



Chronic Poverty Research Centre

Response to the DFID White Paper Consultation, 16 March 2006

Overall comment

Poverty reduction is the goal of most aid. However, this goal is still often poorly translated into policy dialogue, programmes and projects. A renewal of donor agencies' knowledge and commitment to the elimination of poverty in our lifetime is called for. DFID could play a more radical role among donor agencies as an advocate of the interests of the poorest.

Economic growth for the poorest (Q1)

- Limited available evidence (e.g. from the case studies in the Operationalising Pro-Poor Growth project) suggests that the poorest often do participate in growth to some extent, but they often do not benefit proportionately compared to the less poor and non-poor.

Even if they do benefit proportionately, their starting incomes are often so low that the increments to their income are small in absolute terms. It is important to identify ways that the poorest can increase their production levels substantially or move into higher return activities.

The big impacts that growth can have on the poorest are likely to be indirect. Growth provides societies with more resources to address poverty and improve human development outcomes, but mobilizing and then using those resources for pro-poor spending requires effective tax systems and public expenditure frameworks. Translating growth into improved human development outcomes and preventing inequality from increasing will tend to benefit future growth as well, as well as affecting other factors such as fertility rates. In this way it can create a virtuous circle.

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Revenues from sales taxes, income taxes, and import duties can all rise with growth, but only if tax institutions together with the customs and excise service are effective and accountable. And the state's share of natural resource revenues (oil and natural gas in particular) give resource-abundant countries the potential to dramatically reduce poverty, but only if those revenues are transparently accounted for in the system of public finances.

Donor aid commitments (Q2)

Fulfilling aid commitments made in 2005 are critically important for achieving the MDGs and to underpin progress towards the elimination of Chronic Poverty.

- The UK must lead by example to exercise leadership and maintain credibility.

This means for example that on 0.7% GNI, whilst great political commitment was required to set a UK target, having established the principle, the government should do all in its power to bring forward the achievement of 0.7% (something made much easier if debt relief is counted within the 0.7% figure). History shows how difficult donors find it to build slowly towards the UN target.¹ If it is right and affordable to meet 0.7% GNI in 2013, it is right and affordable to reach it before.

At a domestic level the government must work to establish a cross party consensus on all the key 2005 commitments.

In the 4 donor countries who have consistently met 0.7% GNI there has been a broad consensus on the affordability and imperative of reaching the UN target. The UK should use lessons from the process which led to its own change of policy, to play a stronger advocacy role with other donors, especially the USA, on reaching the target. The UK should consider linking progress on 0.7% to other issues on the international agenda where the USA is seeking UK support.

- The UK should continue to strongly support and implement the 2005 Paris Declaration and aid effectiveness agenda.

Specifically the UK supports moves to increase transparency and accountability at all levels by making information readily available on how much is being spent at each stage of the aid process. This information should be made available right down to community level. Experience from organisations such as the International Budget Project, and the M. S. Swaminathan Research Foundation (MSSRF) shows that, with appropriate support, very poor people can engage with budgeting issues and can be powerful advocates in their own cause when made aware of their entitlements.²

¹ See DI Briefing for BOND at <http://www.bond.org.uk/pubs/advocacy/0.7now.pdf> See also para 4.1.3 of Europe: A true Global Partner for Development? CIDSE Brussels, April 2005, www.cidse.org/docs/200505031148246340.pdf?username=guest@cidse.org&password=9999

² See information on Village Knowledge Centres developed by MSSRF <http://mssrf.org/ar/index.htm> and civil society budgeting at <http://www.internationalbudget.org/>

As noted in the Chronic Poverty Report 2004-05 (page 60), persistent poverty requires sustained assistance – a shift away from project based funding to programmes designed to provide social protection and long term investment in human capital.

Building more effective states (Q3)

How can poor men and women be empowered to demand action from their governments and hold them to account?

The key issue regarding the empowerment of the very poorest people is usually one of representation rather than direct participation, and this requires far greater attention towards strengthening political society as well as civil society in poor countries. Addressing issues of political economy might be critical: states 'see' citizens through fields of power relations which may in themselves need to be transformed before empowered citizens and accountable governance emerge (e.g. land reform).

- In poor 'fragile states' donors should seek ways to sustain and increase volumes of aid through a broad portfolio of projects, sector programmes, sub-national programmes, the UN agencies, global funds, and support to civil society.

This means not relying only on budget support (too volatile and conditional), building a cadre of personnel experienced in working in difficult environments, and accepting that a much bigger investment in human resources both in the donor agencies and in the countries is required over a long period. The IMF's capacity to work productively with such states needs to be enhanced. Donor harmonisation is particularly critical where capacity to absorb aid productively is low. The private sector also has an important role, and strengthening (making compulsory where possible) codes of practice and private sector openness to reducing the economic causes of fragility is important. State fragility is often associated with regional inequality, and substantial private sector as well as public investment in under-developed regions is key.

Lessons of experience in increasing access to health and education services (Q4)

- Where governments are able or willing to support health and education programmes it is clear that donors need to support government delivery of services since these are most likely to reach the very poor, especially those in remote and generally under-served areas.

State delivery can also enhance synergies between interventions, and ensure appropriate sequencing of social investment to enhance efficiency. Whilst the level of social spending is important for health and education outcomes the equity of the intra-sectoral spending pattern matters even more, this includes allocating sufficient resources to primary level health services and investing in comprehensive healthcare in favour of selective approaches. Long term commitment to social sector spending

means maintaining commitments even in times of economic crisis in order to ensure human capital gains³.

- Where governments are unwilling to provide health and education civil society organisations have proved effective in the short term. If they are to be long term suppliers of health or education services then support to scaling up interventions needs long term donor commitments. Private sector delivery of health services needs to be well regulated with compulsory codes of practice if it is to have any chance of reaching the poorest.
- In all cases improved health outcomes are profoundly influenced by sectors other than health. Gender equality and anti-discrimination measures are central to improving health outcomes.

This includes women's freedom to work outside the home, to earn an independent income, to have ownership rights and to receive education. Countries successful in improving child development have significant numbers of female health workers and teachers facilitating an increase in women and children's access to services and acting as role models⁴.

Developing countries' leadership (Q5)

- Countries with illegitimate governments and lots of poor people need to be helped to put their governments on a more legitimate footing over a long period of time.

The form of this assistance will vary but includes: working with political leadership (this will often be best done indirectly, through civil society in north and south, faith groups, specialised NGOs and the UN); support to critical aspects of government (eg parliaments, judiciary); support to the media especially to enhance elite interest in the poor; support to local and provincial government; and other measures which will increase solidarity between rulers and the poor. Mechanisms for direct aid (eg ILO's Social Trust) should also be explored. The private sector may also be able to lobby for change, and can be supported, especially in investing in poor troubled regions, preferably through quasi-commercial agencies (eg CDC).

³ Mehrotra, S and Jolly, R (eds) 1997, *Development with a Human Face, Experiences in Human Achievement and Economic Growth*, Oxford: Clarendon press; Wagstaff, A 2003, 'Child Health on a dollar a day: some tentative cross country comparisons', *Social Science and Medicine* 57 (9):1529-38; Werner, D and Sanders, D, 1997, *Questioning the Solution: the politics of primary healthcare and child survival*, paolo Alto: Health Wrights; CHIP Policy Briefing 7: Child Ill health and Mortality – How can we prevent the preventable?, <http://www.childhoodpoverty.org/index.php?action=publicationdetails&id=105>

⁴ Mehrotra, S. 1997 *ibid*; CHIP Policy Briefing 5: Improving Child Wellbeing – lessons in Social Policy from the High Achievers', CHIP, London, <http://www.childhoodpoverty.org/index.php?action=publicationdetails&id=103>

- The ideal balance between working with governments, civil society and the private sector

The interests of the very poorest are rarely well represented by any of these, and their interests need to be sought out and laid on the agenda how?. Whereas donors work intensively with government and civil society, and this should continue – (should they be encouraged somehow to better represent the poorest?), the private sector (if properly regulated?) has a potentially much greater role to play, especially in distributing the benefits of growth to regions and people so far little touched by it. There are two strands to this: (i) the need in Africa for the equivalent of the European Bank for Reconstruction and Development; (ii) massive public investment in infrastructure.

International Trade (Q 9)

- Despite all of the rhetoric, poverty reduction is not yet on the agenda of the WTO in any meaningful sense, and aid-for-trade is offered to secure the acquiescence of poor countries to global trade agreements without any serious consideration of the poverty effects of trade liberalization.

Participation in international trade can be a powerful motor for growth and poverty reduction, as the experience of East Asia demonstrates. But not all aspects of the present global trade agenda work for poverty reduction. Phasing out rich-country agricultural subsidies can be pro-poor for large agricultural exporters such as Brazil, which will see more growth in agricultural employment and income as a result. But the reduction in subsidies to food producers will raise global food prices, and therefore the cost of living for the chronically-poor households who are typically food deficit. This is not receiving the priority it merits and promises (often vague) of more aid-for-trade do not meet the challenge (it is unclear whether such aid will build better safety nets for the poor, for instance).

Conflict (Q6 and Q11)

- The world is rightly focused on prevention and early warning. However, reconstruction is hugely neglected and under-resourced – witness the chaos in Iraq and slow pace of recovery in Afghanistan.

Reconstruction in the Balkans indicates what can be done with substantial investment, committed donors, critical transition institutions, and a long term vision (integration into the European Union). This approach needs to be spread to other countries undergoing reconstruction, especially in Africa.

- The poor should be enabled to participate directly in post-war growth by assistance to rebuild their livelihoods, and to strengthen their access and control over the assets upon which their livelihoods depend.

The poor lose assets during war, but they are also vulnerable during war-to-peace transition when they can lose assets such as land whose value rises with peace but over which they have insecure property rights. The politically influential can use their

wealth to stake a claim over prime agricultural land, forests, and fisheries thereby resulting in post-war growth which excludes the poor, and is very unequal (storing up trouble, including land conflict, for the future).

- Rebuilding the fiscal system in post-conflict countries is a priority, not only to mobilize domestic resources and direct them into effective pro-poor public spending but also to build the state itself.

Although most post-conflict countries are aid dependent, there is still scope in the immediate post-war years to reform the customs and excise service and the tax system to mobilize revenue for pro-poor spending. This also lays the foundation for a system of public finances that meets the needs of the poor in the longer-term as aid takes a less central role in financing.

International Action on Corruption (Q7)

- The Extractive Industries Transparency Initiative (EITI) is important to achieving a reduction in the corruption (and conflict) associated with access to the energy resources of poor countries, but it needs more 'buy-in' from the large emerging economies.

The UK can act as a catalyst by strongly encouraging all UN security council members to pledge to support EITI, in particular the permanent security council members, including China and Russia. This would reduce some of the uncertainty associated with China's present policy with regard to Angola and Sudan, and increase the ability of civil society in these countries to press for a transparent accounting of oil and gas revenues, and their use for pro-poor development and post-conflict reduction.

Environment (Q10)

- The UK should strengthen aid to support the sustainable management of resources of critical importance to the poorest: water, forests, common pastures, land.

This is best done through programmes and policy dialogue to enhance the rights of the poor to access these resources, and their capacity to use them sustainably. This also means on occasion being prepared to deny or limit others' access. Privatisation is rarely the answer – but there are many other more progressive approaches.

- Environmental health remains a critical but neglected aspect of poverty reduction.

Improved sanitation and other environmental health measures are grossly under-resourced.

International System (Q11)

- The UN needs to recruit and promote its staff on the basis of merit, and not simply nationality, and to adopt the ethos of modern knowledge

organisations in which policy research is valued not ignored by senior management.

Policy formulation in DFID and the World Bank is informed by their large investments in research, and their links to the global research community. The UN's use of research is sporadic at best and senior management is often indifferent to the value of research, frequently clinging to outdated perspectives and ideas (especially in the area of aid effectiveness where much of the UN's thinking has an aura of the 1960s and 1970s). Global public goods is a key area in which the UN should be better informed, particularly with regard to the benefits to the poor of global action in the areas of communicable diseases, environmental protection, and peace-keeping.

International, regional and bilateral development agencies' comparative advantages (Q12)

- Social protection is key to enable poor people to participate in growth.

The ILO is attempting to spread the benefits of social protection to the informal economy. As a UN body it can act as an insider in developing countries, influencing policy. This work, to which DFID is already contributing, needs still greater dynamism and support.

- Agriculture and rural development are critical for poverty reduction.

Donors have given up on this, arguing that it's a matter for the private sector. The evidence for the critical nature for poverty reduction of public support to communications and social infrastructure and facilitation or provision of co-ordination in markets where the private sector fails is overwhelming. There is an urgent need to restructure and refocus aid in this sector. None of FAO, IFAD, WFP or the World Bank's Agriculture and Rural Development have functioned adequately in this respect, and there is an urgent need for reform of these international institutions. Bi-lateral donors are defending idiosyncratic approaches. This is a field where DFID should take the lead.

- EU investment in large-infrastructure projects (through the European Investment Bank, for example) has potentially large benefits for the poor, especially in remoter regions which can be better connected to national and international markets (including labour markets) through transport infrastructure.

The UK needs to work with the EU to maximize the benefits of infrastructure investment for the poor and in the reduction of spatial inequality (likewise with the World Bank, since the Bank's lending to infrastructure is expected to rise). The economic prospects of remoter regions can be transformed by better infrastructure (not only transport but also information and communication technologies) and these regions often contain high concentrations of the chronically poor. The environmental impact assessment of these projects must not only look at the effect on the physical environment, but must also take greater account of the implications for different types of poor household.

Under-aided countries (Q13)

- Not all under-aided countries are ‘fragile states’. All additional aid negotiated in 2005 should either go to these countries, or be available to support ‘fragile states’ in ways described above.

For example, India is massively under-aided, is not a fragile state, but has its own ‘fragile states’ problem. Aid is substantially allocated to wealthier, better governed states within India. Donors need to work with the Government of India with ‘fragile states’ type approaches to improve wellbeing and the pace of poverty reduction in these states. DFID has now started working strongly in this direction, and should be encouraged to go further.

Developing countries say at the Bretton Woods Institutions (Q14)

- The IMF’s understanding of the social and poverty effects of its lending, conditionality, and technical assistance remains limited, constraining its ability to help poor countries more effectively link their macro-economic frameworks to poverty reduction.

The IMF’s thinking about poverty remains dominated by Northern research, in particular the narrow targeting approach underlying public policy in the United States. The IMF needs to draw upon networks that interlink Southern and Northern researchers which have developed a larger menu of policy frameworks upon the basis of Southern experience. Southern representatives to the Bretton Woods Institutions need to better inform themselves of research initiatives in their own countries, and to translate this knowledge into recommendations to BWI governance structures. The UK government could convene a meeting of influential Southern governments to encourage them to mobilize action around a new poverty agenda for the IMF. This would help the IMF to redefine its role, otherwise — as Bank of England Governor, Mervyn King recently stated — the Fund will ‘slip into obscurity’.

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