best pro-poor market outcomes through private sector development?" The issue has two levels:

- General sectoral allocation: includes assessment of interventions outside the realm of "traditional PSD" (incl. education, infrastructure, etc.).
- Industrial policy type of allocation: which productive sectors are likely to lead the pro-poor growth (incl. issues related to structural change, migration, outsourcing, upstream and downstream linkages etc.).

18. The general questions need to have country specific answers. The aim of the hot topic paper would be to guide donors to identify the right issues to analyse and encourage allocating resources with larger and more pro-poor market outcomes in mind.

vi) *Informal Economy/Informality – USAID and Sida*

19. A Sida "fact finding study" on the informal economy (March 2004) concludes that while "the main challenge is ... to develop innovative and supportive policies that recognize the contributions of the

informal economy international best practice in this field seems to be lacking." (emphasis added). The "hot topic" study led by USAID will attempt to fill this gap. The study will identify the components of microeconomic or business regulatory environments that present the greatest disincentives to formality in developing economies. The study methodology will include, inter alia, an analysis of the correlation between regulatory environments (from the World Bank's "doing business" datasets, among other sources) and the proportion of informal firms in sample economies.

20. The research team will assess the collective experience of donor agencies in promoting pro-poor microeconomic reforms intended to reduce constraints to formality and facilitate small enterprise access to finance. The team will also consider how donors can help mitigate the risks and vulnerabilities experienced by informal enterprises and thereby improve the productivity of the informal work force. Drawing from these assessments, the team will suggest "best practices" to help guide and orient future donor initiatives in this sector.

## **II. Agriculture**

### **a) Background**

21. The key areas/hot issues for the Agriculture task team are building blocks for the *New Agenda for Agriculture* [DCD/DAC/POVNET/A(2004)5/RD5]. So far, three of these building blocks were turned into brief hot topic papers for the purpose of the recent Agriculture 20-21 September Consultation with developing country partners. This meeting confirmed the relevance of the overall concepts and the three topics. The task team meeting that followed the consultation decided that the three hot topic papers should be revised to become four to five page summaries of the papers prepared for the larger New Agenda publication. They will have a short chapeau that places them into the broader new agenda context and provide policy recommendations. The redrafting should be completed by the April 14-15 POVNET meeting.

22. This note will provide a brief description of each of these topics, listing first those already discussed in the task team followed by additional topics suggested at the last Task Team meeting. These additional topics will be developed over the next six months provided there is sufficient championship.

- Constraints and Opportunities for Smallholders in Global Food Chains.
- Diversification of Rural Livelihoods.
- Incorporating Risk and Vulnerability Constraints into Agricultural Policy.
- Science and Technology for Smallholders (POTENTIAL).
- Rural Education: enhancing labour skills and supporting income diversification with special reference to the needs of the disadvantaged rural poor (POTENTIAL).
- Resource degradation / sustainable land management. (POTENTIAL).

### **b) Brief description of topics**

#### *i) Constraints and Opportunities for Smallholders in Global Food Chains*

23. This issue addresses the challenges to smallholders associated with declining prices in real commodities and the shift to value-added products that are increasingly sold by supermarkets. There is recognition that this topic is highly relevant to discussions on the new agriculture agenda and that urgent action is required to address this issue. Private sector strategies are moving fast in this area and could be an impediment for pro-poor growth strategies. The ability of small producers to benefit from rapid changes in

a context of corporate concentration and increasing consumer demands for traceability and high quality of products is being challenged. The key issue for policy guidance is to develop recommendations on what constitutes the highest value-added for donor engagement, i.e. in strengthening producer associations, facilitating dialogue between producers and supermarkets or advising government in monitoring/re-governing commodity markets?

ii) *Diversification of Rural Livelihoods*

24. This topic focuses on economic diversification of households and its implications for pro-poor agricultural policy. Diversification helps to smooth seasonal dips in agricultural income and reduces risks associated with rain-fed agriculture. It is largely driven by new risks such as land fragmentation, price volatility, removal of subsidies and environmental risks. There is a close relationship between rural non-farm income and urban locations. Most new jobs are being created in the non-farm informal sector. Migration in its various forms is an important part of diversification as it allows laborers to escape unfavorable rural labor markets. While it provides a routine livelihood strategy, migration is often perceived as negative. Policy makers need to understand market and non market barriers to diversification and support peoples own efforts at diversification. Informal sector jobs lack security and permits are rare making many activities illegal which promotes corruption. Key policy questions relate to if and how governments should regulate/promote informal sector activity and migration.

iii) *Incorporating Risk and Vulnerability Constraints into Agricultural Policy*

25. This topic responds to concerns that efforts to reduce risk and vulnerability within agriculture policies are diminishing or static at a time when the 'riskiness' of agricultural production and marketing is increasing. It proposes that risk reduction is not just a matter of social protection, but has important 'production' dimensions and so should be addressed by agriculture departments. Since risk is multifaceted, coherence is also needed with departments dealing with "higher level" matters such as foreign trade and fiscal/monetary management, and with those dealing with related sectors such as small enterprise and infrastructure. It is suggested that the role of the private sector is to experiment with new financial products, while *donors and governments* should increase awareness of the merits of R&V management for poverty reduction; broaden the range of R&V measures and mainstream them. The main issue of policy guidance is to further specify the respective roles and responsibilities of the public and private sector in addressing and reducing shocks and stresses coherently both in the domestic and productive spheres.

iv) *Science and Technology for Smallholders (POTENTIAL)*

26. To be developed by IFAD and USAID.

v) *Rural Education: enhancing labour skills and supporting income diversification with special reference to the needs of the disadvantaged rural poor (POTENTIAL)*

27. This topic could focus on education and skills training for agriculture, whilst recognizing that rural education goes beyond agriculture. Recipients to be considered would include in particular disadvantaged people i.e. landless, orphans, female-headed households, youth and adults in post conflict situations, and unemployed rural youth. An initiative would aim to help the poor to acquire the skills and capacity to secure meaningful employment or a livelihood from activities based on use of the natural resources, from agriculture and its products, and from migration and the non farm economy.

28. Key components might include (i) life skills including basic elements of balanced nutrition, primary health care (awareness raising), advocacy for specific needs, such as rights to access, associations, information; (ii) functional literacy and numeracy for youth and adults; (iii) addressing the knowledge gaps and skills requirements of AIDS infected women, HIVAIDS orphans and widows; (iv) strengthening

institutional capacity in planning and managing education for rural development including policy makers, higher education institutions, donors etc. Expanding access to primary education including improving school attendance in rural areas and improving the quality of primary education should further be given attention.

29. Given limited knowledge of this area in the task team, there is a need to take stock of existing work, build synergies and share knowledge with leading agencies including FAO, UNESCO, and ILO.

*vi) Resource degradation / sustainable land management (POTENTIAL)*

30. To be developed by Per Ryden- UNCCD

### **III. Infrastructure**

#### **a) Background**

31. The purpose of the InfraPoor task team is to prepare – by spring 2005 – guiding principles leading to an enhanced and more effective pro-poor donor approach towards economic infrastructure, thereby strengthening the international discussions on MDG and systemic poverty reduction. To this end, three workshops will discuss (i) the macro framework for infrastructure and donor investment (29-30 March 04), (ii) technical issues in the three key infrastructure sectors (i.e. transport and ICT, energy and water, sanitation and irrigation) for pro-poor design of programs and projects (27-29 October 04), and (iii) guiding principles for donors (bilateral and multilateral alike) to be more effective on poverty reduction through infrastructure investments (March/April 2005). The InfraPoor task team will provide a good platform for intensifying synergies to the work of other DAC discussion groups, including the POVNET task teams on agriculture and private sector development, and the GenderNet.

#### **b) Brief description of topics**

*i) Complementarity of infrastructure for achieving MDGs*

32. Most of MDGs belongs to social sector and the role of infrastructure for achieving those goals is considered mostly to be indirect. Because of this nature, the importance of economic infrastructure for achieving the MDGs has not been well recognized. Since various recent academic researches have revealed that economic growth is essential for poverty reduction and infrastructure plays an important role for economic growth, and scaling up for development effectiveness is crucial, the task team considers it important to define the infrastructure project(s)/program(s) which contribute(s) to poverty reduction through economic growth. In addition, infrastructure needs to be designed to have pro-poor growth and systemic poverty reduction impact. The discussion therefore focuses on the following aspects; (i) the role of infrastructure to contribute to economic growth, (ii) the complementarities between social and economic infrastructure, (iii) the need for reorientation of infrastructure sector policies and strategies to meet poverty reduction objectives (as adopted in partner countries' Poverty Reduction Strategies) and (iv) principles of pro-poor project design and programming.

*ii) Financing for infrastructure*

33. Construction of infrastructure and the provision of pro-poor infrastructure services require substantial up-front investment and its operation needs maintenance to which a regular inflow of funds is essential. The majority of infrastructure investment for new construction and especially for maintenance comes from the domestic financial resources. Hence, in addition to international funding and donor support, mobilizing domestic savings and private capital, are key for fulfilling the financing gap for both

new construction and maintenance. The task team will discuss the innovative mechanisms of financing for, infrastructure, including development of domestic financial markets.

*iii) Urban/Rural infrastructure needs*

34. The majority of the poor live in rural areas while the poverty in urban areas is growing, especially in the context of mega-cities. At the same time, the problem of migration from the rural to urban areas and vice versa cannot be neglected. The task team discusses, *in collaboration with the Agriculture Task Team*, the infrastructure needs of both rural and urban areas and possibly, the measures to be taken to materialize those needs.

*iv) Gender dimensions of infrastructure*

35. There is growing evidence about the substantial macroeconomic costs of missing the MDGs on gender. In the same vein, economic infrastructure is used by men and women differently and their infrastructure needs also differ. Hence, to promote pro-poor growth and poverty reduction, a gender sensitive approach towards infrastructure and particularly towards infrastructure services is essential. Within the DAC the GenderNet manifested its willingness to contribute to the task team activity and is providing inputs to a session on gender dimensions of infrastructure at the Second Infrastructure workshop in Berlin October 27-29 (am).

*v) Decentralization*

36. In many developing countries, decentralization is under progress. In some way or other, it affects the process of planning, implementation and operation and maintenance of infrastructure projects/programs. The roles of both central and local governments must be reviewed as well as the way of financing infrastructure under the decentralized system. The task team discusses both the newly divided role of central and local governments and the financing of infrastructure by the local government.

*vi) Sustainable service delivery to the poor*

37. For the majority of the poor, their status of being poor is correlated with lack of access to infrastructure and its services and subsequently that to the other public services in the social sector. In order to resolve this problem of access, there are three types of issues which need to be addressed: (i) which infrastructure services need to be added to infrastructure provision to foster a pro-poor program design; (ii) how to target the most potential poor for benefiting infrastructure, and (iii) how to expand the coverage of services while maintaining the financial sustainability of the service provision (innovative mechanisms for bridging the affordability gap through smart subsidies and pro-poor sustainable tariff). In addition, the task team will discuss service delivery structures in infrastructure through private sector, public, civil society and public-private partnerships. *The task team expects collaboration with the private sector development task team for discussing public-private partnership.*

*vii) Governance*

38. In many developing countries, the problem of failure to provide reliable and qualified infrastructure services originated in both failure to properly maintain public infrastructure assets and the state of bankruptcy of entities in charge of infrastructure service provision. In this context, the task team discusses (i) accountability and capacity building of infrastructure institutions and (ii) participation of the poor for the infrastructure project/program designing, implementation and operation and maintenance.