



**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

DAC Network on Poverty Reduction

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DAC/POVNET: INFRASTRUCTURE AND POVERTY REDUCTION - A CONCEPT NOTE

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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**DAC/POVNET: INFRASTRUCTURE AND POVERTY REDUCTION
(A CONCEPT NOTE)**

June 17, 2003

THE GOVERNMENT OF JAPAN

I. BACKGROUND

The 2003 Spring Meeting of the WB/IMF Development Committee emphasized the critical role of investment in infrastructure for economic growth and its linkages with the provision of social services and the achievement of the Millennium Development Goals (MDGs). There is also awareness that current investment in infrastructure falls far short of the actual needs, partly due to the declining flow of private investment.

The Poverty Reduction Strategies formulated recently by some developing countries have devoted more attention to growth and infrastructure. For example, at its CG meeting in December 2002, the Vietnamese government called for the inclusion of large-scale infrastructure into its PRSP, now called the CPRGS (Comprehensive Poverty Reduction and Growth Strategy). Another reflection of the new emphasis is found in the New Partnership for Africa's Development (NEPAD), which identified infrastructure development as one of its priority areas.

II. PROPOSED TOPICS

The POVNET could help enhance the understanding of DAC members of the issues of infrastructure and poverty reduction through the work listed in the following points:

1. Analytic Work

(1) Analysis of infrastructure development impact on the poor

Infrastructure development is generally considered to have a significant positive impact on economic growth under normal circumstances. However, it is still not clear how infrastructure improvement could have favorable microeconomic effects on the living conditions of the poor. Several case studies tackling this issue have been produced by the AsDB, DFID, World Bank, JBIC, etc. Given that these analyses cover the microeconomic effects on the living conditions of the poor in rural areas, the role of rural infrastructure could also be touched upon in this context. Further analyses of the link between infrastructure and poverty reduction should give us guidance as to how to ensure that economic growth will be pro-poor.

(2) Analysis on infrastructure financing

As mentioned in the Draft Work Programme, it is essential to mobilize domestic and external private finance for infrastructure development. However, as private infrastructure investment has been on the decline in recent years, in-depth analysis of this declining trend is urgently needed. Such analyses should also address the issue of the imbalance between LDCs and upper middle income countries as hosts of private investment¹ as well as the imbalance among sectors to receive such investment².

2. Division of roles between private-sector resources/ODA, and recipients

(1) Roles of ODA and private resources

Based on the analyses above, the roles of each financing option (private, public, ODA grant or loans, or a combination of these) should be discussed and clarified. ODA is expected to play a role as a catalyst for mobilizing private resources. The division of work between MDBs and bi-lateral donors should also be discussed and analyzed so as to utilize the comparative advantages of each.

(2) The Role of partner governments

The key role of the partner government is to provide good governance, including the establishment of appropriate regulatory frameworks and the capacity for enforcement. Efficiently administered transparent regulatory frameworks are essential for a suitable investment climate. It is also critical to ensure anti-corruption measures in the infrastructure building process. Institutional and human capacity building should be stressed in this context so as to reinforce the institutional roles played by partner countries.

^{1.} About 80% of private capital flows in the 1990s went to six upper middle income countries. (World Bank)

^{2.} 43% of private capital flows went to the ICT sector, 32% to the energy sector, 19% to the transport sector and only 5% to water and sanitation. (World Bank)

3. Assistance Strategy for Infrastructure Development

(1) Incorporating long-term vision/strategy into PRSs

As growth factors are being increasingly incorporated into PRSs, economic infrastructure also deserves greater attention. Economic infrastructure requires a long period of time for planning, constructing and operating, though this long gestation period does not synchronize with the three year time span of PRSPs. It would be useful to review the existing PRSs and to explore ways of how to properly incorporate the roles of infrastructure into PRSs.

(2) The Region-wide approach to infrastructure development.

Recently, the need to consider region-wide approaches when striving for economic growth and poverty reduction has been gaining wider attention, especially in the context of African development. G8 development ministers reaffirmed the importance of the integration of regional approaches which offer a larger market to industry and a wider range of possibilities for foreign investment. Hence, the role of infrastructure from regional perspectives could be examined, and creative measures could be explored. In examining this approach, East Asian experiences could offer valuable lessons for such approaches.

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