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## DAC Network on Poverty Reduction

### POVNET 2007-08 PROGRAMME OF WORK

15-16 November 2006

*This document is submitted for DISCUSSION of proposals and AGREEMENT on the themes to undertake and their outputs and focus.*

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## 2007-08 POVNET PROGRAMME OF WORK

### I. Introduction and issues for discussion

1. This note sets out proposals on the strategic directions and specific components of the 2007-08 POVNET work programme. It is based on the results of the prioritisation exercise undertaken by the DAC to select the themes to be included in its overall 2007-08 PWB, and on preparatory work undertaken by interested POVNET members in informal brainstorming meetings held in June and October to develop the content of the work proposals.

2. In relation to POVNET work themes, the DAC prioritisation exercise agreed that work on the following themes could be undertaken, in accordance with their ranking, and resources permitting:

- Scaling up for effective results – best practices for implementing pro-poor growth (rank 8/30).
- Guidance on using aid effectively to promote social inclusion and empower the poor (rank 13/30).
- Implementing policy guidance on using ODA to promote investment for development (rank 24/30).
- Guidance on aid and trade for competitiveness – making markets work for the poor (rank 26/30). As this theme represents the amalgamation of two separate areas (employment and trade), specific proposals on the component parts are developed.

3. The note is structured as follows:

- Section II provides background on ongoing areas of work, continuing from the previous biennium – communications and dissemination and Poverty Impact Assessments.
- Section III suggests a strategic direction for the work programme 2007-08, based on looking at what hinders poor people better integrating into the economy and society and focusing on implementation issues such as field level realities, practical-level donor approaches and obstacles to more co-ordinated actions with partner countries.
- Section IV sets out proposals concerning the content and modalities of the different outputs areas (with more detail on the proposals, as developed through the brainstorming meetings, set out in Annexes I-IV).
- Section V addresses other implementation issues and the budget for POVNET work in 2007-08.

#### *Issues for decision*

- **POVNET is invited to decide on the themes it wishes to undertake and the outputs to deliver.** The DAC, in its prioritisation exercise, has essentially stated that all the work areas in the priority list of work proposals can be undertaken if Members so wish, in accordance with

priorities and depending on the availability of resources to carry them out. Members may also wish to consider timing issues and whether work on all areas should start at once, whether they all require two full years of action and whether work on some areas should start now or could wait until 2008.

- **POVNET should also agree on the modalities for carrying out agreed work** areas and consider if additional efforts are required to mobilise voluntary contributions to support the work programme.
- **Following this, POVNET should review its present mandate** and consider required changes it wishes to propose to the DAC (see DCD/DAC/POVNET(2006)5 and item VII of the Agenda for the POVNET November 2006 meeting).

## II. Background and ongoing activities

### a) *Communication and dissemination activities*

4. The April 2006 DAC HLM welcomed and endorsed the key policy messages on pro-poor growth. Since then, the four main reports (key policy messages, private sector development, agriculture and infrastructure) have been published and a compendium publication is also under preparation. French versions of all of these publications are also under preparation. Business cards, posters, policy statement “flyers”, a CD-ROM and generic Power Point presentations have all been prepared. Most of this material is available on the POVNET website [[www.oecd.org/dac/poverty](http://www.oecd.org/dac/poverty)] and has been circulated to members. Further communication and dissemination efforts, particularly by Members, are addressed in section IV.a below.

### b) *Poverty Impact Assessment*

5. In March 2006, the DAC gave its approval of POVNET's basic approach to *Ex Ante* Poverty Impact Assessment (PIA) that had been elaborated by a Cross-Cutting Task Team led by Germany. The broad implementation of *Ex Ante* PIA has been promoted in an initial phase during 2006, including through a series of pilot exercises conducted by the agencies involved in the design of the PIA approach. The results from some of these pilot exercises were presented and discussed at a meeting by the PIA Task Team in The Hague in October 2006. The participants agreed to finalise during 2006 a Guidance Manual/Handbook, which would help agencies in the dissemination of the PIA approach.

6. In order to support the introduction and scaling-up of the PIA approach among POVNET member agencies, it is envisaged that a series of dissemination, communication and training activities will be needed during 2007 and 2008. Cooperation with the Poverty and Social Impact Analysis Programme (PSIA) at the World Bank is envisaged, *e.g.* in respect of capacity development and mobilisation of a pool of consultants. Implementation of the PIA work will thus be a component of the broader scaling up work stream (see section IV.a below).

## III. Strategic orientations for POVNET work 2007-08

7. At the end of the 2007-8 biennium, and within the global framework set up by the Paris declaration, POVNET should become a central locus of donors' harmonisation insofar as policies toward poverty reduction and the realisation of MDGs are concerned. During its 2003-2006 mandate, POVNET has focused on providing guidance on how donors can promote pro-poor growth overall and in the three crucial areas of agriculture, infrastructure and private sector development. It has focused donors' attention

on the impact of their actions on poverty by launching the PIA approach. It has also addressed the cross-cutting issues of risk and vulnerability, two important contributors to poverty.

8. Based on these insights, the forthcoming 2007-2008 mandate should now focus on how to effectively implement pro-poor growth policies in partner countries. Concern about implementation suggests three complementary directions for future work that can be discussed during the November meeting.

**a) *Identifying local barriers to growth and poverty reduction***

9. The encompassing, multidimensional nature of poverty, as recognised in past POVNET work and in the DAC 2001 Poverty Reduction Guidelines, suggests that no specific area should systematically receive the priority as compared to others, since so many different issues interact. Action is needed simultaneously on all fronts: poverty cannot be reduced without sustainable growth; infrastructures are needed for basic services delivery and for growth; human capital is a crucial determinant of successful development strategies; trade and investment are necessary engines of growth; the private sector is a key actor; agriculture is vital to poverty reduction; institutions and governance are central; social policies are an important component of an effective link between growth and poverty reduction, not only as transfer mechanisms, but also as a way to provide local public goods to the poor, etc.

10. Issue-based analytical approaches provide invaluable insights but will not lead to operational policy formulations unless priorities can emerge by confronting them with the reality in partner countries. As a complement to POVNET current work, a number of country case studies could be launched, in partnership with donors and partner countries. They would aim at informing, in the context of the PRS process, the definition of an appropriate set of priorities for country-owned poverty-reduction efforts, through documenting, on a case by case basis, the major barriers to growth in the country at the macro and micro levels, as well as the barriers preventing individual empowerment.

**b) *Inputs and Outreach***

11. POVNET should aim at widely sharing the results of its work and at playing a role of catalyst in the formulation of effective poverty reduction policies. It is uniquely placed to organize donor coordination. To fulfill this task most effectively, POVNET needs to be able to collect all available, relevant knowledge and expertise. The November meeting should therefore allow discussion of ways to interact with stakeholders: donors engaged in poverty reduction operations and studies (such as the OPPG programme); development economists in donors' institutions and in academia; other DAC networks; partner countries themselves.

12. Looking toward implementation, POVNET should also aim at exchanging with selected partner countries on their own policies toward poverty reduction. This could provide a unique opportunity to make its own recommendations known, but also to learn from specific approaches that might bring useful insights.

13. There are important, potential synergies between POVNET and other existing DAC networks, which should lead to sustained partnerships. These include the Working Party on Aid Effectiveness and Donor Practices, and the networks on fragile states, evaluation, gender and environment. To cite one crucial case, the principles of objectives of the Paris Declaration should be embodied in all the work of the POVNET.

**c) *Focus on concrete outputs and impacts to maximise value added***

14. At a time when POVNET sets out to decide its forthcoming 2007-08 work programme, some discussion will be needed on the best outputs from POVNET work in order to maximise value added, influence and impact from POVNET. Given the scope of issues pertaining to poverty reduction, a careful assessment is needed for each part of the programme about the value added from POVNET as compared to other stakeholders. In this discussion, it will be useful to keep in mind the central objective of POVNET, namely to catalyse donors' coordination toward effective poverty reduction, within the overall harmonisation and alignment objectives set up by the Paris Declaration.

15. Establishing policy guidelines and good practices is altogether interesting, useful and necessary, and it already requires much work. It is even better, however, when these guidelines and good practices effectively influence donors and partner countries toward implementing successful poverty reduction policies. Each part of the work programme should therefore include specific products and outputs. These can be seminars, workshops, training programs, targeted publications, each of them responding to well specified objectives and monitored accordingly. Joint products with other stakeholders might also provide a promising way to increase influence and impact.

**IV. Specific work components**

16. Based on the DAC prioritisation exercise and the informal brainstorming meetings among interested POVNET members, a summary of the work proposals in each of the output areas<sup>1</sup> is set out below. More detail on each of these areas is set out in Annexes I to IV, which provide revised versions of the work outlines discussed in the October brainstorming meeting.

**a) *Scaling up for effective results – best practices for implementing pro-poor growth***

*(see Annex I for details)*

17. The emphasis in this theme is on dissemination and the practical implementation, at field level, of the general and sector specific pro-poor growth policy messages. The focus is the field level realities that hinder putting the pro-poor growth guidance into practice, identifying a number of core impediments and developing and sharing best practice in tackling these. Particular attention should be given to better connecting up PRS provisions with priority public policies, budgets and other resource and capacity needs. Emphasis should be given to how donors have used ODA to effectively promote pro-poor growth in partner countries, based on case material, in country studies, evidence based research results, etc. Work should be undertaken from the outset in close collaboration with other stakeholder, particularly developing country partners.

18. The proposed deliverables (interim outputs) related to this work are:

- *Finalising and implementing the dissemination and communications strategy.* The secretariat has prepared a variety of tools for this (publications, posters, CD ROMs, flyers, power point presentations, business cards), most of which are available on the website. The need is now to get this information beyond agency head offices in capitals and to stakeholders in the field (developing countries, field level agency staff, private sector and civil society) and start or strengthen a dialogue on implementing pro-poor growth policies. Much of this work has to be done by the aid agencies represented in POVNET rather than the secretariat.

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1. Excludes the investment for development theme as only recently did the DAC suggest this be now housed in POVNET rather than in DAC, as was previously the case.

- *Identify a shortlist of key impediments* to the implementation of pro-poor growth policies in partner countries, *e.g.* via case material, field level experience and surveys, workshops and consultations. Some issues have already been signalled, *e.g.* the application of pro-poor growth principles in fragile states or political economy issues. The set of priority issues chosen would be the basis for developing best practices. Case study and other material could be compiled in a “source book”.
- Compile and document experiences in tackling these issues (*e.g.* on the basis of case studies at country/sectoral levels) on which to draft, test and share *best practices* with other stakeholders.
- *Scale up implementation of the Poverty Impact assessment (PIA) tool*, based on the practical experiences gained from field level testing and aiming to integrate this methodology into established donor procedures.

19. **The proposed work will be implemented in different ways.** On communications and dissemination, the secretariat can facilitate efforts to share the policy messages, *e.g.* by piggy-backing on other events, by supporting training and human resource programmes, contributing to agency staff meetings/retreats, etc. But much of the field level dissemination will be the responsibility of POVNET members. Identifying what holds back pro-poor growth strategies and interventions in the field will require donors and their partners to engage in dialogue, conduct surveys, organise workshops, undertake case studies etc. The best practices developed from sharing experience and testing approaches will need to be developed with the involvement of other stakeholders, including through field level consultations.

20. On **modalities** for carrying out this work, it is suggested that the general management of this work stream remain in POVNET itself, but facilitated by giving specific responsibility to a Vice Chair, who could be assisted by *e.g.* two or three Member “champions”.

**b) *Guidance on using aid effectively to promote social inclusion and empower the poor***

*(See Annex II for details)*

21. The proposed focus of this work area is social protection, social policy and poverty reduction (SP).

22. The work will produce the following **outputs**:

- *A mapping and consultation exercise* of donor and developing country policies and practices, and what we know about their impacts and effectiveness. This will provide the basis for identifying priority issues and developing the best practices and policy statement outputs.
- *Best practices* in implementing SP measures in developing countries, which will be an evidence-based practitioners' tool.
- *A policy statement*, for the 2008 HLM. This advocacy statement will show the importance of SP for sustainable poverty reduction and that it can be a cost effective poverty reduction instrument. Such a policy statement would connect up to the present UN-GA consideration of an additional dimension to MDG1 on full productive employment and decent work for all, which has, of course, strong connections with the SP theme.

23. The SP focus falls within the “protective/security-vulnerability” dimension of the DAC 2001 poverty framework pentagon, and has important links to all the other dimensions. The thrust of the work



fits well with the broader 2007-08 POVNET work plan of focusing on poor people and helping them to tackle the barriers that hinder their economic and social inclusion. SP measures help tackle the risks and vulnerabilities that poor people face and which often prevent them taking decisions that would put them on a road out of poverty. SP can thus facilitate the economic and social adjustments and transitions required for broad based and sustainable poverty reduction. SP is investing in people and has a clear gender dimension.

24. **The initial phase of work** will be to consult partners in the North and the South in order to gain evidence concerning donor and partner policies and activities in the SP field. This work will focus on (i) the various *risks* that SP tries to cover, (ii) the *instruments* for doing so and (iii) the *evidence* available concerning impacts, affordability and effectiveness. The work on SP will also cover other issues, possibly using the “hot topics” approach, including how to strengthen the SP dimension of PRSs; how to build political support and administrative capacity to design and implement effective SP schemes; financing and affordability issues, including fiscal space; and moral hazard/disincentive effects and corruption.

25. There is possibly considerable overlap between the SP activity and the one proposed below on ‘Employing the Poor’. If POVNET undertakes both these activities, attention will be required to avoid duplication, to ensure sufficiently different themes are covered and to build synergies between the two areas. This matter is picked up further in the section on ‘Employing the Poor’, below.

26. It is suggested that this work could be implemented as follows. The earlier Task Team on Risk and Vulnerability (led by Timo Voipio of Finland) would be transformed into a Task Team on SP. Mr Voipio has indicated his willingness to continue to lead this activity (aided by possibly two Vice Chairs, including one from Germany).

### c) *Investment for development*

27. While not formally a part of the 2005-6 pro-poor growth work area in POVNET, the DAC has decided that follow up activity in the investment area should be housed in POVNET [see DCD/DAC(2006)45, paragraph 6].

28. The report, “Promoting Private Investment for Development: the Role of ODA” was welcomed by the OECD Ministerial Council Meeting on 23-24 May 2006. It provides guidance to donors on using ODA to more effectively promote private investment for development, and complements more general guidance on improving the design, delivery and effectiveness of ODA as set out in the Paris Declaration on Aid Effectiveness.

29. The work plan for this area comprises *the preparation of a good practice report on implementing the policy guidance in 2008*. Work in this area might include a workshop with stakeholders on implementation challenges and approaches, a better statistical idea of how much ODA is actually spent on promoting investment, and a better idea about the effectiveness of donor support to investment. The work will be conducted in collaboration with the OECD’s Investment Committee, as was the case in the lead up to preparing the policy guidance, and stronger collaboration sought with WP-STAT and EVALUNET. The initial work emphasis (*e.g.* over 2007) should, however, be on further communication and dissemination efforts within Agencies and with partner countries and the private sector, to provide a basis for subsequent discussion (*e.g.* in 2008) on impediments and good practices. On this basis, the secretariat will develop more detailed proposals concerning the preparation of best practices to bring to POVNET in due course.

30. The earlier work leading up to the guidance was developed through informal meetings of interested DAC members as well as via collaboration between the DAC and the Investment Committee in joint sessions. It is suggested that the work on this theme in 2007-08, while now housed in the POVNET,

proceed along similar lines (but with POVNET normally replacing DAC as the discussion partner with the Investment Committee) and thus that a task team approach is not required.

**d) *Guidance on aid and trade for competitiveness – making markets work for the poor***

31. This work area was in fact a combination of two themes, trade and employment which were combined in the prioritisation submission to DAC. Discussions in the informal group, as well as earlier, at the POVNET in November 2005, showed that several Members support work on one or both these areas. Accordingly, specific proposals on each of these sub-areas have been developed.

*(i) Employing the poor (See Annex III for details)*

32. Employment, both formal and informal, is a key route out of poverty. But the impact of growth on employment varies considerably. Research on the relationship often has to focus on formal employment because of no or poor data on informal employment, thus likely underestimating the impact that growth has on overall (formal plus informal) employment. Employment contributes to pro-poor growth by connecting poor people to the growth process, providing income to sustain their livelihoods and improving their access to a wider range of goods and services. Employment and labour market policies play an important role in reducing the various dimensions of poverty by their impact on income levels and distribution, gender relations and participation in civil and political life.

33. Strong international interest in the employment theme is illustrated by the UN Secretary General's proposal for a new employment dimension (full and productive employment and decent work for all) to MDG 1. Yet bilateral donors appear to have difficulties in organising themselves to support work on employment generation and labour markets, perhaps because of the cross-cutting nature of the theme. As a result, some believe employment and labour markets to be a "missing link" in donors' efforts to promote sustainable poverty reduction.

34. The **proposed outputs** for work in the area of employing the poor are:

- *A conceptual framework* on employing the poor and the role of donors in promoting "more and better jobs", where a number of POVNET members have signalled both a need and a comparative advantage for POVNET in producing this, as few donors have policy statements on employment and labour markets. It will be important to go beyond the formal sector and explicitly include the informal sector in this work, as this is where the majority of the poor are active. Such work should be done in close collaboration with other relevant actors, including the OECD's Directorate for Employment, Labour and Social Affairs and the ILO, to avoid duplication and ensure we bring together best thinking.
- *A best practices paper* which highlights and provides concrete examples of donor experience and lessons learnt from employment and labour markets interventions. Beyond this, the best practices could also address "hot topic" issues such as informal employment, female employment, youth employment, child labour, vocational education and training, etc.

35. Bearing in mind important *synergies with the social protection work area* and to avoid overlap/duplication with it (see above), the suggested focus of POVNET work on employment and labour markets would be on identifying and tackling barriers that prevent the labour market working better for the poor and meeting the needs of poor people to be better able to access job opportunities. This should provide a sufficiently different but very complementary focus to the work on SP.

36. Concerning **the modalities** for this work area, a task team approach might be helpful in developing the conceptual framework, where a core group of some 5-6 members with a strong interest in the theme could prepare the work. Developing and sharing best practices, as a subsequent stage, will require field level efforts with all stakeholders through consultations, dialogue, workshops, case studies etc. In light of important synergies with the SP theme, it would be useful to have some members on both task teams and perhaps envisage some joint activities. An international event, *e.g.* organised in collaboration with the OECD Development Centre highlighting the role of employment and labour markets in pro-poor growth, could be part of a broader communications, dissemination and outreach strategy.

(ii) *Trade and poverty reduction (See Annex IV for details)*

37. Recent evaluations of trade related assistance all point to the need to increase awareness in aid agencies about the links between trade, growth and development, including poverty reduction. This has also been identified as a challenge by the WTO Task Force on Aid for Trade and is one of the expected outcomes of the 2007-08 joint DAC – Trade Committee work on aid for trade.

38. The **objective** of POVNET work on this theme would be to improve this awareness, through providing analysis and policy guidance on the role of trade as an effective mechanism for poverty reduction; *i.e.* to bring the poverty reduction objective more firmly into the aid for trade agenda. In addition, it would bring in the trade dimension to existing pro-poor growth work by looking at how trade led growth can help poor people participate in, contribute to and benefit from the growth process. Ultimately, this should result in a more effective integration of trade into partner countries' PRSs and strengthen donors' support for this process.

39. The main part of DAC (and Trade Committee) work on trade for development lies outside the mandate of POVNET, although the DAC has said that that work can be supported by POVNET when necessary [DCD/DAC(2006)45, paragraph 6]. POVNET involvement in this particular dimension of the aid for trade agenda – *i.e.* on trade and pro-poor growth -- would ensure that the presently missing poverty reduction focus to this broader OECD work area will be addressed. Thus, the focus is not the Geneva/WTO agenda as such, but to integrate trade better into national PRSs and donor strategies by strengthening the connections between strategic goals, priority public actions and budgets, resources and capacities. The work would also include what developing countries can do among themselves (regional and south-south trade) to increase the contribution of trade to poverty reduction.

40. The main **output** of this work would be specific *policy guidance for donors on the contribution of trade-to pro-poor growth*. The issues it would address include the need for a balanced strategy (*e.g.* important accompanying policies), short and medium term costs of adjustment (as it is the poor who have least ability to cushion themselves), the vulnerability of the poor (including their ability to adjust to new prices and incentives), and supply side responses (so that enterprises are able to recognise and capture new opportunities).

41. In respect of **modalities**, *a task team of interested members* might be a suitable means of moving forward with this issue. The present ad hoc and informal groups that work on the broader aid for trade agenda would probably not lend themselves well to the trade/poverty issue, but they could be a useful sounding board as the work develops.

## V. Resources and work modalities

### a) Budget and resources

42. Table 1 provides a statement of account on income and expenditures over the previous biennium. On the basis of expected expenditures until the end of 2007, it is likely that there will remain a positive

balance. The countries concerned are being invited to extend the deadlines related to these VCs such that they can contribute to supporting the budget for the 2007-08 work programme.

43. For the 2007-08 work programme, VCs to the sum of €928K were requested for POVNET work over the 2007-08 biennium (an amount roughly comparable with VCs and related support over the 2005-6 biennium). Since then, and following the DAC wish to see more Part 1 budget resources used for work areas it defines as “core”, the PRG Division, which services the POVNET, has lost an A4 post which has been reallocated to other DAC work areas. Closer to the date of the POVNET meeting, a Room Document will be prepared, detailing the situation concerning Members’ indications of support to provide a clearer basis for POVNET to discuss work intentions in relation to resource availability.

44. In respect of other inputs, POVNET should maximise its use of relevant, evidence based research done elsewhere, including obviously in the World Bank, IMF and UNDP, to provide a sound intellectual and factual underpinning to POVNET work. A very recent example would be the 2006 World Bank Latin American and Caribbean Studies publication on *Poverty Reduction and Growth: Virtuous and Vicious Circles*. POVNET should equally seek opportunities to work jointly with these organisations in field level implementation and testing of pro-poor growth policies.

**b) *Subsidiary body structure and synergies with other DAC work streams***

45. The DAC’s review of the structure of subsidiary bodies has left the POVNET essentially unchanged, except that investment issues should now be housed in POVNET, whereas they were previously handled by the DAC.

46. The DAC has requested all its subsidiary bodies to work closely to develop interactions and key synergies required for the effective delivery of the DAC PWB output results [see DAC/CHAIR(2006)11]. There are many different tools to promote such synergies, including inviting comments on work from other subsidiary bodies, back to back meetings, joint bureau meetings, and so on. Developing synergies with the work of ENVIRONET and GENDERNET is an obvious priority, and the Chairs of these Networks are ex officio members of POVNET. In fact, the present POVNET meeting includes a request to comment on ENVIRONET work in progress on natural resources and pro-poor growth. Beyond these areas, members have already mentioned their interest in pursuing collaborative work with the Fragile States Group in relation to the implications of implementing PPG guidance in fragile states.

47. In line with the request of the DAC Chair, POVNET is invited to discuss where it would seek to develop stronger work relations and synergies with other DAC subsidiary bodies and to signal to the DAC where this might result in joint products. POVNET should also inform the DAC of the reports it intends to present to the DAC over the biennium for discussion, approval and/or publication.

**c) *Bringing in other stakeholders***

48. A number of Members have mentioned their interest in associating other stakeholders (partner countries, private sector, civil society, other international organisations) more closely and earlier with the work of POVNET. This is all the more important in light of the focus on practical implementation issues with stakeholders at the field level and on more “micro” perspectives and issues. Members are invited to comment on this intention and how to go about it. For example, and going beyond stakeholder participation in events (seminars, workshops), would Members agree to invite stakeholder participation in a more systematic but still informal way to meetings of task teams and to POVNET itself? If so, who should be responsible for the likely costs associated with such enhanced participation?

d) *“POVNET seminar”*

49. POVNET is a network, and as such has an interest in sharing knowledge and experience with other policy communities, including the research field. This should be an important function of POVNET, above and beyond preparing PWB outputs for DAC. Would Members wish to organise a periodic half day event, around scheduled POVNET meetings, and invite some researchers working on topics related to POVNET work on poverty reduction to share their results with POVNET and exchange views on their policy implications? Some of the topics may link up to issues periodically discussed in other donor groupings e.g. the Donor Committee for Enterprise Development, the informal group of “DAC Chief Economists”, CGAP, etc. Any expenses in bringing a couple of researchers to such a seminar might be covered by interested members or from POVNET VCs.. the informal group of “DAC Chief Economists”,

Table 1. POVNET Statement of account as at 24.10.06

Network on Poverty Reduction - POVNET			EUR
Financial report as at 24 October 2006			
<b>INCOME FROM VOLUNTARY CONTRIBUTIONS 2005 - 2006</b>			
United States of America	2005		212,468
Canada	2005		154,936
Finland	2005		15,000
Sweden	2005		292,351
			<b>674,755</b>
<b>OPENING BALANCE AS AT 1.1.2006</b>			<b>477,946</b>
<b>EXPENDITURE TO DATE IN 2006</b>			<b>274,931</b>
Secretariat staff			154,677
Intellectual services			61,142
Secretariat missions			46,611
Funded participants			4,386
Publications and printing			6,477
Other costs			1,638
<b>COMMITMENTS</b>			<b>142,420</b>
Secretariat staff			95,469
Secretariat missions			21,102
Funded participants			4,240
Publications and printing			18,567
Intellectual services			3,042
<b>BALANCE AVAILABLE</b>			<b>60,595</b>

## ANNEX 1

### SCALING UP FOR EFFECTIVE RESULTS: BEST PRACTICES FOR IMPLEMENTING PRO-POOR GROWTH

#### I. Introduction

50. DAC members have committed themselves to increase official development assistance (ODA) by USD 50 billion by 2010 and to double their aid to Africa. But how should this scaled up aid be used in order to achieve the Millennium Development Goals, especially the target of halving the proportion of people living on less than a dollar a day? Recent DAC work highlights that a rapid and sustained reduction in poverty requires pro-poor growth, *i.e.* a pace and pattern of growth that enhances the ability of poor men and women to participate in, contribute to and benefit from growth. Supporting pro-poor growth should consequently be among the core objectives that donors pursue as they scale up their aid.

51. While economic growth has begun to take root in many developing countries, its impact on poverty reduction is uneven. One factor explaining this is variations in initial conditions (*e.g.* level of development, degree of inequality of assets and opportunities, macroeconomic stability, governance structures, political situation, etc.). But the extent to which the poor are connected up to the growth process (*e.g.* through better human capital, increased access to markets, functioning infrastructure and enhanced competitiveness and productivity) also helps explain why some developing countries have been more successful in reducing poverty than others.

52. To help increase the pace of growth, but also ensure that growth is broad-based across sectors and regions and inclusive of the large part of the work force that poor women and men make up, the DAC has developed policy guidance for donors in three areas that have been neglected but whose contribution to promoting pro-poor growth is now recognised. These are private sector development, agriculture and infrastructure. In addition, to help donors ensure *ex ante* that the poverty reduction impact of their interventions is maximised, the DAC is also developing a Poverty Impact Assessment (PIA) tool.

53. For donors, implementing the pro-poor growth approach and moving from theory to practice will have an impact on policies, programming, allocations and staffing and organisational arrangements. A key challenge for donors will be **diffusing and enhancing understanding** of the pro-poor growth approach throughout their agency, at headquarters and field office levels, and adjusting their internal incentive systems. Donors can benefit from the compilation and dissemination of **experiences and lessons learnt** by others. Helping donors to address these challenges is the objective of the proposed POVNET work stream on “Scaling up for effective results: Best practices for implementing pro-poor growth”.

#### II. Possible content of the 2007-08 work programme

54. The initial proposal for this work stream set out a range of possible intermediate outputs that could be pursued [see: DCD/DAC(2006)15/REV2]. At the informal brainstorming meeting held on 27-28 June 2006, POVNET participants present recommended that POVNET focus in 2007-08 on two intermediate outputs: i) identifying and sharing field-level experience in tackling implementation

challenges, with a special focus on application of the policy guidance on private sector development, agriculture and infrastructure, and ii) refining and disseminating the PIA approach. They also agreed that this work stream could bring in the issue of political empowerment of the poor and that special attention could be paid to implementation of the pro-poor growth approach in fragile states.<sup>2</sup> It was further considered that water infrastructure, a priority for the OECD's new Secretary-General, may be included if an appropriate opportunity presents itself.

55. The following work programme is proposed along these lines:

- a) **Communication and dissemination.** Finalise preparation of communication material highlighting POVNET messages and recommendations (including reports, CD-ROMs, flyers, policy briefs, PowerPoint presentations, training materials, posters) that DAC members can use to diffuse and enhance understanding of the pro-poor growth approach within their agency, as well as with developing country representatives and other stakeholders.
- b) **Identifying and sharing good practices on promoting pro-poor growth.** Identify key implementation and operationalisation issues faced by field-level practitioners seeking to apply the pro-poor growth approach in support of in-country processes, including how to strengthen the pro-poor growth dimension in preparation, implementation and monitoring of poverty reduction strategies. As country contexts vary, the specific challenges in different types of countries should be addressed specifically, most notably those in fragile states. Experience with implementing the pro-poor growth guidance on private sector development, agriculture and infrastructure would be another area of focus.
- c) **Refining the Poverty Impact Assessment tool.** Support and monitor further implementation of the *ex ante* Poverty Impact Assessment tool with the aim of encouraging agencies to integrate this methodology into established donor procedures, including as a basis for conducting joint assessments in line with the spirit of the Paris Declaration on Aid Effectiveness.
- d) **Adjusting donors' own incentive systems and organisational capacities.** Encourage donors to review how they are geared up to promote pro-poor growth and to co-ordinate, harmonise and align their aid around a pro-poor growth agenda. For example, is field staff sufficiently empowered to engage with partner countries over the long-term and to take the risks involved in supporting policy change? Are there incentives for staff to work in multi-donor and multidisciplinary teams at field level? Do donors have sufficient capacity to integrate economic, social and political development perspectives, needs and opportunities into their programming in private sector development, agriculture and infrastructure?

### III. Proposed deliverables and outputs

56. To achieve the suggested work programme, the following deliverables and outputs are proposed [the work stream would focus initially on activities a) and c)]:

1. **Finalise and implement the communications strategy.** Disseminate POVNET recommendations to a wide range of professional staff within development agencies as well as to practitioners in the field, developing country partners and other stakeholders, principally by "piggybacking" on or complementing related events and activities. This could take the form of supporting preparation of internal and external training and human resource development

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2. These issues were originally proposed as components of output result 31: "Guidance in using aid effectively to promote social inclusion and empower the poor".

programmes,<sup>3</sup> contributing to staff retreats organised by development agencies, participating in country or regionally focussed field-level fora related to promoting pro-poor growth (ideally organised by several donors), contributing to journals, participating in conferences and engaging with other donor fora active in relevant areas [e.g. Operationalising Pro-Poor Growth (OPPG), the Consultative Group to Assist the Poor (CGAP), the Donor Committee for Enterprise Development (DCED) and the Global Donor Platform on Rural Development (GDPRD)].

**2. Prepare best practices on implementing pro-poor growth guidance, particularly through the poverty reduction strategy process.**

**1. Establish a workable list of key implementation and operationalisation issues.** An informal survey of POVNET members has generated an initial “long list” of themes for possible further investigation (see Appendix). To reduce this list to a more manageable number of key constraints on which the work programme could focus, as well as ensure that the work takes account of field-level realities, is based on practical experience and addresses obstacles to co-ordinated donor approaches at both country and regional levels, various approaches could be pursued:

- Conduct now a more systematic survey of development agencies, canvas the views of think tanks and other relevant groups (e.g. the DAC Chief Economists Group) and organise one or two field-level events during 2007 to collect the experience of practitioners, partner country representatives and other stakeholders and deepen their understanding of pro-poor growth issues. This will also allow better baseline data for benchmarking purposes to be collected.
- Conduct workshops in 2007 with selected developing countries (possibly Brazil, India or China) to learn more about their approaches and experiences with implementing poverty reduction strategies.
- To complement work at the macro level and identify more micro level impediments to poor women’s and men’s fuller integration into the economy, investigate what would help poor individuals become more entrepreneurial (access to finance? social insertion? vocational training? protection of environmental assets? property rights? greater access to network and trade opportunities?) and confirm that donors’ interventions are addressing these issues effectively.

**2. Compile and document experiences.** Once the previous phase is well advanced and agreement has been reached on the half dozen or so key implementation issues that the work programme should focus on, document donor actions and behaviour that have, or have not, addressed these and promoted pro-poor growth outcomes. This could lead to the preparation of series of 10 to 15 case studies, possibly to be compiled in a sourcebook.<sup>4</sup> The case studies would provide answers to the questions asked by practitioners and show how donors are dealing with critical issues and binding constraints (for example, political constraints, process

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3. For example, the Joint Donors’ Competence Development Network (“Train4Dev.Net”, see: [http://www.gc21.de/ibt/modules/gc21/train4dev\\_new/ibt/index.html](http://www.gc21.de/ibt/modules/gc21/train4dev_new/ibt/index.html)) is expected to develop a training module on promoting pro-poor growth in 2007. In addition, opportunities for developing virtual training programmes can be pursued, for example in collaboration with the World Bank Institute.

4. For an example of this approach, see the first issue of the sourcebook published by the DAC Joint Venture on Managing for Development Results in March 2006: “MfDR Principles in Action: Sourcebook on Emerging Good Practice”.



constraints, role of donors, co-ordination issues). They should also show how the poor and their concerns are being better integrated into growth and poverty reduction strategies, including through budget frameworks and capacity development in partner countries. Organising, probably in 2008, field-level consultations with partner country representatives and other stakeholders to test emerging findings should form part of this process. Depending on the key implementation issues identified, the case studies could:

- Be at country level, in which case links to other initiatives such as OPPG follow up should be exploited and specific attention could be paid to fragile states.
  - Concern specific themes, in which case particular consideration could be given to political empowerment<sup>5</sup> or, if feasible, to water infrastructure.
  - Be a blend of country and thematic approaches and consider implementation of the POVNET policy guidance on private sector development, agriculture or infrastructure in specific country (or regional) contexts.
  - Address how donors are adjusting their internal incentive systems and organisational capacities to implement the pro-poor growth approach and apply the Paris Declaration principles to the pro-poor growth agenda.
3. **Scale up implementation of the Poverty Impact Assessment tool.** Finalise, by early 2007, the guidance manual/handbook on “Harmonizing *ex ante* Poverty Impact Assessment” to be distributed by Internet and/or CD-ROM and explore synergies with the Poverty and Social Impact Analysis (PSIA) donor group, in order to institutionalise these complementary assessment tools within development agencies. Consultations with the DAC EVALUNET could also take place, including exploring the use of PIAs as a benchmarking tool for *ex post* evaluations.

#### IV. Modalities

57. Taking this broad-ranging work stream forward will most likely require a range of modalities. The Secretariat can take the lead in finalising communication material but its distribution and dissemination will require support from POVNET members. It is envisaged that general overview of this work stream would remain with the POVNET itself, possibly as a specific responsibility of a POVNET Vice-Chair. However, a small core group of POVNET members could come together to ensure that the work progresses in between POVNET plenary meetings, help organise country and regionally based workshops and oversee preparation of the case studies. The existing Poverty Impact Assessment Task Team may wish to continue operating for the initial part of 2007-08, to complete the work they commenced in 2005-06.

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5. The Chair of GENDERNET has proposed that work on empowerment of the poor be pursued jointly by GENDERNET, GOVNET and POVNET.

## APPENDIX

### “LONG LIST” OF OPERATIONALISATION ISSUES FOR POSSIBLE FURTHER INVESTIGATION IN 2007-08<sup>6</sup>

#### Issues for developing country partners

- Promoting pro-poor growth is fundamentally a political economy issue. In most developing countries, incentives drive individuals to pursue their own interests, rather than ensure that everyone benefits. The challenge is to break this vicious circle and get a dynamic and virtuous process going.
- Promoting pro-poor growth requires policy formulation processes to be broad-based and built on a deep understanding of the local context (including who the poor are, where are they and how do they earn their living, coupled with poverty impact assessments).
- Even when the importance of growth for poverty reduction is emphasised in poverty reduction strategies or other national development plans, there can be limited support or interest for a pro-poor growth approach by the local political leadership or by non-DAC donors (who are increasingly important players in some developing countries).
- Partner country governments can adopt very interventionist policies (especially when it considers the private sector is not fulfilling its role). This makes it difficult to support market development processes and promote competition.
- A key requirement for promoting pro-poor growth is building up human and institutional capacity in partner countries, including to ensure that reforms are implemented and laws enforced. This involves reforming bureaucracies, so that donors do not feel the need to set up parallel implementation systems.

#### Issues for donors

- There is a need to improve communication in development agencies of POVNET recommendations and of the pro-poor growth concept, *e.g.* through training programmes, interactive training modules and case studies.
- Once field staff accepts and are more familiar with pro-poor growth concepts, agreement needs to be reached on the processes needed to implement these concepts. There are several challenges here:

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6 . These issues have been distilled from an informal survey of POVNET members conducted between July and September 2006. Responses were received from AFD, DFID, the Japanese Ministry of Foreign Affairs, SDC and USAID.

- Pro-poor growth is highly contextual and requires social, economic and political insights that donors may not have.
  - When working on private sector development, agriculture and infrastructure, co-ordination and harmonisation with other donors needs to take place in a context where there are multiple partner country counterparts, at national and sub-national levels, and government may only be a small player.
  - Achieving results depends on being able to identify reforms which are politically feasible and recognise the short and long-term pay-offs.
  - The potential influence of donors can be limited in large, diverse countries with large populations and numerous layers of government. There may in fact be few opportunities to influence reforms and so opportunities that do arise need to be seized.
- The pro-poor growth approach implies greater risks for donors and further consideration is needed on how donors should best respond to this and manage the time lag before results may be expected.

#### **General issues**

- The private sector can be diffuse and weak. Business associations can also be institutionally weak and represent only a part of the private sector.
- There is a need for more frequent and accurate data and indicators relating to poverty reduction and MGD goals in developing countries.
- To help with implementing a pro-poor growth approach, it would be useful to identify what initial factors are likely to lead to successful outcomes and what are the driving forces needed to turn these favourable initial conditions into results, or prevent results being achieved.
- To help determine whether policies are applicable to particular country contexts, it would be useful to document what the potential positive and negative impacts are when particular policies are implemented.
- A compilation of good practices should focus on processes – what is important, what went well, what didn't go well – rather than content (because there are no “one-size-fits-all”).

## ANNEX 2

### GUIDANCE ON USING AID EFFECTIVELY TO PROMOTE SOCIAL INCLUSION AND EMPOWER THE POOR

#### I. Theme

58. The proposed focus of this work area is social protection, social policy and poverty reduction (SP).

#### II. Outputs

59. The work will produce the following outputs:

- *A mapping and consultation exercise* of donor and developing country policies and practices, and what we know about their impacts and effectiveness, will be undertaken. This will provide the basis for developing the best practices and policy statement outputs (see below). It will also include a web-based communications and dissemination roll out strategy.
- *Best practices* in implementing SP measures in developing countries, which will be an evidence-based practitioners' tool.
- *A policy statement*, for the 2008 HLM. This advocacy statement will show the importance of SP for sustainable poverty reduction and that it can be a cost effective poverty reduction instrument. Such a policy statement would connect up to the present UN-GA consideration of an additional dimension to MDG1 on full productive employment and decent work for all, including social protection.

60. The products are demand driven and respond to calls from developing countries and their organisations for more and better SP measures, *e.g.* as in the Livingston Call for Action and from the African Union.

#### III. Importance for the poverty reduction agenda

61. The SP focus falls within the “protective/security-vulnerability” dimension of the DAC 2001 poverty framework pentagon, and has important links to all the other dimensions. Strengthening SP is critical to helping poor men and women overcome the risks and barriers that hinder their participation in the growth process, thus making that process more pro-poor, their access to employment via the labour market and their broader social inclusion and rights. The proposed work builds on that undertaken on risk and vulnerability in the previous biennium.

62. From this perspective, the thrust of the work fits well with the broader 2007-08 POVNET work plan of focusing on poor people and helping them to tackle the barriers that hinder their economic and social inclusion. SP measures help tackle the risks and vulnerabilities that poor people face and which

often prevent them taking decisions that would put them on a road out of poverty. SP can thus facilitate the economic and social adjustments and transitions required for broad based and sustainable poverty reduction. SP is investing in people and has a clear gender dimension.

63. Only a small volume of ODA is spent on SP (not counting health and education). While there are cost-effective instruments, not all SP interventions have strong impacts. The work would thus aim to increase the attention given by all stakeholders to SP and strengthen the pro-poor impacts of SP initiatives.

#### IV. Work content

64. The proposed work plan is sketched out graphically in Figure 1. The initial phase of work will be to consult partners in the North and the South in order to gain evidence concerning donor and partner policies and activities in the SP field, based on the “fish” diagramme (see Figure 2) that brings together the different SP concepts. This work will focus on:

- the various *risks* that SP tries to cover (*e.g.* ill health, injury, disability, maternity, orphanhood, old age, death in the family, weather-based shocks, fall in commodity prices, macro-economic shocks, failing investments, ....),
- the *instruments* for doing so (*e.g.* conditional/non-conditional cash transfers, fee/tax waivers and quotas, food security support, social health insurance, employment guarantee schemes, social work and legal services, inclusion and promotion....),
- and the *evidence* available concerning impacts, affordability and effectiveness (*e.g.* in keeping children in school, in moving to higher risk/higher return investments, in higher labour force participation, including for women, ....).

65. Starting from a broad based exploration of the above, members will then see to what extent they will want to define a workable list of priority areas to focus on as the basis for developing the best practices output.

66. The approach is a people and household-centred one, fully in line with the broader thrust of the POVNET 2007-08 work programme, as mentioned above. Beyond POVNET work, there will be important synergies with other DAC work streams, including the implementation of the Paris Declaration principles, gender, empowerment, capacity building and fragile states. Depending on POVNET decisions on other work streams, particularly employment and labour markets, there will be important synergies to develop between them and SP, and this will be an important task of the managers of the work streams.

67. The work on SP will also cover important issues, possibly using the “hot topics” approach, including:

- How to strengthen the SP dimension of PRSs.
- How to build political support and administrative capacity to design and implement effective SP schemes.
- Financing and affordability issues, including fiscal space.
- Moral hazard/disincentive effects and corruption.

- Best uses of ODA, including in budget and programme aid contexts, and the challenges of moving away from project based SP interventions.

## V. Work Modalities and Resources

68. It is proposed that a *Task Team* on SP be created to undertake the work. This would be Chaired by Timo Voipio of Finland, with Vice Chairs from Germany (Rudiger Krech) and another Member (tbc). DAC Members of the Task Team presently include Canada, Finland, Germany, Japan, Norway, Sweden, Switzerland, United Kingdom and United States. Participation of some other DAC Members and other stakeholders will be encouraged, including from partner countries/regions and international organisations such as the World Bank, IMF, UNDP, ILO, Unicef, WFP, ADB, IADB, AfDB, EC, ISSA, plus a number of research institutes working in this field, including the OECD Development Centre, etc. This should ensure both broad based support and assistance for the work area as well as avoiding duplication with related work elsewhere.

69. The proposed Task Team will want to engage, from the outset, in consultations with other stakeholders, including developing countries, civil society and the private sector in the preparation of its outputs.

70. Some Members were already able to provide indications of financial, personnel or in-kind support for the work stream, which will be confirmed or solidified over the next weeks and months. At this preliminary stage, nevertheless, it looks as if the work area will have the required resource support from the task team.

Figure 1. The Social Protection work plan

## POVNET: Social protection and social policy 2007/08

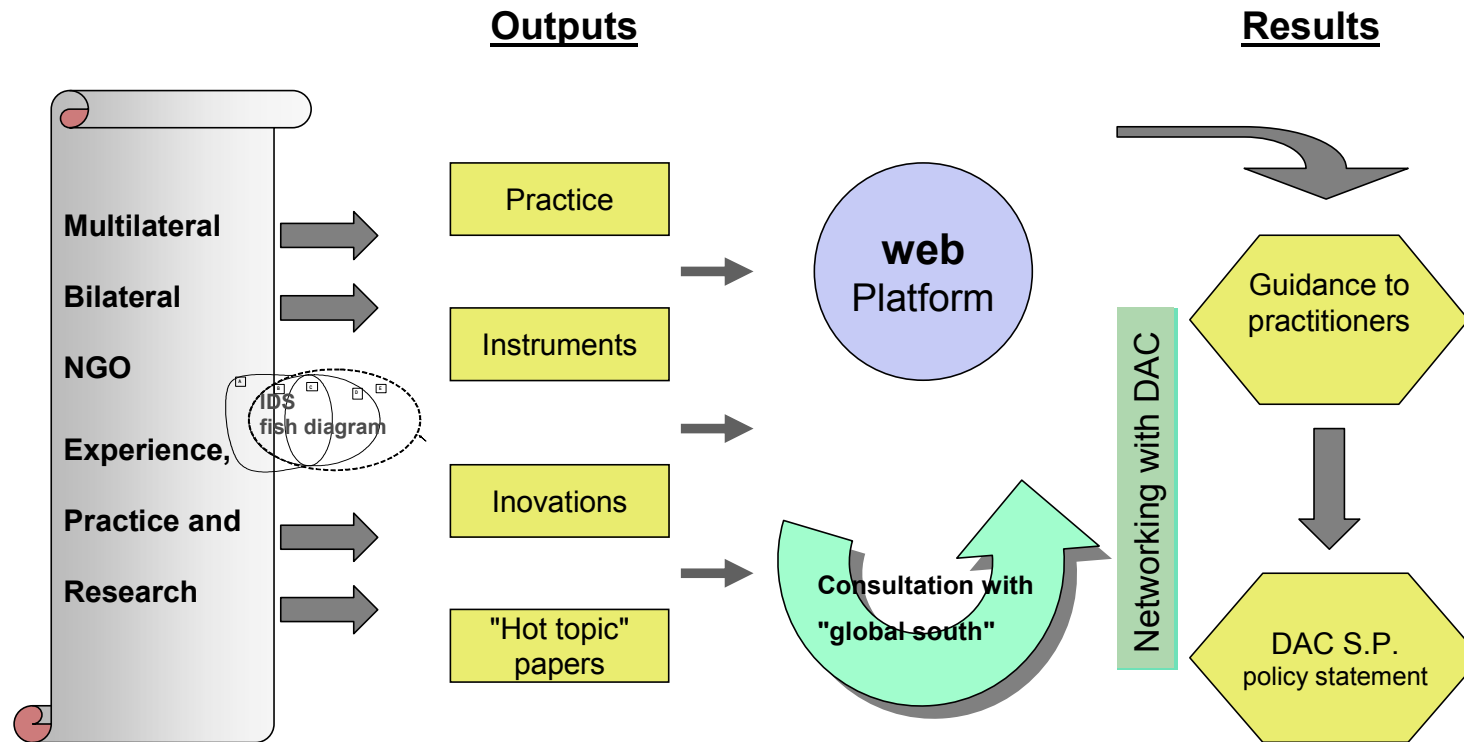
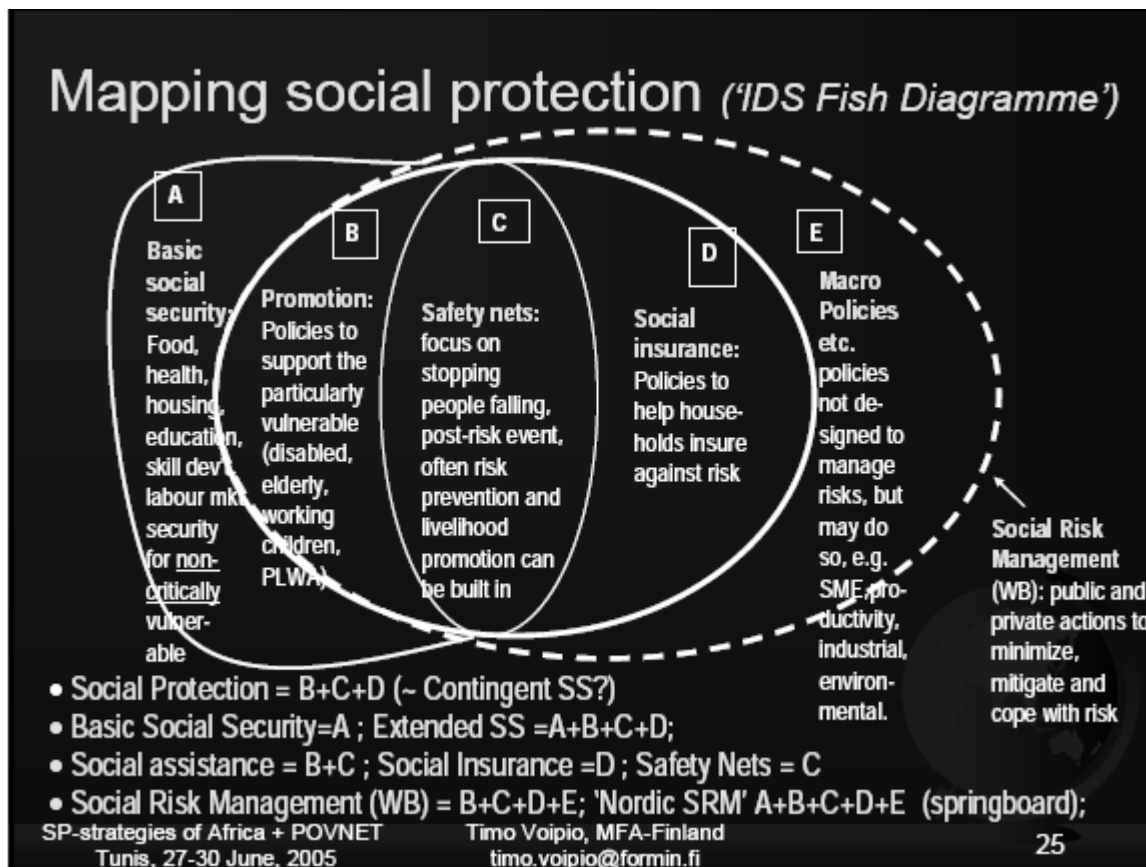


Figure 2: "Fish" diagram of Social protection





## ANNEX III

### EMPLOYING THE POOR

#### I. Introduction

71. Rapid and sustained poverty reduction requires pro-poor growth. **Employment contributes to pro-poor growth** by connecting poor people to the growth processes, providing income to sustain their livelihoods, access to a wider range of social services and reducing their risk and vulnerability. Low levels of productive employment and poor working conditions are among the most pressing social, economic and political problems, which have been also magnified by the reallocation of labour across sectors and regions and the increased precariousness caused by globalisation. Economic growth does not automatically lead to more and better jobs; the pattern of growth also has an impact on job creation. Employment and labour market policies potentially play a critical role in reducing poverty by their impact on the income distribution pattern, gender relations and participation in civil and political life.

72. The last few years have seen a rapidly growing interest in the **global development community** for considering employment as a crucial link between economic growth and poverty reduction. This is illustrated by the recent proposal by the UN Secretary-General to include employment (full and productive employment and decent work for all) as a new target under MDG 1.<sup>7</sup> Proposed POVNET work on the employment theme would obviously connect up to that discussion.

#### II. Context

73. There are **many actors on the international arena** carrying out activities relating to employment:

- The main actor is obviously the ILO, the “decent work agency”, which plays a leading role both as a centre of knowledge and policy guidance and as a provider of technical assistance. Its work is centred on three themes: (i) employment strategies, (ii) skills and employability, and (iii) job creation and enterprise development.
- The World Bank is giving increasing attention both to research and capacity in this field and presently developing a work programme on employment. The purposes of its programme are (i) to broaden the analysis of labour market to include informal employment, (ii) to design a comprehensive country-based framework to help policy makers and donors to identify barriers to good job creation and (iii) to support Country Teams in implementation of employment-focused strategies.

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7. Another strong indication is the statement by the UN Economic and Social Council (ECOSOC) in July on employment ECOSOC underlined “the urgent need to create an environment at the national and international levels that is conducive to the attainment of full and productive employment and decent work for all as a foundation for sustainable development”.

- Although the activities of the OECD<sup>8</sup> are mainly focussed on OECD member countries, part of its work is clearly relevant to developing countries. For instance, a chapter of the OECD Employment Outlook 2004 is about informal employment and promoting transition to a salaried economy.
- The UN has recently established a “High Level Commission on Legal Empowerment of the Poor” focussing on the many poor that live and work in the “informal sector”.
- The EC has recently established an informal experts group to elaborate an EC strategy on promoting employment and decent work within EC Development Co-operation.

74. **Bilateral donors** have in the past had difficulties in finding ways to approach and organise themselves to promote employment and better functioning labour markets in coherent policy packages. This is partly related to the cross-cutting nature of this theme: it has links to several traditional “aid sectors”. This probably also explains why knowledge about employment and labour markets has been dispersed within donor agencies and why few efforts have been made for stock-taking of donor experience. Few donors have written policy statements on employment/labour markets, and informative material about their activities in this area is not easily accessible through web sites. Interventions tended to be at micro level, targeting individuals, SMEs, training centres or local employment services.

75. Recently, a number of bilateral donors have demonstrated a growing interest in increasing their efforts to promote employment and better jobs. At the same time various initiatives have been taken by donors to strengthen their knowledge base and develop more coherent programmes for promoting employment and labour markets. Annex 1 provides an overview of some recent initiatives by bilateral donors.

76. According to DAC’s Programme of Work and Budget for 2007 - 2008, POVNET is expected to carry out a programme on “Guidance in using aid effectively to promote social inclusion and empower the poor”. As social protection is highly important for poor people’s participation in the growth process and as social protection often is an important element in labour market policies, there seem to be clear synergies to be gained between this programme and the programme outlined in this paper. The social protection, social policy and poverty reduction work plan (SP) set out in a separate note and the employment/labour markets set out below are thus obviously complementary, dealing with two related dimensions of the DAC 2001 poverty framework and there will be important synergies to be realised between these work strands.

## **II. Possible content of a programme of work 2007-2008 on employment/labour markets theme**

77. Overall, DAC/POVNET may contribute to the ongoing discussion to add employment issues to the MDGs. However, given the complexities of the employment theme and the large numbers of international actors involved, there is an obvious need to identify what role that POVNET may play in relation to the activities and initiatives already described. What are the specific areas where POVNET has comparative advantages and where POVNET may add value to its members?

78. In order to understand the role of employment in poverty reduction, it is necessary to move beyond the traditional focus on wage employment and on labour market analysis in the formal economy. Poor people rely on their labour power for earning their livelihoods and they could not afford to stay jobless. Underemployment and low returns to labour are the main causes of poverty. Therefore, improving the productivity and reducing under-employment in the informal economy while gradually expanding formal employment should be a priority for governments of developing countries. In general terms, the

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8. Directorate for Employment, Labour and Social Affairs.

theme we are exploring has three dimensions – (i) what are the patterns of growth that are more conducive to sustainable jobs and livelihoods (ii) how can labour market failures be addressed (iii) what do poor people need to seize employment opportunities including self-employment and non-wage labour.

79. Based on previous POVNET work, POVNET may highlight impediments to informal and formal labour markets working better for the poor, from the perspective of employment opportunities and labour market functioning as well as from the point of view of the assets of the poor and their employability. For instance, labour market performance can be hindered by supply and demand mismatches or by labour market segmentation due to overregulated and overprotected formal jobs. A broad view on the role of employment and labour markets in pro-poor growth would form the basis for **elaborating a conceptual framework** for donors to promoting “more and better jobs”.

80. POVNET should also take stock of **donor experience** from past and current employment/labour markets programmes, **document good practise and lessons learnt, and facilitate sharing of experiences**. More specifically, the brief overview that has been undertaken of the present approaches and activities of donor agencies, shows that not so much attention has been given to the specific experience of bilateral donors in respect of employment and labour market interventions. For instance, POVNET could explore what is the role that bilateral donors can play in relation to (i) reforms of labour market policies and regulations (ii) capacity building of labour market institutions or (iii) labour market dialogue (including dispute resolution and tri-partite cooperation).

81. POVNET may also help donors **share analytic tools** which help to improve the understanding of employment and labour markets, both formal and informal, as a link between economic growth and poverty reduction.

82. Contact with POVNET members has shown a wish to explore **specific sub-themes**, where there are needs for better knowledge or exchange of views and experience. Examples of such themes are **informal employment, gender aspects of employment, youth employment, child labour, corporate social responsibility (CSR), and vocational education and training**. POVNET will obviously not have the capacity to expand its work deeply into several specific sub-themes, but issues of broad interest in POVNET could be the subject of “hot topic” papers, as was previously done in the work on private sector development. Also, as already mentioned, there may be interesting opportunities to create synergies with the separate POVNET programme on SP. For instance, POVNET could explore how social transfers or risk mitigating schemes can create an incentive for the poor to migrating in urban areas in search of a job or for creating self-employment opportunities.

### III. Proposed deliverables

83. The following deliverables are suggested:

- A conceptual framework on employing the poor and the role of donors in promoting “more and better jobs.”<sup>9</sup>
- A best practices paper which highlights and provides concrete examples of donor experience and lessons learnt from employment and labour markets interventions.

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9. A parallel may be drawn to POVNET’s work on private sector development in 2004-2005, where POVNET initially elaborated a conceptual framework which paved the way for continued activities. See the publication “Accelerating Pro-Poor Growth through support for Private Sector Development” available at [www.oecd.org/dac/poverty](http://www.oecd.org/dac/poverty).

- An international event organised in collaboration with the OECD Development Centre highlighting the role of employment and labour markets in pro-poor growth, as part of a broader communications, dissemination and outreach strategy.

#### **IV. Modalities for thematic work on employment and labour markets**

84. As there seems to be a core group of 5-6 POVNET members which share a strong interest in the employment theme, the task team approach recently used by POVNET could probably be an appropriate modality. At the same time, close links should be established with the task team being formed on SP. For instance, task teams may organise joint activities and/or having participants who are active in both task teams. Such coordination will clearly facilitate contacts with external organisations and individuals in partner countries and on the international arena.

## APPENDIX

### SOME RECENT BILATERAL INITIATIVES IN THE FIELD OF EMPLOYMENT AND LABOUR MARKETS (TO BE FURTHER DEVELOPED)

85. **Denmark (DANIDA).** DANIDA is supporting labour market institutions in a number of developing countries with the overall development objective of more balanced growth through wealth and employment creation as a means of poverty reduction. The support recognizes that labour market institutions play a significant role in creating and sustaining jobs, income and social protection for poor and underprivileged people in developing countries. Employment and labour market is not a standalone thematic working area. Within the labour market components of the business sector programmes, DANIDA is mainly supporting labour ministries, employers associations, labour unions, occupational safety and health authorities (OSH), and institutions for labour dispute resolution. One of the focus areas for DANIDA's support is (OSH), where a main challenge is to change the often policing role of OSH authorities into one of providing guidance and services to private companies, as well as to capacitate social partners on OHS issues. Another focus area is labour dispute resolution, where a main challenge is to support the establishment of genuinely tripartite dispute resolution mechanisms and institutions. A third focus area is productivity where a main challenge is to improve labour productivity through improved institutions both at national level and at company level.

86. **European Commission.** The EC is currently drafting a strategy for promoting employment and decent work through EC Development Co-operation, to strengthen the consideration that employment, social protection, social dialogue and social cohesion have had in the EC Development Policy so far. The strategy aims at promoting the EU social cohesion and social development model. The EU already supported programmes promoting employment and decent work through financing VET projects and social inclusion programmes, and improving employment services. The strategy recommends including employment and social protection as cross-cutting theme in infrastructure, agriculture and rural development and private sector development programmes.

87. **France (AFD).** Employment is not a sector of intervention. AFD focussed on labour supply through education programmes, specifically vocational and educational projects. AFD has relevant experience in this area at both analytical and operational level. Studies were produced on professional education in informal economy context and on financing mechanisms of VET programmes. At the operational level, most VET programmes were implemented in Africa. AFD is supporting the World bank/IZA research programme on "Labour market, job creation and growth" and will launch an internal research programme for next year.

88. **Germany (BMZ, KfW, GTZ):** Employment is a theme that is getting increasing attention from German development co-operation. One example of this is the recent BMZ position paper on youth employment, which promotes an integrated approach to labour market issues that can also apply to a broader target group. BMZ/GTZ is supporting research on employment/labour markets in Africa through a trust fund managed by the World Bank . GTZ is presently carrying out a study on "pro-poor growth and employment" as well as a desk study on how employment issues are dealt with in PRSPs. As in other donor agencies, employment is clearly a cross-cutting subject. There is an "Employment Expert Net" within the Department for Economic Development and Employment of GTZ. The vocational training area is handled within the same department, while issues related to core labour standards are handled in a

separate department. From case studies in the youth employment paper it is clear that GTZ has gained practical experience from concrete interventions, which should be of great interest to other donors too.

89. **Portugal (Instituto Português de Apoio ao Desenvolvimento and Ministério do Trabalho e da Solidariedade Social)** The strategic vision for Portuguese Development Co-operation states that Portugal will support initiatives that generate jobs and promote social inclusion. However, employment itself is not a key sector, but it cuts across the education and economic growth field. Since 1998, the Portuguese Ministry of Labour and Social Solidarity (MTSS) integrates a specific Department for Cooperation (Gabinete para a Cooperação) that supports mainly programmes/projects in the areas of poverty reduction (in particular extreme poverty), vocational training, as well as social inclusion and institutional capacity building. The implementation of bilateral cooperation programmes is based on “partnership agreements” between the Portuguese Ministry of Labour and Social Solidarity and its partner Ministries and several civil society organizations. Priority countries of intervention are: Angola, Capo Verde, Guinea Bissau, Mozambique, Sao Tome and Principe and Timor Leste. The MTSS has deep concerns regarding job creation (self-employment, micro and small enterprises) and the extension of social protection, as it contributes to improve workers’ well-being and to reach Decent Work. Therefore, MTSS supports integrated projects in different areas of human development with a strong focus on basic education and vocational training. The multilateral co-operation is developed based on partnership agreements established between Portugal, represented by the Portuguese Ministry of Labour, and the International Labour Office of ILO. Portugal has been supporting specific ILO’s Programmes, in particular STEP/Portugal (STEP – Strategies and Tools against social Exclusion and Poverty).

90. **Sweden (SIDA):** In 2005 the Swedish Government decided to initiate a programme of action aimed at increasing attention and expanding development cooperation in the field of labour markets and employment. A number of initiatives have been taken including increased support to multilateral/regional programmes (e.g. the ILO, the Youth Development Network (YEN), AU employment programme, WIEGO etc), support to a programme for labour market dialogue, etc. SIDA puts emphasis on the integration of employment and labour market aspects in the economic analysis at country level and has developed an analytic model for this purpose (“Integrated Economic Analysis for Pro-poor growth – a methodological approach”; IEA). SIDA is strengthening its staff capacity relating to employment/labour markets.

91. **Switzerland (SDC)** SDC does not have a policy statement on employment and labour market, but it commissioned a briefing paper about the linkages between employment, income generation and poverty reduction that also sets out some guiding actions. Within the thematic department of SDC, the Employment and Income Division is responsible for developing policies and strategies, advising to operational units and promoting learning, innovation, and networking. The Employment and Income Division is pursuing an interdisciplinary and complementary approach that looks at job creation through rural, private and financial sector development programmes and at skills development. However, a portfolio of intervention dealing explicitly with employment and labour market issues in a comprehensive way can hardly be identified, as projects follow a sector approach (e.g. enterprise development, financial services, skills development). Projects implemented have in most cases targeted micro and small enterprises, lobby groups and individuals at micro levels through the support of initiatives at meso levels. SDC is presently working on approaches addressing the employment issues in a more systemic way.

## ANNEX IV

### TRADE AND POVERTY REDUCTION

#### I. Introduction

92. In general, trade liberalisation is an ally in the fight against poverty: it tends to increase average incomes, which provides additional resources to tackle poverty and generates employment; a key route out of poverty. And while it will generally affect income distribution, it does not appear to do so in a systematically adverse way. Nevertheless, where there is wide-spread poverty, a purely export-led growth strategy is not likely to deliver an inclusive growth process. Thus, despite the general assumptions and evidence about the positive effects of trade liberalisation, there remain important public policy issues of how to ensure that poor people can participate in, contribute to and benefit from trade-led growth processes.

93. Recent evaluations of trade related donor assistance, however, highlight the lack of awareness among donor agencies about these links. It is unclear whether the superficial integration of trade policy into PRSs reflects recipient countries' perceptions of donors' priorities or a lack of real recipient priority to the trade agenda. Anyway, it is now generally accepted that there is a need to focus more attention to trade as a tool of development in recipient countries and in donor agencies and to mainstream trade in national development strategies and PRSs.

94. The remainder of this note is structured as follows: Section II sets out the links between possible 2007/8 POVNET work on reducing poverty through trade and the already agreed joint 2007/8 DAC – Trade Committee work on aid-for-trade. Section III asks what types of trade related interventions will best assist the poor to participate in economic activities. Section IV sketches a broad framework to explain the links between trade liberalisation and poverty reduction. Finally, section V outlines the outputs or deliverables of the work programme.

#### II Links between proposed POVNET work and agreed OECD work on aid for trade

95. The 2006 OECD Ministerial Chair Summary highlighted the contribution of the Organisation to the deliberations in the WTO on aid-for-trade when commending the OECD on its work in support of the Doha Development Agenda (DDA). Building on the OECD contribution, which was highlighted by DG WTO Lamy, the Recommendations of the WTO Task Force on Aid-for-trade identified a number of challenges that need to be addressed to make aid-for-trade an effective instrument for assisting developing countries to increase their exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access opportunities.<sup>10</sup>

96. In their Joint Statement to the September 2006 IMF/WB Development Committee, OECD Secretary-General Gurría and the DAC Chair expressed the Organisation's continued willingness to contribute to the implementation process on aid for-trade, and in particular to integrate trade issues more effectively in aid programmes, to strengthen expertise both in the field and in capitals, and to develop tools for results based management of aid-for-trade programmes.

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10. WT/AFT/1.

97. The DAC and the Trade Committee have already agreed on a joint 2007-08 work programme on aid for trade addressing the issues highlighted by the SG.<sup>11</sup> Essentially, this work will be undertaken outside the POVNET. However, it would be useful if the POVNET could bring a poverty focus to this broader OECD work and provide policy guidance on trade-led growth and poverty reduction. Such a POVNET contribution would add value to the debate and complement work undertaken in the context of aid-for-trade and the enhanced Integrated Framework. In addition, such a POVNET contribution would also ensure that trade-related assistance (aid for trade), which primarily aims to improve a country's integration into the world economy, also contributes to national poverty reduction goals as set out in the PRSP and other national development strategy reduction. The next two sections provide some suggestions on how that could be done.

### III. Making trade an effective mechanism for poverty reduction

98. The central issue facing developing countries and their development partners is how to promote development and poverty reduction in a relatively open subsistence-level economy. This requires a development strategy in which three approaches work together coherently and synergistically.<sup>12</sup> The approaches are:

- Better national development and poverty reduction strategies which integrate trade objectives as a central component.
- Improvements in the international trading system.
- Increased and more effective trade related assistance.

99. Improvement in the international trading system and more effective trade related assistance fall clearly outside the scope of the 2007/8 POVNET PWB. The second one is addressed in Geneva in the context of the WTO Doha Development Agenda and the third issue (*e.g.* more effective assistance) is addressed, *inter alia*, in the joint DAC – Trade Committee 2007/8 PWB on aid-for-trade (see section II above).

100. However, there is a need for better national development and poverty reduction strategies, which integrate trade objectives as a central component. Contrary to common perceptions, trade issues are part of national development strategies, such as PRSs. In fact, export and import growth targets are included in most of them as part of their macro-economic frameworks and most include various trade objectives, such as improved competitiveness and diversification. An export-led growth strategy is implicit in many of them. But despite the fact that trade issues are present in PRSs, trade objectives and targets are treated in a general way, and there are weak links between strategic goals (including poverty reduction) and priority public actions (*e.g.* the sequencing of addressing binding constraints). This weakness is a general problem with the PRSs, rather than a trade specific one. **The weak links between trade objectives and priority public actions could usefully be addressed by POVNET, along the lines of its earlier work related to infrastructure, private sector development and agriculture.**

101. Furthermore, evidence suggests that in a context where there is wide-spread poverty and most of the population live at or below income levels sufficient to meet their basic needs, a purely export-led growth strategy is not likely to deliver an inclusive growth process. Against that background, it appears that a more balanced strategy which combines both an export-led and a basic needs strategy (focussing on

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11. COM/DCD/TD(2006)5.

12. UNCTAD (2004) Linking international trade with poverty reduction.



providing basic social services) is required for a more virtuous trade-poverty relationship. Such a strategy such should not be biased towards exports in favour of imports, or agriculture in favour of manufacturing. **The policies that will be required to promote sustainable poverty reduction in an open trading environment could usefully be addressed by POVNET and would add value to the ongoing international debate on aid for trade**

102. The next section sets out the links between trade and development, which might provide a conceptual framework which POVNET could use to provide guidance on how to improve the impact of broad based trade (regional, south-south and international) on reducing poverty.

#### IV. The links between trade and poverty reduction: a conceptual framework

103. In order to increase awareness about the linkages between trade and poverty reduction it is helpful to understand the detailed pathways through which trade liberalisation in any given country can affect poverty reduction. This section sketches a conceptual framework to better understand these linkages. The suggested POVNET work would aim to develop these linkages further and develop policy guidance on how to strengthen the impact of trade on pro-poor growth. The framework is primarily based on work by Alan Winters.<sup>13</sup>

104. Trade liberalisation can have a direct effect on poverty through three pathways:

- *First*, how changes in border prices get translated into the prices actually faced by the poor. This depends on (i) the competitive structure of the distribution sector; (ii) the way in which government institutions, such as marketing organisations, operate and (iii) the size of the tradeable sector in the domestic economy.
- *Second*, how trade impact on profits, employment and wage levels. There are two opposite ways in which this might occur. If wages are flexible and available labour is fully employed, then price changes caused by trade liberalisation will be reflected in *wage* changes, with employment staying the same. Alternatively if there is a large pool of workers who move in and out of a job when circumstances change, then trade liberalisation will change the *employment* level. In reality both effects occur simultaneously, with the balance between them depending on the relative flexibility of wage levels and labour markets.
- *Third*, how trade changes government revenue and expenditure. The key lessons are that (i) liberalisation does not have to lead to a reduction in revenues if the tariff peaks and exemptions are tackled at the same time, and (ii) short falls in tariff revenues should be compensated by more broad based and less distortive taxes, such as those based on value added. More generally, sound macroeconomic policies are far more important for maintaining social expenditure than relying on tariffs.

105. Four further issues are fundamental to the impact of trade liberalisation on the poor.

1. The need for a balanced strategy. For its full benefits, trade liberalisation needs to be accompanied by sound policies in areas such as infrastructure, transport and communication, market facilitation, competition policy, education and governance. Otherwise it will fail to generate the investment and productive improvement required for growth.

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13. OECD (2001) The development dimension of trade; DFID, CEPR (2001) Trade liberalisation and poverty.

2. Short and medium term costs of adjustment. Empirical evidence suggests that the size and impact of adjustment costs are usually not large. Nevertheless, trade reform does force the government to focus its anti-poverty programmes on those with the least capacity to cushion themselves against the cost of adjustment while at the same time not undermining the incentives to adjust. It is thus important to maintain social expenditure levels and ensure appropriate targeting of policies.
3. Vulnerability of the poor. The size of the income change the poor experience following trade liberalisation depends in part on their ability to adjust to a new set of prices (and incentives more generally). In turn this depends on a number of factors, some of which can be influenced by complementary government policies.
4. Supply side response. Much of this will be influenced by location and demographic structure and the gender and the health status and assets of the poor. But for the long term benefits to accrue in terms of poverty alleviation, reasonable supply side responses are essential.

## **V. Deliverables**

106. This programme of work would result in *policy guidance for donors on trade-led growth and poverty reduction*. The guidance should raise awareness among aid agencies (both at the headquarters and in the field) and developing country partners about the links between trade-led growth and poverty reduction (the conceptual framework) and how to make trade an effective instrument for poverty reduction, including via a more strategic treatment in PRSs (best practices paper).

107. The POVNET work would inform broader OECD work on aid-for-trade and ensure that it will take account of lessons learned in POVNET on how to ensure that economic growth reaches the poor and reduces poverty.