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DAC Network on Poverty Reduction

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**COMMENTS AND SUGGESTIONS REGARDING THE FUTURE DISCUSSION TOPICS OF THE
NEWLY MANDATED POVNET**

Note by the Delegation of Japan

The attached note is circulated in connection with the POVNET's discussion of its draft work programme [DCD/DAC/POVNET(2003)1]

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Japan's comments and suggestions regarding the future discussion topics of the newly-mandated POVNET

June 19, 2003

As the work of the newly-mandated POVNET will commence today, the Government of Japan would like to seize this occasion to express its opinion regarding the future objectives of the POVNET, as well as to suggest main themes and approaches that would best contribute to enhanced discussions in this forum.

1. Economic Growth as a Sine Qua Non for Poverty Reduction

As our past discussions, including those at the latest DAC/HLM, have already shown, economic growth is essential in order to achieve sustainable poverty reduction in developing countries. But at the same time, we have to ensure that the fruits of this economic growth will be shared widely with the poor. One of the main objectives of the POVNET should be to explore what ensures pro-poor economic growth and to provide proper feedback for strategic aid planning in coming years. It is encouraging to note that many experts from developing countries are now echoing the conviction that such measures are imperative.

For instance, the growth factor is becoming increasingly important in the formulation of PRSPs in Tanzania, where greater emphasis is now being placed on the reduction of income poverty through economic growth, rather than solely on the reduction of non-income poverty via social sector support. Furthermore, in Uganda, the growth factor has been incorporated into their PRSP (called the "Poverty Eradication Action Plan") and Ugandan officials have been repeatedly stressing the importance of development assistance that leads to private-sector growth by attracting foreign investment. This opinion was also strongly expressed at the most recent CG meeting in Uganda.

2. How to Approach Growth-Driven Poverty Reduction

We should note that the NEPAD has already designated Agriculture and Infrastructure as priority issues for their activities. It is thus expected of us donors to sufficiently respond to such local needs. It is not coincidental that the agenda for the Tokyo International Conference for African Development (TICAD), scheduled to take place in September, will focus on growth factors such as agriculture, private sector-led development, infrastructure and ICT development. It is opportune for the POVNET to start work in these areas in addition to their ongoing work in trade capacity building.

(1) Infrastructure and Pro-Poor Growth

Infrastructure is a solid basis for growth. The recent NEPAD meeting in Abuja indicated its renewed determination to mobilise domestic resources to enhance the present inadequate level of infrastructure. A growing number of developing countries are now aware that simple "hand-outs" from developed countries do not lead to sustainable poverty reduction. Bearing this in mind, we should pursue the continued improvement of our aid policies.

Japan has been an active advocate of the importance of large-scale infrastructure, as demonstrated by its commitment of more than US\$ 1 billion earmarked for African infrastructure development scheduled to begin this year. The following may serve as food for thought for POVNET discussions on infrastructure (Also refer to the concept note on infrastructure by the Japanese Delegation):

- Analysis of the impact of infrastructure development on Pro-Poor growth.
- Analysis of the roles which the public and private sectors will respectively play in developing

infrastructure.

- Case studies of existing PRSPs with a focus on infrastructure (Including good practices of PPP).
- The role of infrastructure in overcoming barriers to region-wide development through promoting access to land, markets, ports and related services.
- Financing aspects of infrastructure projects.
- Building rural infrastructure (as referred to in the next section).

(2) Maximising the Potential for Agricultural Development

Most poor people live in rural areas and agriculture is the main occupation of the poor in those areas. Agricultural development is thus critical in enabling poor people to participate in and benefit from growth. Infrastructure does not solely refer to highways, ports and dams, but also to agriculture. The following passage from the World Bank's "World Development Report 2000" clearly supports this view: *"But if public infrastructure---such as roads to remote agricultural areas--- is undeveloped or underdeveloped, the impact of pricing or market reforms on output is muted."*

It is essential that we help Africa reach its full agricultural potential by raising its irrigation rate from the present meagre rate of 3% to a much higher level. This will only be made possible if sufficient means are provided for rural infrastructure development projects such as farm-to-market roads.

(3) Encouraging Private Sector-Led Growth

The importance of private-sector-led development should not be overlooked. The Monterrey Consensus underlined the necessity to mobilize private-sector resources. PPP, or Private-Public Partnership, has recently been hailed as an ingenious way to mobilize private-sector resources to help build infrastructure. Similarly, at the Kyoto Water Forum last March, PPP was cited as a clever way to tap private-sector resources for water infrastructure. However, certain questions remain: How can PPP be achieved in real terms and what would ensure its success? One objective of the POVNET could be to examine our past successes and failures in mobilizing private-sector resources and to suggest future directions to be pursued.

3. Cross-cutting issues

(1) Pro-active approaches towards PRSPs: how to incorporate long-term perspectives into PRSPs

The efforts of the World Bank to reduce poverty through PRSP formulation have been evolving over the past few years and various growth factors are now being incorporated into PRSPs. Originally, the common perception of PRSPs as being aimed mainly at social-sector development in areas such as health and education has broadened to incorporate infrastructural considerations as well. For example, it should be noted that Vietnam has requested the inclusion of growth considerations into its CPRGS (Comprehensive Poverty Reduction and Growth Strategy). In addition, many African countries have been advocating the necessity of large-scale infrastructure to strengthen their growth. It is now becoming clear that PRSPs should be adopted and implemented in a manner suited to each developing country's situation and needs.

Such orientation naturally leads us to consider how to incorporate long-term perspectives into PRSPs. We need to return to square one and ask ourselves how we would like developing countries to develop themselves in the long run, and what the ultimate objective we hope to achieve beyond a minimum standard of welfare is. Once it is achieved, can we sustain this level and possibly raise it even further?

(2) The Region-Wide Approach

The East Asian model has taught us some invaluable lessons regarding the effectiveness of region-wide approaches including those for infrastructure. We should explore the potential of such approaches for African development. It is promising to note that many NEPAD members, African countries and regional organizations are starting to realize the importance of regional development, in addition to country-oriented development, for Africa. To incorporate regional viewpoints into a country development strategy may be one of the possibilities to be explored in order to make our development strategy more effective.

At recent NEPAD meetings, there has been a call for the strengthened engagement of regional economic communities. This is precisely because African regional entities have the potential to bridge the gap between the country-specific development approach and the NEPAD-led, Africa-wide political engagement. It is interesting to note that both donors and recipients have been concurrently echoing similar views. Another noteworthy point is the particular importance some countries have been placing upon regional, trans-boundary approaches in managing shared watercourses as a means of promoting regional economic integration.

In West Africa, a number of experts have begun advocating the importance of a region-wide development strategy which would aim at connecting the Sahel area to inland countries through a regional network of roads. It is believed that such a network would enhance trade and investment in the region by increasing the movement of people and goods. We can therefore assume that a region-wide loan scheme is also needed for the Sub-Saharan area to help their economy grow and become sustainable.

(3) Intra-Regional Economic Interaction

The East Asian example may also serve as a guide to long-term, growth-led strategies. East Asia is not comprised of unrelated economies. Rather, its rapid regional growth has been made possible through dynamic economic interaction among its component countries. Perhaps other developing regions could also learn some lessons from the “V-formation” development pattern or “Flying Geese Pattern” that has emerged in East Asia. This theory likens Asian economies to a formation of flying geese in which the production bases of labour-intensive products are gradually shifted from more developed countries (such as Japan, Singapore, Hong Kong, or South Korea) to less developed countries (such as ASEAN members or China) through, inter-alia, trade and foreign direct investment. By this process, whole economies within the region have developed together. Certainly, the model cannot be grafted on another region without first being modified, for each region has its own circumstances, but synergy between ODA, trade and investment is essential for the growth of any country or region.

(4) Strengthened Policy Coherence

It is our belief that the newly-mandated POVNET can serve to facilitate the liaison between present DAC efforts and other policy areas such as trade, investment and agriculture. It is hoped that the POVNET will bring about better results by proactively taking up cross-cutting issues that may go beyond the narrowly-defined aid policy debate to a much wider arena of policy coherence issues. In this connection, we should recall the proposal which Japan put forth at the recent OECD Ministerial Meeting regarding the synergy between ODA and FDI.

However, such orientation should be pursued based upon concrete analysis and discussions in specific areas of development policy, in order not to waste our energy in abstract discussion.

4. Expected Results

So what could the POVNET's deliverables be? It is important for us to have tangible end-products. Furthermore, these should be of practical use to both developing and donor countries. It may be suggested, for instance, that we compile "case books", "best practices" or "guidelines" as a result of our discussions. Such products could incorporate the good examples and best practices that we encounter when implementing PRSPs. They might also include case-specific donor and recipient lessons from the field. Concrete end-products such as these could be reflected in future PRSPs as policy guidance.