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Patterns of inclusive infrastructure investment

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1 WHY DID THE DAC DEVELOP INFRAPOOR GUIDELINES WITHIN THE CONTEXT OF ITS NEW PRO-POOR GROWTH APPROACH?

1. The Network on Poverty Reduction (hereinafter referred to as the “POVNET”) was created in 1996 as one of the subsidiary bodies of the OECD’s Development Assistance Committee. It produced the Guideline for Poverty Reduction in 2000 and Reference on Poverty and Health in 2001, based on the dominating paradigm of the poverty reduction strategies of that era, which focused on social sector development. Under its renewed mandate, which began in 2003, it expanded its discussion into economic growth and poverty reduction, based once again, on the dominant paradigm of poverty reduction strategy at that time. Under the renewed mandate, three sectors - infrastructure, the private sector and agriculture - were chosen for discussing the relationship between economic growth and poverty reduction.

2. The reason why infrastructure was chosen as one of the subjects of discussion under the renewed mandate of the POVNET was as follows; it was recognized as being an essential element for both economic growth and poverty reduction after observing (i) a large-scale reduction of ODA for investing in infrastructure due to the concept of using private finance for constructing infrastructure as presented in the 1994 World Development Report; (ii) the failure of privately-financed infrastructure to satisfy all the needs of infrastructure construction, and (iii) the renewed recognition that infrastructure was essential for economic growth. The sectors included in the discussion of infrastructure at the POVNET were transport, energy, information communication technology, water supply and sanitation and irrigation.¹

2 WHAT ARE THE GUIDELINES ABOUT? HOW DOES INCLUSIVE INFRASTRUCTURE INVESTMENT DIFFER FROM NORMAL INFRASTRUCTURE INVESTMENT?

3. The document titled “Pro Poor Growth; Infrastructure”, alternatively known as “the Guiding Principles for Using Infrastructure to Reduce Poverty” (hereinafter referred to as the InfraPoor Guiding Principles), focuses on the following three functions of infrastructure for poverty reduction; first, the element to boost economic growth; secondly, the means with which to remove bottlenecks for the participation and access of the poor to economic activities, and thirdly, the tool by means of which to deliver social services. The InfraPoor Guiding Principles stipulate issues relating to the role of infrastructure in poverty reduction and the approaches of donors for dealing with those issues.

¹ For more information on the work of the DAC PovNet, view http://www.oecd.org/topic/0,2686,en_2649_34621_1_1_1_1_37413,00.html. The InfraPoor paper can be read under <http://www.oecd.org/dataoecd/16/46/36301078.pdf>, and the paper on ex-ante impact assessment is under http://www.oecd.org/document/12/0,3343,en_2649_34621_36573452_1_1_1_1,00.html

4. The InfraPoor Guiding Principles are composed of 4 principles which cut across all the above-mentioned sectors, as well as sector-specific issues and their application into specific country contexts, such as fragile states, middle income countries and cross-border projects. They also emphasize the importance of data collection and its utilization as the basis for the evidence-based elaboration of policy and development planning.

5. Among the four guiding principles, the first principle suggests using the “partner country-led framework as the basis for coordinated donor support”. More specifically, it underlines that (i) it is necessary to include infrastructure development strategy within the poverty reduction strategy of partner countries since economic growth is essential for poverty reduction; (ii) that it is necessary to prioritize infrastructure investment based on background data suggesting the impact of infrastructure on poverty reduction; (iii) that it is important to consider the network effect in planning; (iv) that the role of government must be re-evaluated in policy planning and the elaboration of development plans, and (v) that participation needs to be reinforced in the planning process.

6. The second principle describes what should be done to “enhance infrastructure’s impact on poor people”. This includes (i) the use of decentralized and participatory planning methods for investments to remove bottlenecks for the poor; (ii) the need for synergy between infrastructure and other sectors such as the social sector; (iii) the provision of affordable services for the poor; (iv) the effort to increase employment opportunities and, (v) the consideration of gender and socially vulnerable people.

7. The third principle emphasizes the need to “improve management infrastructure investment to achieve sustainable outcomes”. The policies for this include the importance of (i) the maintenance of infrastructure assets and (ii) cost recovery via tariffs as the financial mechanism for materializing maintenance; (iii) the framework for providing infrastructure services via the private sector; (iv) capacity building for the provision of infrastructure services; (v) the fight against corruption, and (vi) the promotion of environmental sustainability.

8. The fourth principle describes how to “increase infrastructure financing and to use all financial resources efficiently”. The policy measures include (i) macro-economic stability; (ii) prioritization in public expenditure; (iii) the reinforcement of the financial sector for attracting private investment; (iv) the capacity-building of the entity providing infrastructure services, and (v) the promotion of guarantee mechanisms.

3 IS PPP A WAY FORWARD FOR INCLUSIVE INFRASTRUCTURE INVESTMENT AND HOW SHOULD IT BE DESIGNED?

9. Since it is evident that public sector financing alone cannot completely satisfy the enormous gap of financing infrastructure investment, it is inevitable to introduce the private sector in investment and the efficient provision of infrastructure services. Although the expectation of the role to be played by the private sector for service provision is high, its service coverage is limited to commercially viable areas so that public policy must focus on how to achieve a balance between the expansion of service coverage and the assurance of the affordability of the poor. Such a balance is difficult to establish as it is controversial, and one way of dealing with this would be to introduce smart subsidies. If the local private sector entity is capable of providing infrastructure services, it will also contribute to the increase of income in poor areas. Examples of the possibility of using the private sector include mass-transit in urban areas, rural electrification and communication, water supply and sanitation and irrigation. Only a few

examples of public-private partnerships benefiting the poor exist, but they need to be increased by promoting pilot projects.

4 WHY ARE EX-ANTE POVERTY IMPACT ASSESSMENTS SPECIFICALLY IMPORTANT FOR INFRASTRUCTURE PROJECTS AND HOW CAN SUCH ASSESSMENTS BE EFFICIENTLY CONDUCTED AND HARMONIZED?

10. Infrastructure requires substantial upfront investment and, therefore, the partner government must make its investment on a selective basis. The economic evaluation of investment, which has been traditionally used, is insufficient for measuring the impact of infrastructure on the poor. In order to select the investment which provides an impact on the poor, it is necessary to estimate it in planning. The POVNET task team has developed a method called the “Ex-ante Poverty Impact Assessment (hereafter referred to as the Ex-ante PIA)”. The Ex-ante PIA is an analysis tool which qualitatively reveals the transmission mechanism of the impact of infrastructure investment on the poor, and aims to select the most effective project design for the poor. Its particularity is that it is simple and qualitative, thus “quick and dirty”, and it is designed and desirable to be used for all projects likely to have an impact on the poor. Projects must be aligned with the policy of the sector to which they belong, and from this viewpoint, the policy orientation among all the projects financed by different donors within a sector, must be coherent, by sharing the results of the Ex-ante PIA. The manual for the Ex-ante PIA has already been prepared and may be downloaded from the POVNET’s website.

5 HOW DOES JBIC IMPLEMENT THE INFRAPOOR GUIDELINES – PROJECT EXAMPLES AND ASSESSMENT?

11. JBIC emphasizes the importance of infrastructure in its “Basic Strategy”, which it applies to both poverty reduction and the foundation for sustainable growth, both of which are the policy priority areas of the “Basic Strategy”. JBIC supports core infrastructure networks which support overall economic growth since it considers that national economic growth is essential for poverty reduction, and it also provides support for activities trying to involve the poor in economic activities and those providing social services to the poor, both of which are identified as the role of infrastructure under the InfraPoor Guiding Principles. One example of the project supporting the poor in becoming involved in economic activity is the New National Road No. 3 and Regional Road Network Construction Project in Vietnam. In this project, in addition to the construction of the first expressway in Vietnam between Hanoi and Thai Nguyen, 4 feeder roads connecting to the expressway, are improved. Such feeder roads were selected among those bringing the highest impact on the poor via an ex-ante study, classifying and prioritizing all the feeder roads connecting to the expressway. The project was designed in such a way due to the impact study conducted on the other project financed by JBIC in Vietnam, the National Road No. 5 Improvement Project, which revealed the increase in income of the farmers living alongside that national road via improved access to the market. In that project, feeder roads were upgraded by the Government of Vietnam, and such road improvements enabled the merchants in Hanoi to visit the farmlands and to export the agricultural products produced there, to the larger market.

12. In metropolitan areas, public transport plays an important role in promoting the involvement of the poor in economic activity, and JBIC supports the construction of the

Mass Transit in Delhi, India, as a new public transport system, because increasing existing public transport capacity is relatively difficult. This project improves the access to public transport for the citizens of New Delhi, including the poor, and the environment in the city. In addition, the project introduces barrier-free design, taking into consideration the access by socially vulnerable people.

13. Examples of JBIC support for social service provisions include the construction and/or the improvement of water supply and sanitation and rural electrification, but the one which supports the creation of employment for the poor is the Kolkata Solid Waste Management Improvement Project in India. This project is designed in such a way to integrate the scavengers, who engage in the separation of recyclable waste under the existing waste management system, into the new waste management system.

6 RECOMMENDATIONS AND LEARNING FROM THE RESULTS IN THE FIELD

14. JBIC's experience in practicing the InfraPoor Guiding Principles suggests the importance of understanding the InfraPoor Guiding Principles by the officer-in-charge and by managers within the Operations Department, resulting in the creativity and improvement of project design. In order to improve the project's impact on the poor, a project must be designed and matured during the period of preparation in order to be able to address the policy issues. This requires the integration of policy measures into the project scope at the early stage of preparation. JBIC has introduced a mechanism called the "rolling plan", which enables it to identify and share future candidate projects between partner countries and JBIC by means of consultation, in line with both the economic development strategy of the partner government and with the assistance strategy of JBIC.

15. Those projects listed in the upper part of the rolling plan are considered to have high maturity and are subject to appraisal within the current fiscal year, while those in the lower part are considered to be low in terms of maturity. Among the latter, JBIC supports the project formation for those which are judged to have high feasibility and, which are capable of being made bankable within a short period of time, by taking the policy issues identified in the InfraPoor Guiding Principles into consideration. In this way, JBIC forms the projects which benefit the poor. It also intends to introduce the Ex-ante PIA during project formation by using the manual, which has already been published. In addition to these efforts, JBIC also uses the InfraPoor Guiding Principles to address policy issues for the core infrastructure investment which supports economic development, including examples, such as support for road maintenance and tariff setting, thus assuring the sustainability of power facilities. As seen from those examples, JBIC supports not only the physical construction of the infrastructure, but also makes efforts to contribute to poverty reduction by integrating the measures for taking into consideration the impact on the poor and for improving the sustainability of infrastructure services.