

Unclassified

DCD/DAC/POVNET(2010)9/REV1

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

10-Mar-2011

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

DAC Network on Poverty Reduction

THE CHINA-DAC STUDY GROUP: FINDINGS TO DATE AND FUTURE PLANS

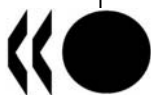
17-18 March 2011, OECD Conference Centre, Paris

This note is for INFORMATION under Item VIII of the agenda for the meeting of the DAC Network on Poverty Reduction (POVNET) [DCD/DAC/POVNET/A(2011)2/REV1].

Contact person: Michael Laird - Tel.: +33.1.45.24.90.33 - E-mail: michael.laird@oecd.org

JT03297941

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**THE CHINA-DAC STUDY GROUP:
FINDINGS TO DATE AND FUTURE PLANS**

I. Background

1. A DAC/POVNET workshop organised with the Chinese took place at the OECD on 21 February 2008 on *Reducing Poverty and Promoting Pro-Poor Growth: China's Experience in Rural Poverty Reduction at Home and in Africa*. A key finding was that while China's performance in reducing poverty at home "had been nothing short of spectacular, ... Chinese approaches may not be very replicable in Africa because of differences in political economy, demographics and state and institutional quality. Nevertheless, Africa can learn about the centrality of both the pace and pattern of growth, and in particular about the importance of agricultural productivity and rural development for poverty reduction."¹

2. Participants at this workshop, from both China and DAC members, agreed it would be beneficial to build on this initial collaboration to promote greater mutual learning and more collective action aimed at tackling Africa's development and poverty problems more effectively. Following a proposal subsequently made by the International Poverty Reduction Centre in China (IPRCC), the China-DAC Study Group was established in January 2009 with the aim of providing an international platform for exchanging experiences and promoting growth and reducing poverty. Given their substantial impact on underpinning China's development over the last 30 years, as well as the needs in many African countries today, the Study Group decided to focus on three topics on which POVNET has also developed policy guidance: i) agriculture, food security and rural development; ii) infrastructure; and iii) the enabling environment for enterprise development. In addition, due to the interest in knowing more about the experience and lessons learnt from the partnerships that China developed with its donors, the Study Group decided to start its work programme with an event on development partnerships.²

II. The current work programme

3. The China-DAC Study Group is currently focusing on two themes:

- China's experience of growth and poverty reduction, including the contribution of international assistance, and its relevance for other developing countries, particularly in Africa.
- China's economic co-operation with Africa and the lessons that China and more established donors can share with each other to increase the collective impact of foreign aid on reducing poverty in Africa.

4. Each of these themes is being explored during a series of two-day policy dialogue events being organised during 2009-11. This approach enables a larger number of key stakeholders to be associated with the Study Group's work (there are typically more than 100 participants from China, Africa and the donor community at each event). The Study Group will distil from the discussions at these events a set of lessons which will be presented at a policy symposium planned to take place in Beijing in early June 2011.

1. See: DCD/DAC/POVNET/M(2008)2 for the summary of this workshop.

2. Further information on the China-DAC Study Group and its activities is available on the Internet at: www.iprcc.org or www.oecd.org/dac/cdsg

III. Findings to date

5. The China-DAC Study Group has now organised four events (see Boxes 1, 2, 3 and 4 overleaf for feedback from each of these). These events are one of the few places where China, Africa and the donor community have met to exchange views and experiences on development issues in an open and constructive manner. The reactions from participants have generally been positive.

6. A number of lessons from China's own development experience have emerged at these events which may be useful for other developing countries. These include the importance of strong ownership of the development process, of setting clear medium and long-term objectives and of building up good human and institutional capacities to formulate and implement policy. China's approach has been pragmatic - based on learning from others, adapting to local circumstances, scaling up what works and abandoning unsuccessful experiments – and has evolved over time. Some Chinese participants have also cautioned against idealising the Chinese transformation story. There was much personal and social stress in the urbanisation process. Environmental costs were neglected. Inequalities in income and between regions have become a serious issue. The rural-urban divide is a major concern. The export sector has become too large relative to domestic demand. These issues are matters of political discussion and contestation in China today, within China's own system of feedback, learning and policy change.

7. Other findings emerging from these discussions have been:

- i) China and DAC members have a shared interest in promoting growth and reducing poverty in low-income countries. As seen in China, peace and stability underpin economic transformation and sustainable development. But peace and stability in all countries around the world is threatened by the poverty that persists in many countries.
- ii) China's experience shows that both the state and a market economy are important for the development process. Agriculture played a key role in China's growth and poverty reduction story. Regional integration was also key and it was important that donors supported it.
- iii) China was a successful user of development co-operation, co-ordinated by the Chinese government (there was no local donor group in China). The Chinese themselves were involved in managing and implementing many development projects, which helped to build up human capacity within the Chinese system.
- iv) Africa needs stronger states dedicated to broad-based development. DAC members have responded to an absence of strong states by developing aid co-ordination principles that later became the "Paris Declaration on Aid Effectiveness". Regional integration is also key in Africa, but remains a challenge.

8. From a POVNET perspective, a key finding has been that a rapid pace and an inclusive pattern of growth had a sustained impact on reducing poverty in China. Infrastructure development, including in poorer areas, was part of a range of actions that helped to realise the potential of small-scale farmers and provided the basis for the economic growth and reduction in poverty witnessed over the last 30 years.

9. The events have also shown that China and DAC members represent two different but equally long traditions of providing aid to foreign countries³ and are facing similar challenges in Africa (e.g. in

3. China marked the 60th anniversary of its aid to foreign countries in 2010. A national conference and exhibition were organised in Beijing in August 2010 and the *China Daily* published a 4-page special feature, see: http://www.chinadaily.com.cn/china/2010-08/13/content_11149155.htm

terms of country ownership and sustainability). There are opportunities for mutual learning from how each is responding. While DAC members have moved towards partnership-based approaches and greater co-ordination, China is enhancing sustainability by moving towards a more commercial approach to its co-operation, using concessional as well as non-concessional financing.

10. China is now a major player in supporting Africa's development. The Infrastructure Consortium for Africa estimates that China's total support for infrastructure development – both concessional and non-concessional - reached USD 5 billion in 2007 and 2008⁴, but China is providing support in other sectors as well. With many DAC members actively engaged in "soft" sectors, including governance and human and institutional development, there is an opportunity to bring these two traditions together in a way that can improve the collective impact of foreign aid on reducing poverty in Africa.

IV. Next event

11. A Policy Symposium, scheduled to take place in Beijing in early June 2011, will be an opportunity to present and discuss the main lessons distilled from the Study Group's four policy dialogue events. These will be presented in a short report accessible to a range of audiences and designed to inform policy. The Policy Symposium can also launch the Study Group's next phase of work.

V. Future plans

12. On both the Chinese and the DAC sides, there is an interest in pursuing the China-DAC Study Group's activities during 2011-12, which are providing the DAC with a good foundation for engaging with China on development issues. This may be a propitious moment for such an engagement; at a recent conference, the Chinese Premier, Wen Jiabao, called for greater efforts to further push forward China's international aid which should "...favour the least-developed countries, inland and small island developing countries, and focus on livelihood projects that are urgently needed and welcomed by local people, such as hospitals, schools, water supplies and clean energy"⁵.

13. The DAC has agreed to include the Study Group's activities in its work programme for 2011-12. Work is now on-going to flesh out, in collaboration with our Chinese partners, the content, entry points and deliverables for the new programme. But what seems clear and important is a strong interest from all parties – from China, Africa and DAC members – to continue and develop this dialogue. Indeed, Jean Ping, Chairperson of the African Union Commission, who participated in the recent China-DAC Study Group event in Addis Ababa on the enabling environment for enterprise development, has encouraged Africa, China and OECD-DAC members to continue to share lessons with each other.⁶

14. For the Study Group itself, there is agreement that the main modality will change from large-format thematic conferences to a limited number of topic-focussed Roundtables. The Roundtables may be a platform for sharing existing knowledge and experience or serve as a focal point for bringing together findings from joint studies or field work. The Roundtables may be organised on a one-off basis or as part of a series. Further Policy Symposia may also be held from time to time to share experience and perspectives, including from Roundtables.

4. In 2008, DAC member countries provided a total of USD 31 billion of gross bilateral official development assistance (ODA) to Africa (N.B. this figure does not include non-concessional loans).

5. See: http://www.gov.cn/english/2010-08/14/content_1679951.htm

6. See: <http://www.thecitizen.co.tz/sunday-citizen/43-sunday-citizen-opinion-editorial/8821-china-gives-africa-hope>

Box 1. Development Partnerships for Growth and Poverty Reduction - Feedback from the China-DAC Study Group event in Beijing, 28-29 October 2009

The first day on the experience in China bore out the crucial importance of ownership, capacity development and learning processes. Chinese officials and experts strongly emphasised how much they had learnt through their partnerships with donors; while China would have taken off without them, the process would have taken considerably longer. The corollary of this was the strong ownership and clear strategies and policies set by the Chinese state. While capacity was comparatively low at the beginning of the reform process some 30 years ago (much of the university system had been dismantled by the cultural revolution), it strengthened quickly at both national and local levels. Aid co-ordination happened through active management of the process by the Chinese state; there was no donor group in China. Growth had flowed from an agricultural revolution, powering a fast, large-scale urbanisation process and employment generated by infrastructure construction, exports and services, facilitated by an open world economy.

The second day on the experience in Africa was a counterpoint. In African countries, in the absence of clear strategies and policies and ubiquitous low implementation capacity, the donor co-ordination issue is typically addressed through donor groups, which has consequences for local ownership. Agricultural productivity had lagged and agricultural development projects had been difficult, for Chinese and DAC donors alike. In Africa, the lack of capacity had driven many donors to make wide spread use of Project Implementation Units (PIUs), with high salaries for foreign experts and local hires, often diverting qualified talent from the civil service and leading donors to top up selected civil service salaries. In Africa, PIUs had undermined the national public administrative systems whereas in China, similar practices could not develop because PIUs were part of the Chinese government system (implementation was handled by Chinese public officials at ordinary salary rates, using national systems). Underlying this difference is the major difference in historical and geographical realities – China has a strong and single state tracing through 2,000 years of history, with most of the population concentrated in relatively few areas, compared to Africa, a continent with 53 states, low population densities and marked by low post-colonial human and institutional capital as well as civil and interstate conflict.

The event provided a rare opportunity for Chinese participants to reflect on the application of the Chinese development experience to the design of their own development co-operation in Africa, and for the African participants to see the importance of ownership and strategic policies to development success and aid co-ordination. The Minister of Finance from Uganda, Mr Fred Omach, provided an upbeat account of what happens when a country does take charge of its own agenda (including recognising that poverty reduction could not be achieved without addressing child malnutrition which had stunted 40% of the population). Rural development policy was targeting small farmers with assistance via financial intermediaries in villages all over the country (although this system had been tainted by corruption which had required remedial action). The Ugandan economy was now growing by 7% annually despite the global recession, with growth coming from rural areas and from regional trade and integration, notably via the East African Community.

The issue of what strategies Africa should adopt towards China's economic objectives and activities in Africa was a major topic in the discussions. There was recognition of the important role the emergence of the enterprise sector had played in China and that Chinese enterprises were beginning to play a significant role in Africa as well. There was a consensus among participants that a dynamic presence of China in Africa was welcome and presented new horizons. However, there was more debate about whether African countries should encourage or discourage China's participation in development co-operation dialogue and co-ordination/collective action. In any event, it is clear that China is providing Africans with new leverage on other donors and sparking renewed interest in the continent as well.

Box 2. Agriculture, Food Security and Rural Development for Growth and Poverty Reduction - Feedback from the China-DAC Study Group event in Bamako, 27-28 April 2010

In China, the unprecedented scale and rapidity of poverty reduction was made possible by an increase in agricultural productivity growth, first in the food grain sector and later extending to livestock and high-value fruit and vegetables. This was the outcome of strong incentives provided by the government through land tenure reform and pricing policies, coupled with major public investments, supported by international assistance, in infrastructure (roads, irrigation, energy), research on seeds and soils especially, much expanded fertiliser production and use, farmer education and, crucially, off-farm employment via local enterprise development. Donors also helped by introducing new practices, such as water user associations, which were adapted to the Chinese context before being successfully scaled up. For Africa, the lessons were that smallholder-based strategies can work, but they require large public investment and strong public policy signals which evolve as progress is made. Finally, agriculture is not a natural comparative advantage for China, but for centuries it has had to develop a food production culture to feed itself. Now, growth in China is spearheaded in other much more productive and advanced sectors, using labour released from agriculture, just as in the classical development paradigm, and living standards in rural areas are now heavily subsidised by other sectors. It is not yet clear where the comparative advantage of a very diverse Africa lies and, in a continent of 53 states, how the large-scale investments and population movements possible in China could be replicated. Furthermore, fertility rates were held in check in China, whereas in Africa fertility rates are still very high and population growth forecasts are dramatic for the very poorest countries.

On the African side, the lack of attention to agriculture in the last two decades by both African governments and donors meant that investments had not happened in agriculture, in setting strong and effective incentives in place through policies, and in building the infrastructure and institutions needed to support a fast rise in productivity. This has major consequences for Africa and for prospects for global food security. Africa has yet to have its agricultural revolution/economic transformation. The current efforts via the Comprehensive African Agricultural Development Plan (CAADP) of the African Union/NEPAD were an important step in the right direction. At the same time, there is a need to elevate the CAADP from the current focus on national compacts to the regional and cross-regional levels, with continent-wide thinking about how African agriculture could respond to and be driven by the huge rise in African food demand expected over the next 20 years. National markets and institutions in Africa are too small to bring about the African agricultural revolution/economic transformation. On the other hand, there was great potential to think in large terms about regional specialisation and trade and research/education. The technology picture is not all bleak in Africa: important progress has been made with high-yield rice, kassava and sorghum.

The Chinese were encouraged to begin participating in work and discussions at the strategic policy level in Africa, where their experience is relevant, and to engage with the current CAADP processes and with the Regional Economic Communities in Africa on policy and financing. They were also encouraged to connect up their growing number of agricultural research demonstration centres (mainly focussed on Chinese hybrid rice) to African research systems. While trade and investment flows from China are growing in the agriculture sector, and Chinese enterprises are playing important roles in agro-industry development, there is little sign that China is engaged in large-scale "land-grabbing". Production from its agro-industry investments is being sold in local markets. There is a trend to turn former and new aid and development projects into joint commercial enterprises with on-going Chinese presence in management and technical roles, as a way of ensuring sustainability. At the same time, important questions remain on labour and environmental standards on the ground. There was also a strong request for greater transparency in these areas as well as on financial terms. Interestingly, a participant from the arm of the Chinese Agriculture Ministry that carries out aid projects for China, as well as for other countries and multilateral agencies, made a strong pitch for instigating evaluations of Chinese aid projects, which are routine for the other projects she works on.

Box 3. Infrastructure Development for Growth and Poverty Reduction - Feedback from the China-DAC Study Group event in Beijing, 19-20 September 2010

A basic question discussed was the extent to which China's recent development has lessons or replicability in Africa, with its 53 states and persisting areas of conflict and fragility. And, might China set its sights on facilitating the emergence of a developmental Africa? Here leadership and strategic policy and planning capacity were stressed as key to China's emergence, alongside its pragmatic step-by-step adjustment of policies and its active approach to learning from others - through aid, foreign investment and academic relationships. Huge infrastructure investments had been driven by growth bottlenecks in the rural sector and the development of special economic zones and urban centres. On the African side, hope lies in the recent progress towards a new level of African co-ordination on regional infrastructure planning and implementation, as revealed in the emergence of regional power pools and transport corridors. Could China work at the regional level, going beyond its country-based approach? Africa would need regionally defined policies towards investment from China and other emerging players if it were to create new African growth dynamics, rather than new dependencies. The emergence of strong developmentally motivated leaders in Africa was seen as key by African participants themselves, but here the optimism was muted.

Driven by its need for natural resources, China has stepped up its infrastructure investment in Africa, although this is highly concentrated in four countries (Nigeria, Angola, Ethiopia and Sudan) and is mainly for power, transport and telecommunications. The range of financing and enterprise structures China has put in place since the mid-1990s for delivering infrastructure projects is becoming better understood. And, with that understanding comes also a concern with the impact of Chinese state capitalism, basically underwritten by the Chinese government, with implications for the competitive position and potential of firms in Africa and from elsewhere. The Chinese construction firms are building on capacities and structures developed from their own experience, which is a genuine advantage, but guarantees, interest rates and labour issues are problematic. On the most visible "resources-for-infrastructure" deals in Africa, there was recognition that there is a rationale for these, provided that they are transparent and flexible. Such deals were introduced to China by early Japanese assistance to the Chinese reforms.

Chinese participants evoked the potential for scaled-up Chinese investment in Africa to help China find long-term placements for its excess foreign reserves (some saw this as a way to inject new sources of demand into the international economy). But China would approach this experimentally and incrementally, in a few pilot cases of integrated packages of infrastructure and enterprise development, rather than as a big push. Other participants struck an optimistic note, pointing out that African growth was coming back to pre-recession levels, above 5%. However, African macroeconomic policies and public finances would need to continue on a sound course through any further significant investment push on infrastructure.

The "soft" issues of planning and implementation came through from both the Chinese and the DAC/international agency side. For example, the European Union's presentation indicated that they are developing a strong framework for working with African governments on infrastructure designed to develop the domestic planning and management functions. In the Chinese experience, cost recovery is a fundamental principle (although calculating economic and social returns remains methodologically challenging and devising ways of generating revenues is often far from simple). Most problematic is ensuring that project selection is driven by an economic strategy and not by political or financial rent seeking. Supporting a shift from patrimonial states to developmental states in Africa is key in this regard. This implies that where there is a significant scaling up of Chinese investment in infrastructure, a performing state becomes critical for the Chinese as well. Hence, China's "no strings attached" principle is likely to evolve and there are some signs of this. There is consequently the prospect of a more common approach to economic governance issues, with transparency, corruption and tax evasion and implementation and management capacities/issues. The issue of inequality/poverty impact also came through strongly as a concern in China, where there is a major political drive to address the large numbers of people still living in poverty. Chinese participants recognised from their own experience that both the rate and the pattern of growth matter, as stressed in the DAC's work on promoting pro-poor growth.

**Box 4. Enterprise Development and Economic Transformation: Creating the Enabling Environment
- Feedback from the China-DAC Study Group event in Addis Ababa, 16-17 February 2011**

Chinese investment in Africa by both state and private enterprises is growing quickly (some expect China will have the largest stock of FDI in Africa within 7-10 years). Under the new Chinese Five-Year Plan, the China Development Bank is supposed to invest USD 500 billion in international development over the next 5 years. With the China Exim Bank and the China Investment Corporation also major financial channels, there is a systemic challenge here in which the IMF is taking a strong interest. China is diversifying its foreign exchange financial assets into FDI and portfolio holdings. The challenges and opportunities for Africa in this context were the subject of this event, which was organised in association with the African Union Commission and the United Nations Economic Commission for Africa.

China provides an example of a state which has focussed on generating a broadly participatory growth process in the general interest, with a now large professional middle class supplying the entrepreneurial and management and technical skills needed for an enterprise-based economy.

When summarising the findings from the event, Richard Carey (Co-Chair of the China-DAC Study Group) stressed that the agenda for enterprise development goes well beyond a familiar list of "to do" items to a series of "mega" issues:

- i) *State capture*: By reserving power, wealth and opportunities for themselves, political and business elites prevent a broader and more dynamic development process opening up in Africa.
- ii) *Effective states*: As it becomes the biggest single foreign investor in Africa, seeking a reliable real return on its assets, China will acquire a major stake in the effective functioning of African states.
- iii) *Financial sustainability*: With Chinese investment becoming significant at a macro-economic level, financial sustainability becomes a more central concern and responsibility for China.
- iv) *Organisational capacity*: Economic transformation in Africa will require a huge increase in its organisational capacity, in both the state and the private sectors.
- v) *Joining up the African continent*: In a fragmented continent, creating a new economic geography will require greater regional integration and the emergence of associated business models.
- vi) *Encouraging the emergence of an active middle class*: Entrepreneurship and management and technical skills are needed to turn a development vision into a dynamic economic process.
- vii) *Governance of China-Africa economic relations*: China is enhancing its consultation and co-ordination with African countries; outcomes will depend on Africa's capacity to shape these.

Discussions among African participants on these subjects was passionate. There was general agreement that the expanding relationship with China provides a new opportunity for economic transformation in Africa. The key to this is the emergence of African leadership which gets beyond the "policy syndromes" that have caused major underperformance by African economies in the past - notably elite capture of power, wealth and opportunities and state breakdown.

A pertinent question was raised during the event: What if African countries adopted the transformation paradigm as their 'National Project'? That is, they set themselves the ambition of becoming middle-income countries with low poverty rates within a generation. This is what the "Asian miracle" countries did, and they have achieved it and other countries are following, each in their own way based on their own resources, geography and history. In his remarks at the event, Jean Ping (Chairperson of the Africa Union Commission) stressed that Africans can't ignore the success stories of China and India.