CAFOD
just one world

Justice not Charity: Policy change for Africa in 2005

Executive Summary

When the G8 and other donors make rhetorical commitments to the Millennium Development Goals (MDGs) without providing the resources and policies to achieve them, they open themselves to the charge of grave political cynicism at the expense of the world's poor. Many low-income countries will miss the MDG targets. The year 2005 marks the last best chance for the rich world to honour its commitments to reduce poverty internationally by helping to achieve the MDGs. This report spells out a series of recommendations for radical change in G8 policy that will benefit developing countries.

The MDGs include halving the number of people living in poverty and hunger, achieving universal primary education and reducing infant mortality by two-thirds by 2015. Their achievement will require changes in both development finance and trade policies. By itself, making trade fairer for the poor will leave many impoverished people excluded from domestic and international markets, unable to take advantage of any reforms. And similarly, increasing the volume of development finance without addressing the quality of aid or reforming trade will leave the developing world, and Africa in particular, vulnerable to economic shock and prone to another debt crisis. In short, this paper argues that neither increased aid nor fairer trade can work on their own. Both are necessary to reduce poverty. The authors also argue that unequal economic and political power in the development relationship undermines the quality of aid spending and pro-poor policy.

Financing the Millennium Development Goals

In 2002, the G8 – the leaders of the world's largest economies – promised to bridge the MDG financing gaps for those countries "genuinely committed to poverty reduction, good governance and economic reform". Three years on, the promise is unfulfilled and looks increasingly hollow. Collectively, the world's richest donors are failing badly on their Millennium promises.

With ten years to go before the 2015 MDG deadline, the donor community has failed to settle on a methodology for costing the MDGs. It has also failed to identify and agree on where the additional resources will come from, although preliminary estimates suggest that more than double the current levels of aid will be required. And they have yet to agree on what kinds of policies a recipient government must adopt to demonstrate a commitment to "poverty reduction, good governance and economic reform".

Six years ago, the G7 summit in Cologne promised US$100 billion worth of debt relief for Highly Indebted Poor Countries (HIPCs) in a scheme intended to leave these countries with sustainable debts. So far, less than a third of the promised sum has been delivered and still, the HIPC Initiative is failing to leave countries with affordable debts.

This paper outlines a new, practicable framework for financing the MDGs, with three policy strands. First, it argues that debt cancellation – as a form of development finance – should be the priority in this framework. Debt cancellation enhances country ownership and improves the longer term predictability of financial flows – both necessary conditions of successful donor-recipient relations.

Second, aid levels must be massively increased, and quickly. G8 countries spend more on pet food than on honouring their aid commitments. Flows of overseas development assistance (ODA) to sub-Saharan African governments must more than double to at least US$40 billion a year, if the MDGs are to be met.

Third, a fundamental change is needed in the donor-recipient relationship for any achievements to last. The paper calls for a new more balanced framework governing development assistance – one that is underpinned by a more equitable set of principles of partnership between official donors and Africa.

Commitments must be reciprocal. If poor country governments must be held to account, so too must donor nations, to ensure that they keep their promises. In 2002 the G8 promised to bridge the MDG financing gap for those countries "genuinely committed to poverty reduction, good governance and economic reform." Three years on, the promise has not been fulfilled.

Trade

Current trade rules have not benefited Africa. Studies by the World Bank and the UN Development Programme (UNDP) show that the Uruguay Round of trading negotiations, with their imbalance of power in negotiations, skewed agenda and scant attention to development outcomes, have actually made Africa worse off.[1]

In 2001, G8 member states and the international community launched the Doha "development" round of world trade negotiations. So far, these have progressed at a snail's pace. The world's richest trading nations have shown deep reluctance to agree the changes in trade policy that would make trade work for development in Africa.

Nowhere is this more evident than in rich countries' massive support and protection of their own agriculture. Despite the high profile of agricultural subsidies in trade negotiations, rich countries have used every trick in the negotiator's book to maintain them, rather than to make real commitments to end the dumping of products on poor country markets.

Yet subsidy reform is only one element of the changes in trade that would allow Africa to introduce successful poverty reduction strategies.

Agriculture is the sector with the greatest potential to reduce poverty and achieve pro-poor economic growth in Africa. But it is being systematically undermined by trade and aid policies that ignore the interests of the world's poorest and most vulnerable producers. The rich world's continued promotion of market liberalisation in Africa has been coupled with declining aid flows and restrictive donor policies. This has been sharply detrimental to the vitality of the agricultural sector and to the lives of the poorest people in most African countries.

The ability of Africa to take advantage of global market opportunities is seriously impaired by severe deficiencies in the capacity to trade, such as appallingly inadequate infrastructure, and patterns of trade that lock Africa into an immiserating commodity trap. Donors have tended to prioritise spending on health and education at the expense of investment in productive infrastructure.

If the Doha round is intended to enable developing countries to overcome the challenges of poverty set out by the MDGs, then development must be at the centre of trade negotiations. Yet until now there has been at best a mixed bag of small concessions and adjustment periods tacked on to a one-size-fits-all liberalisation template. At worst, development has served as an empty slogan to disguise mercantilist business as usual. It is illusory to think that extreme poverty in developing countries can be halved by 2015 without rich countries changing their vision of trade and development.

Conclusion

The costs of achieving the requisite changes in aid and trade policy are affordable. What is lacking is the political will. The people of Europe and the US spend about as much every year on their pets as they give Africa in aid. The European Union gives more support to European cows than most Africans earn – and then dumps the beef and other subsidised agricultural produce on African markets, where most Africans struggle to earn a living. The rich world's trade binds Africa into a commodity trap, while aid spending remains too low and increasingly comes in a form that neglects investment in sub-Saharan Africa's productive capacity.

Ethically, there is no justification for tolerating this situation. Economically, the overall costs to the rich world of bringing about the necessary changes are comparatively small. The choice is a political one. If the rich world, and the G8 heads of government in particular, lay claim to international leadership, then they must accept the responsibility that goes with it. It is the collective responsibility of us in the rich world to provide the means to allow the impoverished communities to escape their predicament. That is the decision before us in the year 2005.

Introduction

At the Millennium Summit, the heads of all the world's governments resolved to achieve the so-called Millennium Development Goals (MDGs) and, with special consideration for Africa, promised to: "Take special measures to address the challenges of poverty eradication and sustainable development in Africa including debt cancellation and improved market access [and] enhanced aid."[2]

This paper argues that the delay on the part of the world's richest governments and institutions in devising MDG policies is unacceptable and is removing any prospect of Africa achieving the MDGs[3]. It sets out some of the practical steps required if the world's richest governments' commitment to achieve the MDGs is to be taken seriously. The first section calls for a new development partnership between Africa and the international donor community. The second section outlines the additional development finance required and proposes a financing framework – something currently missing from international donor plans. The third section sets out the trade reforms that will be needed if poverty reduction in Africa is to be widespread and sustainable.

Missing the MDGs[4]

The MDGs represent an important set of commitments, but they are only a first step. CAFOD is not satisfied with the ambition to reduce poverty by half. Its aim is to eradicate poverty and achieve social justice. However, on current trends the MDGs will not be met in Africa. They risk serving as no more than a measure of how far we in the rich world have failed to live up to our undertakings to the world's most impoverished people. Committing ourselves to action in the coming months is our last best hope for change and life for millions of people across our shared planet.

Africa off-track

MDG 1a To halve the numbers of people living in absolute poverty by 2015

On current trends this will not be met until 2147.

MDG 1b – Reduce by half the share of people who suffer from hunger

No date can be set because the region's situation continues to worsen. This would become an aspiration for the next century.

MDG 2 To achieve universal primary education by 2015

On current trends this will be met at the earliest in 2129.

MDG 3 To eliminate gender disparity in education enrolment by 2005

Already missed.

MDG 4 To reduce infant mortality by two thirds by 2015

On current trends this will be met by 2165.

MDG 7a Reduce by half the share of people without access to safe drinking water

On current trends this may be met between 2020 and 2050.

MDG Goal 8: Develop a global partnership for development

"Developmental Partnership is a relationship into which we enter voluntarily, with like-minded development agencies in the South, based on a shared vision of human society characterised by justice, in the light of which we make a mutual commitment to share"

CIDSE[5] definition of partnership

Despite the strong rhetorical commitment that donors give to partnership with recipient governments, the evidence suggests that donors in general do not understand what working in partnership involves. Donors typically continue to earmark finance for projects and programmes, and impose detailed conditions and institutional controls. This undermines the accountability of recipient governments to their own public and civil society agents. Conditional aid weakens incentives to recipient governments to be transparent and accountable to their own citizens and undermines their capacity to allocate public resources to the intended beneficiaries: poor people. Donors should take heed of the abundant and authoritative evidence that conditionality regimes imposed by the International Monetary Fund (IMF) have failed to produce pro-poor outcomes or to deliver the policy reforms desired by donors.[6]

Successive G8 communiqués have repeated donor commitments to improve the co-ordination of aid and harmonise aid policies. But across the official donor community progress remains woefully inadequate. Some estimates suggest that recipient governments spend as much as half their time on donor-related activities rather than on improving public sector administration.[7]

A new relationship is needed between donor and recipient countries in aid, trade and debt. This should be based on giving a greater voice to poorer countries and impoverished communities in the key decisions that affect their lives and economies. We would argue that enhancing the success of the developmental state in Africa – that is, a state where the recipient government and institutions work for progressive human development gains – is dependent on the donors forgoing paternalist or self-interested approaches that have characterised much of the donor-recipient relationship.

Donors might do well to learn from the understanding of partnership developed by non-governmental organisations (NGOs). Some NGOs have learned that the wider participation of impoverished communities and other aid recipients is fundamental to achieving sustainable development. CAFOD believes that the following principles[8] and practical steps must be adopted if the global community is to build genuine development partnerships and achieve the MDGs:

- **Development partnerships work best when they are based on the principle of mutual obligations**. The Millennium Declaration implies sets of obligations for donors and recipients based on common goals. At present few, if any, instruments exist to hold donors accountable for fulfilment of their pledges to recipient governments (let alone parliamentarians, civil society organisations or chambers of commerce). Top-down donor policies and conditionalities are fickle and too often shaped by capricious and shifting strategic priorities.

  Recommendation to the G8:
  A more genuine development partnership requires that donor financing and policy instruments, such as budget support conditions or the IMF's Poverty Reduction and Growth Facility, should be the product of dialogue and emerge from in-country planning processes. They should complement the poverty reduction objectives set by recipient governments working with legislatures, the private sector, civil society organisations and religious bodies. Where currently donors dictate the sanctions, too often in the form of the suspension of aid, CAFOD believes that the sanctions should be reciprocal, co-owned and predictable. In other words, the failure by donors to meet their commitments should also be subject to sanctions.

- **Development partnerships intended to benefit poorer communities must be designed according to the principle of subsidiarity**. In the development context, subsidiarity asserts that policies are more successful when they are designed and owned at the level at which they are implemented. Subsidiarity requires that the interests of the impoverished and marginalised are central in the policy design process. The donor-recipient relationship is likely to work better when the dialogue moves beyond the paternalism that characterises too much of donors' interaction with recipient governments. A wider group of informed stakeholders in the country concerned should be included in open, cyclical and participatory planning processes. The aid relationship should be between countries and not only between officials.

  Recommendation to the G8:
  Decisions on the strategic direction of the aid relationship and the conditions for aid and debt relief should be taken in larger fora and roundtables between donors, governments, civil society, the private sector and parliamentarians.

- **The empowerment and inclusion of multiple domestic stakeholders in the policy design process requires transparency and information**. At present, negotiations between donor and recipient goverments are secretive and exclusive. Decisions with far-reaching consequences for nations are frequently taken without the knowledge of parliamentarians or other genuine representatives of impoverished people. As a first step, bilateral donors must publish and disseminate information on development finance, aid policy and bilateral programmes.[9]

  Recommendation to the G8:
  They should publish information on the sources available for new aid, including levels of concessionality and the agreements struck with recipient governments. Donors should make public a menu of development financing options.

An MDG financing framework: aid and debt relief

The problem with the current aid system is that too little money is chasing too many donor priorities and promises. At the G8 summit in Kananaskis, Canada, in 2002 the heads of government gave an important pledge to Africa, that "no country genuinely committed to poverty reduction, good governance and economic reform would be denied the chance to achieve the Millennium Goals through lack of finance" [G8 Action Plan for Africa]. Three years on, that promise remains unfulfilled and looks increasingly hollow.

To date, the G8 have not identified where the funds would come from or the form they would take. Nor have they set the criteria by which to judge whether countries are "genuinely committed to poverty reduction, good governance and economic reform".

The G8 urgently need to produce an MDG financing strategy that identifies the terms on which additional development finance will be delivered, the sources from which it will be made available, and which countries are eligible. This section suggests some of the elements that need to be considered in any new MDG financing framework. But first it is important to state the magnitude of the challenge of financing the MDGs.

The MDG financing needs

Economic and social data for much of sub-Saharan Africa are weak, making it difficult to assess how much additional money is required to meet the MDGs. Even the UN's Millennium Project covers only three countries in Africa. The sorry story that emerges is that despite the official international consensus that more aid is needed to achieve the MDGs, no official agency has attempted a country-by-country costings exercise. Many African states are reported to have the basic figures, albeit not in aggregated form, but no serious attempt has been made to encourage costing of the MDGs at a country level.

The Millennium Project's *Millennium Development Goal Needs Assessment* report estimates that the three African countries studied (Uganda, Tanzania and Ghana) will need approximately $50 per person per year in additional external assistance to achieve the MDGs. Extrapolating this average (and taking into account population growth forecasts) CAFOD estimates that sub-Saharan Africa will need more than $40 billion of external assistance a year. This is more than double the $18 billion of aid that sub-Saharan Africa received in 2002. CAFOD's estimate is consistent with the African Development Bank's estimate of $38 billion in the *Global Poverty Report 2002* and the preliminary, lower end, value of the Millennium Project's draft *Global Plan to Achieve the Millennium Development Goals* ($41-$72 billion).

The estimate is broadly corroborated by CAFOD's country case analysis built from a variety of sources (see Figure 1)[11].

Recommendation to the G8:

- **The world's richest countries need to increase their financial support to African governments' poverty reduction programmes to at least $40 billion a year if sub-Saharan Africa is to have any chance of achieving the MDGs.**
- **Donors should be encouraging the aggregation of recipient country data as a basis for producing country-led costings of the MDGs.**

The development challenge in an age of poverty and HIV/AIDS

Fleur Anderson

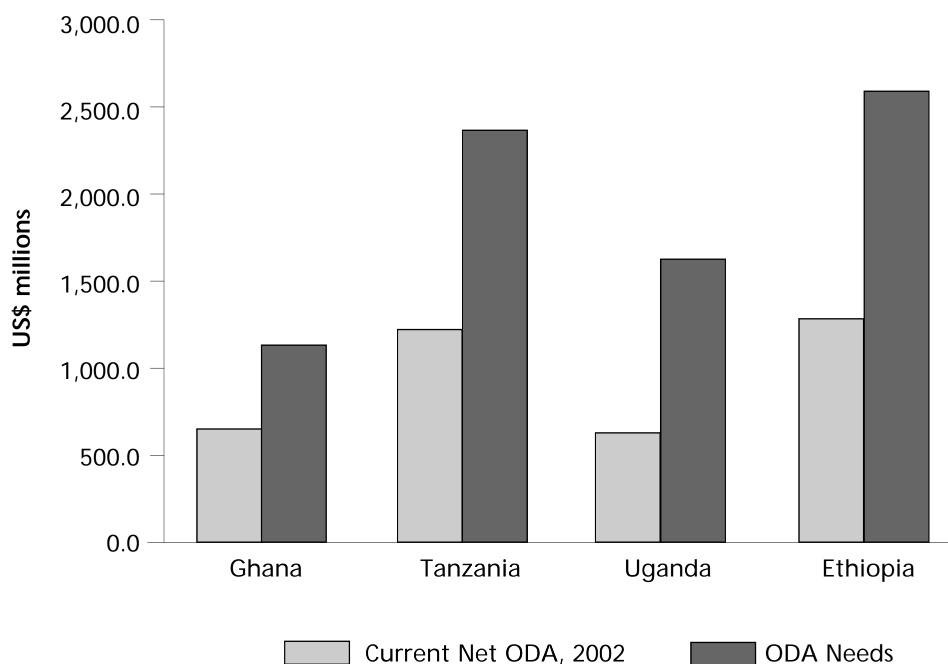
In Zambia, the government has recently removed the requirement for fees to be paid for primary school enrolment. Class sizes are frequently larger than 100. The difficulty of training and recruiting new teachers is exacerbated by the spread of HIV/AIDS. The government of Zambia will have to increase the numbers of teachers by 25 per cent in some areas just to replace those dead or dying from the disease.

Joshua Daka, headmaster of Mbozi Basic School in Chipata Zambia: "*There are many orphan children at the school. Over 90 have lost a mother, father or both. Things are getting worse. It affects schooling because children don't have money for clothes and are poorly nourished. They have trouble concentrating. If they can't be supported at home, many young girls get married to get support from a husband.*"

The monthly wage of a Zambian primary school teacher does not cover the food bill for an average sized family.[10]

Joshua Daka, headmaster of Mbozi Basic School, Zambia.

Figure 1. Projected annual overseas development assistance needed to meet the MDGs



To increase official aid flows is the only realistic way to finance the MDGs for Africa. According to the estimates of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD), the entire aid package for sub-Saharan Africa – including grants and new loans – currently stands at about US$18 billion a year.[12] This is a little more than what the people of Europe and the US together spend on pet food every year. The total value of grants given to African governments every year is just over US$11 billion,[13] about the same as the amount spent on ocean cruise holidays.[14]

Sources of finance for the MDGs

Before proposing the form and direction of the reforms to aid and debt policy reforms needed to achieve the MDGs, it is important to identify the sources of finance and their role in driving the MDGs.

The sources of finance that low-income countries can realistically expect to draw on to bridge the MDG funding gap are limited. These are: domestic tax revenues; domestic and external private sector investment; wage remittances; trade; and capital flows in the form of official aid and debt reduction. Several of these depend on economic growth in Africa and globally. The challenge is to combine the different sources of finance in such a way as to put the MDGs within reach.

While private sector flows must form an important part of the overall mix of resources, flows from official sources – that is grant aid, debt cancellation and new loans – represent the largest share of capital flows for most low-income countries.[15] It is important, therefore, not only to examine the amount of official capital flows, but also their effectiveness as aid and development instruments.

If the donor community is serious in its intent to achieve the MDGs, the challenge is not only to ensure that sufficient finance is made available, but also that the financing instruments are sufficiently predictable and flexible to respond to the needs of low-income countries. At present, donor flows are highly unpredictable. They are four times more volatile than income from domestic revenue.[16]

Aid and poverty

"There is a big focus by donors on consultancies, design of programmes, missions, studies, but there is no implementation. Much of the money goes back to the donors with all these donor-led activities. Sometimes there is an unnecessary duplication of knowledge, when one donor does a study it's followed by the World Bank with a consultancy to analyse the same issue."

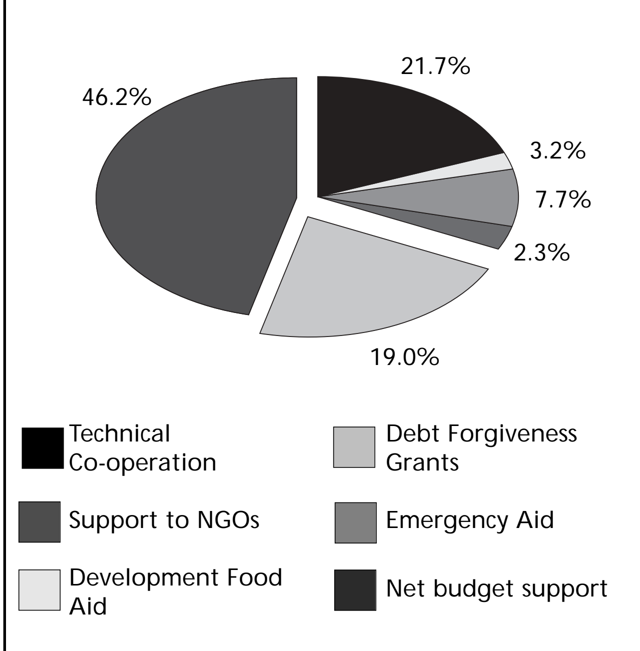
Anonymous donor official speaking to CAFOD in Mozambique, 2004

As Figure 2 shows, the net benefit of aid to recipient government budgets is less than half the value of official flows to Africa. Moreover, nearly a quarter of all gross official flows are sent back in the form of debt-servicing and debt repayments. This seriously limits the ability of these low-income countries to develop and pursue their own development priorities. In effect, African governments are exchanging their own tax revenue, over which they have complete control, for development assistance that is often tied to the donor's priorities.

Recommendation to the G8:
Improving aid effectiveness poses two challenges:

- **The G8 must commit to a timetable that ensures donor finance is stable, harmonised and predictable, and mobilised in support of recipient countries' own poverty reduction policies.**
- **The purposes and terms of new aid flows must be made publicly available to all relevant stakeholders in recipient countries.**

Figure 2. Net official flows from G7 countries and multilateral institutions to sub-Saharan Africa, 2002 (excludes Nigeria)



Rethinking debt relief

On debt, too, the world's richest countries have collectively broken their promise to the developing world. At the Cologne Summit in 1999, the G7 promised US$100 billion of debt relief. To date, only US$31 billion has been delivered. The World Bank and IMF promised in their follow-up meetings to provide sufficient debt relief to remove the burden of unsustainable debts from the Heavily Indebted Poor Countries (HIPCs). But any judgement of the financial benefit of the enhanced HIPC Initiative must start by analysing its impact on the HIPCs. And here, the results can best be described as modest.

- The World Bank and IMF estimate that by Completion Point[17] eight to ten of the HIPC countries most affected by the slump in commodity prices will have debt-to-export ratios higher than the 150 per cent target set by the HIPC Initiative.
- More than half of HIPCs are spending about 15 per cent of their government revenue on debt servicing.[18]

CAFOD has long argued that the central flaw of the HIPC Initiative is that it uses an inappropriate analytical criterion – the debt-to-exports ratio – to judge the sustainability of a country's debts. We have proposed that analyses of debt sustainability for low-income countries must take account of a wider set of human development indicators. The capacity to earn foreign exchange through exports is an important element in any analysis of the sustainability of debts denominated in foreign currencies. But for low-income countries challenged by widespread and deep levels of poverty, a crucial part of the analytical framework must be the tax revenue actually available to governments and the trade off between maintaining their debt-servicing obligations and financing poverty reduction.

That said, it is true that the HIPC Initiative has produced pro-poor development finance. Indeed, because the initiative has shown that debt reduction has clear development benefits, CAFOD – like developing countries themselves – is calling for new debt sustainability criteria that will put development first.

- In HIPCs that have reached Decision Point[19] in the HIPC Initiative, social spending has increased by between 20 and 50 per cent. Mozambique has introduced a free immunisation programme for children. User fees for primary education have been abolished in Uganda, Malawi and Tanzania, and in rural areas of Benin. Mali, Mozambique and Senegal are due to increase spending on HIV/AIDS prevention.
- The requirement to consult with civil society to design Poverty Reduction Strategies has helped to increase the potential for poor people to influence national resource allocation processes.[20]
- Uganda and Mozambique, among the early beneficiaries of debt relief and enhanced aid flows, have consistently sustained annual growth rates more than 5 per cent. Two IMF working papers suggest that debt relief has a positive effect on growth rates, whereas conventional forms of aid do not produce the same dynamic.[21]

Campaigning groups have continued to espouse the cause of further debt relief as an efficient and effective way to transfer resources. Debt relief has advantages over traditional forms of development aid. Once committed, it is highly predictable. According to an IMF working paper, it is anti-inflationary.[22] Writing off debts can also relieve the pressure on domestic borrowing, increasing the availability and reducing the cost of domestic credit, thereby spurring economic growth. And by providing *de facto* budget support, debt cancellation can reduce the transaction costs of donors, and enhance local accountability and good governance.

In essence the debate over debt sustainability is a debate over the purpose of debt relief. For the creditors, the aim of debt relief in the HIPC Initiative has become hopelessly confused.[23] For the G7 heads of government, the purpose of promoting an enhanced HIPC Initiative included the provision of additional impetus and funds for poverty reduction. But for the architects of the policy, the World Bank and IMF, the central objective was a notional debt sustainability that would effectively put debtor countries in a position to roll over their debts. But it is perfectly feasible, under the HIPC Initiative, for countries to be deemed to have sustainable debts while they have no money to spend on poverty reduction. CAFOD believes this is an abuse of the term "sustainability".

In response to the continued campaigning efforts of NGOs, some major creditors – notably the UK government – have proposed writing off the debts owed to the World Bank and IMF by countries that have passed Completion Point in the HIPC Initiative. CAFOD believes that such a move is necessary if Africa is to maximise its prospects of achieving the MDGs. But this proposal has its limitations. Some African countries, most notably Nigeria, are debt-distressed but not eligible for debt reduction on the same terms as other HIPCs. A new approach to aid and debt is needed, with MDG financing at its centre, to ensure equity of treatment between the highly indebted and non-indebted low-income countries.

Recommendation to the G8:

The G8 summit should quickly reappraise the creditors' approach to debt. Three things must happen:

- **The requirement for MDG development finance must be a central element of debt sustainability analyses. As part of this analytical approach, countries such as Nigeria should be made eligible for debt relief on terms comparable with other low-income countries.**
- **A fairer and more inclusive institutional mechanism should be set up – one in which creditors no longer hold the monopoly of decision-making on debt reduction.[24]**
- **The process of contracting loans and managing debt must draw in a wider group of stakeholders in the recipient countries. Donors and creditors need to publish information about future flows of aid, including levels of concessionality and details of the agreements struck with recipient governments.**

An MDG financing framework: finding the right mix

The global consensus around the MDGs has made them the new "gold standard" of international development co-operation. Increasingly, donor policy and performance are measured against the global effort towards reaching the goals. CAFOD proposes a common approach to financing low-income countries: cancel debt in highly indebted countries as an efficient way of transferring resources for development, and give corresponding amounts of aid in the form of budget support to low-income countries that are not highly indebted.

The starting point of any MDG financing framework must be to identify the funding gaps: the requirements that cannot be met from existing inflows and domestic net revenues. These are the gaps that need to be filled by external flows.

There are essentially two options for official external flows: aid or debt relief. The proposal is for this gap to be filled from one or other according to some best practice indicators for managing development assistance. That is, the decision whether to transfer the MDG development assistance in the form of aid (and whether to do so in the form of budget support, grants, loans, project or programme aid) or debt relief will depend on:

- the quantity and best mix of new borrowing and debt relief that countries need to maximise their economic growth prospects;[25]
- the forms of resource transfer that will enhance the poverty focus and prudent management of recipient governments' public resources;
- the forms of development assistance that will enhance the predictability of resource transfers, and reduce the transaction costs and skewed accountability that too often result when recipient governments report to multiple donors.

Future calculations of debt sustainability must include an assessment of the feasible net revenue[26] available to recipient or debtor governments. A number of variants of this model have been proposed,[27] but the underlying principle is that the calculation of the amount of debt-servicing governments can sustain must give priority to spending on poverty reduction and the MDGs. This reverses the logic of existing debt sustainability criteria.

CAFOD is proposing that debt service should be paid with the resources left after allocating the expenditure and investments needed to meet the MDGs.

According to preliminary calculations, many HIPCs, and some non-HIPCs such as Nigeria, will require a total cancellation of debt and further aid flows if their revenues are to bridge the MDG financing gap.[28]

In view of the advantages of debt relief over aid, CAFOD proposes that where a low-income country is indebted, and its government is demonstrably committed to using the resources for poverty reduction,[29] debt cancellation is the initial priority, followed by supplements of aid. The overall amount, whether in the form of aid or debt relief, would be determined by the costed MDG or poverty reduction funding gap. This approach would also be applied to non-HIPC low-income countries where current aid flows and government revenues are insufficient to fund the MDGs. In such cases, debt relief should be the priority, followed by a mix of concessional finance and grant aid.

Recommendation to the G8:

The G8 must commit to a financing framework that sets out the MDG financing gap and the sources of finance that will be used to bridge it. The transparent and accountable management of public resources and wider participation of in-country stakeholders in the allocation of development assistance should be conditions for eligibility for enhanced aid and debt relief. The participating stakeholders must include genuine representatives of the poor.

The need for additional and stable resources

The current volatility and unpredictability of aid flows is a serious impediment to planning to meet the MDGs. A more stable and predictable way to finance recurrent social spending and capital outlays is essential.

First, OECD governments must devise measurable timelines and concrete annual budgetary commitments to increase aid in line with their 35-year-old commitment to spend 0.7 per cent of gross national income on overseas aid.

The final question is, where will the additional finance come from to bridge the gaps identified? A number of financing proposals are available to donors.

CAFOD strongly supports the introduction of a global taxation system – and in particular the international Currency Transactions Tax (CTT).[30] The feasibility of the CTT has been endorsed in the *Landau Report* sponsored by the French government and the World Bank in 2004.[31] The UK government has proposed an International Finance Facility that frontloads aid spending as a way of increasing financial flows in the short term. As things stand, the IFF offers the best chance of mobilising the volume of resources needed to achieve the MDGs. Nevertheless, CAFOD has serious concerns that this approach may come at the expense of post-2015 aid flows. There are also calls for the sale or revaluation of the IMF's gold reserves, spread over the longer term so as to avoid damaging the income of developing countries from gold exports. Each of these options is credible, although some have clear pitfalls.

Recommendation to the G8:

> **It is not politically tenable for the donor community to give rhetorical support to the internationally agreed poverty targets while refusing to provide the financial resources to meet them. The achievement of the MDGs requires more than proposals or promises: the time has come to mobilise new and stable resources for development. Otherwise the yawning gap between rhetoric and reality, between the MDG promises and the pitiful shortage of resources to keep them, opens the world's richest countries to the charge of grave political cynicism. It is time to act.**

The case for fairer trade

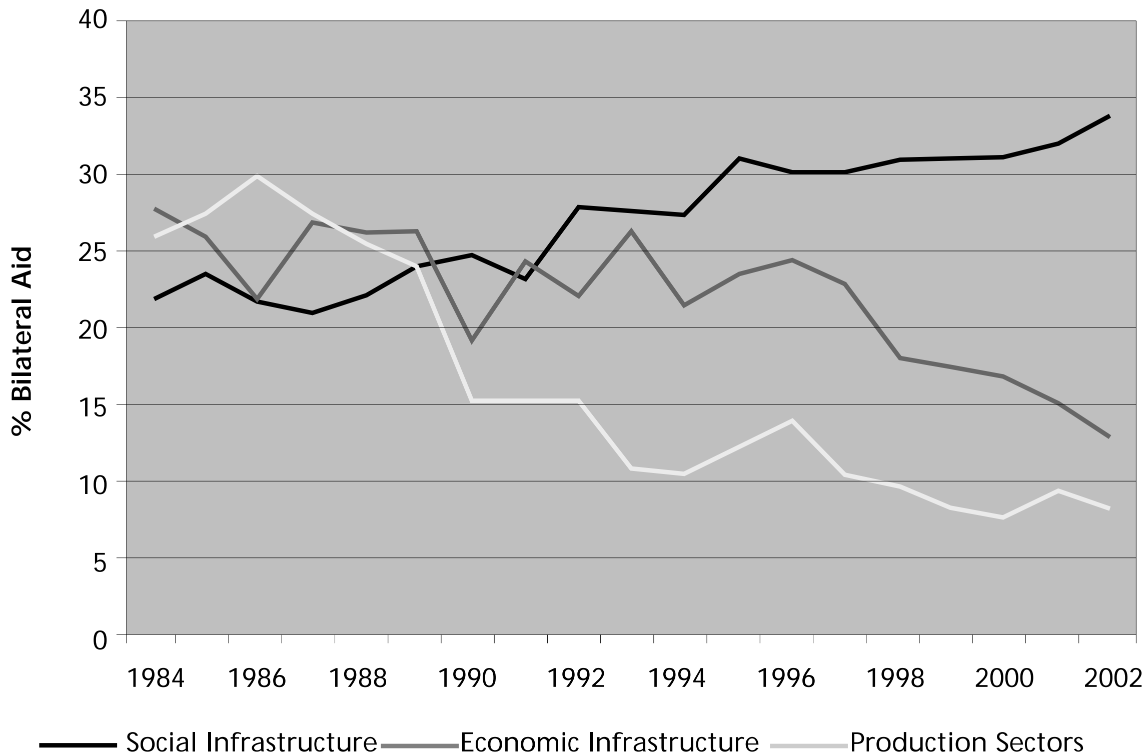
The poorer a country is, the greater its vulnerability to prolonged and frequent economic shocks.[32] And countries that are highly dependent on one or two, mostly agricultural, commodities are likely to remain poor. Large increases in development finance alone will be insufficient to secure sustainable livelihoods for most Africans. This paper argues that, for African countries to escape from their present immiserating commodity trap, the trade system that is unfairly biased against them must undergo radical reform. Moreover, if African countries are to take advantage of those reforms, they need substantial investment in their productive sectors.

As Figure 3 shows, aid spending on Africa's productive sectors, such as agriculture, has fallen in relative terms over the past 20 years. Donors' increasing preference for allocating aid to social sectors such as health and education has not helped Africa build its productive base or enhanced its economic prospects.

µAs the head of the UN's Economic Commission for Africa, K.Y. Amoako, said in 2003:

"This preoccupation with the lifting of social services may have led us to neglect the centrality of strengthening the fundamentals … There has been a sharp reduction in the share of aid going to productive sectors. [Aid and debt relief] may have enshrined a set of policy priorities, which does not fully reflect Africa's most urgent needs. There is clearly a necessity to direct HIPC savings beyond the social sectors."[33]

Figure 3. Bilateral overseas development aid by sector



Source: IDS-DAC

Gender and agriculture

"*There will be no food security without rural women*"
Jacques Diouf, FAO Director General

It is difficult to overstate the importance of women in developing country agriculture. Women account for 70-80 per cent of food grown in sub-Saharan Africa, while in South and Southeast Asia, 60 per cent of the work in agriculture and food production is done by women. There is also an increasing trend towards the "feminisation of agriculture", owing to conflict, HIV/AIDS and rural-urban migration.

However, women also suffer from severe gender biases. They have unequal access to capital (notably credit), legal and social ownership rights (land in particular) and inequalities in access to productive resources and services (including agricultural extension services, training, technology and market information). Women's higher rates of illiteracy lead to exclusion from new market opportunities, while women farmers are often neglected by policy makers and their contribution to agriculture is not properly valued or understood.[34]

These gender biases constrain women's ability to succeed in some sectors of developing country agriculture. What has been termed "gender exploitative integration"[35] limits women's participation in export-oriented agriculture, and also in larger-scale – and more profitable – activities (trading, marketing) in domestic agriculture. Gender biases in turn often trap women in low-productivity, low-growth economic activities, leaving them few opportunities other than home-based employment in low-technology sectors.

Agriculture, poverty reduction and the MDGs

In Africa more than 70 per cent of the poorest people live in rural areas and work in agriculture. There is an intimate relationship between poverty and agriculture. Studies have repeatedly shown that agriculture is key to poverty reduction efforts in Africa and must therefore play a central role in achieving the MDGs. Of the 1.2 billion people worldwide living on less than a dollar a day, 900 million live in rural areas.[36]

Indeed, given the lack of alternatives, agriculture is the only route to sustained poverty reduction in Africa.

Agricultural growth has a more powerful impact on poverty reduction than any other economic sector.[37] Agricultural growth favours the sector where poor people work, uses the land and labour that they possess, produces crops that they consume and favours the rural areas where they live. It generates employment, creates income, and increases the ability of poor people to secure and create further assets. A 1 per cent increase in agricultural productivity has been found to reduce the proportion of people living on less than $1 a day by 0.6-1.2 per cent.[38]

With growth rates of 6-8 per cent typically required to achieve the MDGs in Africa,[39] only agriculture can be expected to mobilise the required economic dynamism.[40] Not only can agriculture reduce poverty directly, but it can also stimulate growth in the wider economy. Studies have shown that a $1 increase in agricultural value added leads to a $1.50-$2.00 increase in value added in the non-farm economy. Similarly, a 1 per cent increase in agricultural gross output has been shown to raise rural non-farm employment by 1 per cent.[41]

Domestic agricultural policies

The financing gap for agriculture in Africa

Africa has a failing agricultural sector. Sub-Saharan Africa is the only region of the world where in the past 30 years population growth has overtaken rates of agricultural production.[42] Almost without exception, the lowest average yields for crops and livestock are found in sub-Saharan Africa.[43] African agricultural production actually *declined* by 5 per cent between 1980 and 2001.[44]

The first problem is a simple lack of spending. Over the past 15 years, aid to agriculture worldwide has declined as a proportion of aid flows from 20 per cent to 12 per cent.[45] The absolute value of aid to agriculture fell by two thirds between 1987 and 1998.[46]

The impact can be seen in the chronic deficits in infrastructure. The whole of Mozambique for example, although larger than the United Kingdom and France combined, has fewer tarmac roads than the single English county of Kent.[47] This leaves many rural producers isolated, at the mercy of traders who can dictate terms for buying farm produce, or unable to market their produce on any terms.

The International Food Policy Research Institute (IFPRI) estimated that the investment in agriculture needed to make a serious impact on hunger to achieve the MDGs between 2002 and 2015 would be only $5 billion additional aid a year. This would be spent on rural infrastructure (such as roads, irrigation and research and extension services), education and clean water. This is the amount the OECD spends on agricultural subsidies in one week.[48]

Africa and domestic agricultural policy

International policies that fail to address the challenges facing Africa's rural poor have been as pernicious as lack of spending. The policies espoused by donors, and included as conditions for new aid or loan rescheduling, have been as damaging as the failure to allocate adequate aid to agriculture.

The reforms promoted by international institutions, usually as conditions for loans, have consistently emphasised open markets and a reduced role for the state. There is growing evidence that this has hindered the prospects for growth in agriculture in many African countries.[49]

Forms of intervention that have proved vital to building functioning agricultural markets have been systematically excluded from governments' policy toolkits. For example, policies aimed at reducing risks to producers seeking to invest, or enabling access to seasonal credit and input and output markets on more favourable terms, have been curtailed or abandoned altogether.[50]

Case study

Adjustment programmes that impose privatisation and liberalisation measures are a condition of debt relief. In the cotton sector in West Africa, they have forced the state to withdraw from marketing, credit and extension services.

Previously, supportive institutions had helped poorer farmers to cope with shocks and reduced volatilities. This meant that risks such as crop failure, unpredictable weather, volatile markets at harvest time, and inability to repay credit were shared nationally through marketing boards and similar institutions. Now that adjustment programmes have removed these without putting alternative forms of support in their place, the risks have shifted heavily towards individual farmers and their communities.

In the West African countries visited by the CIDSE network of Catholic aid agencies, farmers face rising costs of inputs, difficulties in obtaining and repaying credit, a lack of alternative agricultural crops, and a lack of extension services and stable market outlets. These problems are just as troubling to African cotton farmers as US or EU subsidies.

All too often this *laissez-faire* approach to domestic policy has left vital tasks to market actors who are too weak, or lack the incentives to take the risk involved, or who simply do not exist, in markets that do not function.

International trade policy

Weak producers, open markets and unfair competition The elimination of agricultural subsidies in the North is one of the main demands of developing countries in world trade negotiations. Their elimination, however, even if it were possible in the short term, is only one element in the trade policy reform needed to make agriculture work for poverty reduction in Africa. The dogged pursuit of the opening of African agricultural markets by northern countries will negate any benefit derived from reform of northern subsidies.

The crisis in African agriculture means that most poor rural producers are simply unable to compete against richer producers with much greater capacity and a more highly capitalised agriculture, even without subsidies. Poor and small-scale farmers depend on the functioning of local markets and effective national policies that promote rural development. These policies will fail, or their impact will be severely limited, if developing countries cannot use border protection to maintain the conditions in which pro-poor agricultural policies can be implemented.

In the past two decades, however, African countries have been under constant pressure to lower their agricultural tariff barriers.

This is evident in the conditions attached by the World Bank and the IMF to the approval of new loans and debt reduction. Liberalisation has often occurred at a breathtaking pace and depth, and has seemingly been promoted more by economic dogma than a considered analysis of its probable impact on poor people. Both Mozambique and Zambia now have more open economies than the UK and Germany.[51]

This has led to surges in imports of cheap, usually subsidised, products that have undercut small farmers' ability to sell to local markets. This sets off what the FAO describes as "a progressive pauperisation of small-scale farmers, who cannot possibly compete with modern capitalised farms in an increasingly open world economy."[52]

Sixteen country case studies carried out by the FAO, looking at the impact of the World Trade Organisation (WTO) Agreement on Agriculture, found that food imports surged after liberalisation. The FAO noted that "tariffs were often the primary, if not the only, trade instrument open to these countries for stabilising domestic markets and safeguarding farmers' interests".[53]

Despite their failure to live up to their commitments to reduce support for agriculture, rich countries continue to put pressure on African countries at the WTO and in bilateral talks to open their agricultural markets to global subsidised competition.

Africa's continuing exclusion from global trading opportunities Africa's agricultural crisis has been compounded by donor countries' policies on trade.

The thrust of current trade negotiations is towards greater liberalisation of trade. Special and differential treatment for developing countries and least developed countries (LDCs) consists mainly of longer adjustment periods and less demanding thresholds, but there is no doubt that the final aim is full liberalisation. This paper questions the assumption that Africa can take advantage of a more liberal trade regime, especially in agricultural products. More generally, it is appropriate to question whether a trade regime that would ultimately require reciprocal liberalisation from the richest countries in the world and the poorest and least developed will help Africa meet its development challenges.

Headline figures from projections conducted by econometric studies have beguiled policy makers into assuming that Africa will automatically benefit from global agricultural liberalisation. But these projections ignore issues with important implications for Africa: in particular, the supply-side rigidities or lack of capacity to take advantage of market opportunities, and losses caused by erosion of trade preferences.

Africa faces the erosion of its current preferential trading arrangements.[54] It is finding it increasingly hard to succeed in ever more competitive global markets against more highly capitalised producers from both the developed and the developing world.[55] Some economic

models predict that Africa will face net losses, in the politically likely scenario of small or medium levels of global agricultural liberalisation.[56]

The record of African agricultural trade in the past 20 years has been dismal, showing a steady decline in its agricultural trade balance.[57] African countries are locked into a commodity trap with dramatically falling terms of trade in their export products.

Countries that have made trade work to reduce poverty have diversified into dynamic growth sectors in world trade – mainly in manufactured products or services, but also in high value agricultural goods. In contrast, most African countries have specialised in a declining sector of world trade.[58] The primary exports of African countries have experienced a long term decline in price and in their share of value in world trade. The UN Conference on Trade and Development (UNCTAD) estimates that if terms of trade for Africa had remained at 1980 levels, the continent's share of world exports would be twice what it is now.[59]

To make matters worse, Africa is losing its competitive advantage in commodities such as tea and coffee to more efficient producers in Asia and Latin America.[60]

Business as usual and the status quo will not deliver trade that works for Africa. Much greater emphasis is needed on increasing productive capacity, adding value, international action to tackle the commodity crisis and, above all, diversification.

Africa and unfair trade

Current trade rules have not benefited Africa. The Uruguay Round of trade negotiations suffered from imbalances of power, a skewed agenda and scant attention to development implications. The outcome, according to studies by the World Bank and the UNDP, have made Africa worse off by $1.2 billion.[61]

Nowhere is the failure to act more apparent than with agricultural subsidies.

The US and support for its cotton farmers (see case study below) is not the only country guilty of hypocrisy on subsidies. Despite the European Union's pro-development rhetoric around reform of its Common Agricultural Policy (CAP), the past few years have seen continual increases in the CAP budget. Total budgetary expenditure on CAP in 2002 was 43 billion Euros[63] and this is due to climb to 50 billion Euros by 2013. In 2003 agricultural support accounted for 37 per cent of total farm receipts, a massively unfair advantage for European farmers.[64] Figure 4 shows the steady rise in CAP spending and EU agricultural exports.

Although a welcome first step, it appears that reform of the CAP will have limited impact on the dumping of European agricultural produce. In 2004 the OECD projected two scenarios for CAP reform. With the exception of rice, production of which is predicted to fall, the impact of reform on cereal production will be very limited. The most optimistic view was that it would lead to a decline of only 1 per cent.[65] In the wheat sector, a study commissioned by the European Commission indicated that reform would increase production.[66] A series of other studies made similar findings.[67]

The same slow pace of change is evident in the current Doha round of WTO talks. Despite the high profile of agricultural subsidies in WTO negotiations, rich countries have used every trick in the negotiator's book to keep them, rather than make real commitments to end the dumping of products on poor country markets.

Case study: the impact of northern subsidies

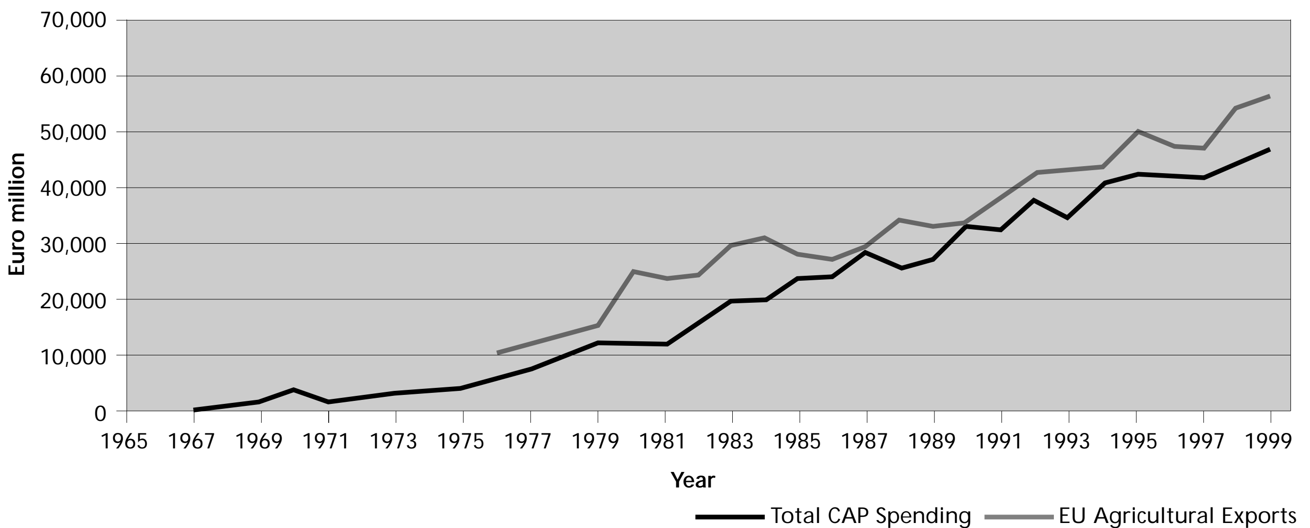
"Cotton is everything for us – our pharmacy, our hospital, our schools, our children," farmer Joseph Kabore tells CIDSE visitors in his village, Limseyga, in Burkina Faso. He has been growing cotton since 1986. "In the beginning, cotton gave us hope; but with the low market price and the high cost of inputs, we can't make enough money to take care of our families." "It is complete misery" adds his wife, Jane.

Declining world cotton prices have dealt a severe blow to the livelihoods of more than two million people in Burkina Faso who depend on cotton. Despite producing high quality cotton at low cost, Burkina Faso, one of the poorest countries on earth, is finding itself undercut by heavily subsidised producers from the richest countries in the world.

The US is the world's largest exporter of cotton, accounting for 41 per cent of world cotton exports in 2003. US cotton farmers are relatively uncompetitive, and are able to take such a large share of the market only because of lavish subsidies. In 2001/2002 the US spent around $3.9 billion on cotton subsidies, more than the entire gross domestic product of Burkina Faso, and three times the entire US bilateral aid budget for Africa.[62]

Joseph, his wife and their young children harvest the crop by hand. It is their only source of cash income and must pay for clothing, medicines, school materials and straw for their roof. The low price of cotton is forcing many children in the village to abandon their studies, while young people are leaving for cities in search of work.

Figure 4. CAP spending and EU agricultural exports



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The recent WTO framework agreement reached in Geneva in July 2004 is unlikely to lead either the US or the European Union to undertake any further reform of their subsidy regimes.[68]

Any real progress towards halving extreme poverty by 2015 in such countries as Burkina Faso and Mozambique depends on the elimination of dumping by rich countries.

Recommendation to the G8:

The G8 should ensure that northern countries substantially reform their agricultural subsidy regimes to ensure an end to the dumping of products on global markets.

Specifically, the G8 should support efforts at the WTO to eliminate all forms of export support, to secure a substantial reduction in Blue Box support and a thorough review of the Green Box. The objective of these measures is to ensure that any remaining domestic support has minimal trade-distorting effects and contributes to public goods such as environmental protection and securing the livelihoods of small farmers.[72]

Recommendation to the G8:

African and other poor developing countries must be allowed to protect their agricultural sectors. They should be exempt from further liberalisation commitments at the WTO and in bilateral trade negotiations, and be allowed to reverse agricultural tariff reductions imposed through conditions on IMF and World Bank loans.

At the WTO the G8 should actively support developing countries to self select the agricultural "special products" that they want to exempt from further liberalisation and use a "special safeguard mechanism" to deal with import surges.

EU-African bilateral trade talks

The European Union is currently negotiating free trade Economic Partnership Agreements (EPAs) with all sub-Saharan African countries. It is calling on these countries to eliminate 90 per cent of trade barriers to EU exports. This demand extends to all agricultural goods. At the same time the EU is refusing to discuss the CAP in negotiations.

This will not be an equal contest. EU spending on the CAP is worth more than twice as much as all of Africa's annual agricultural exports.[69] The average EU farmer receives the equivalent of US$16,028 each year in agricultural support,[70] 100 times more than the average annual earnings of the rural poor in sub-Saharan Africa – their probable direct competitors under EPAs.[71]

The EU must drop its demands for reciprocity in these negotiations and present alternatives to free trade that do not require African countries to liberalise in return for market access to the EU.

Conclusion

Both trade reform and increased financing, through aid and debt relief, are needed to solve the crisis in African agriculture. To rely on one alone will lead to failure.

Trade reform cannot tackle the primary causes of agricultural stagnation in Africa: low production levels, failing infrastructure, lack of skills and growth. Thus trade reform alone will not lead to poverty reduction and increased economic growth in the long term.

But equally, increased aid and a pro-poor agricultural policy rely on functioning agricultural markets, which will be undermined without tariff protection and the elimination of agricultural dumping.

Rich country subsidy reforms and trade policies that recognise the role of tariffs in protecting poor agricultural producers need to be complemented by strategies and policies that address the deeper crisis of production in many African countries and communities. Without this, Africa cannot reduce poverty.

CREDITS

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With thanks for their comments to: George Gelber, Jean Merckaert (CCFD), Ann De Jonge (Broederlijk Delen) and Christian Overkamp (CIDSE), Hildegard Wipfel (Koo).

Endnotes

1 A World Bank study estimated that sub-Saharan Africa was worse off as a result of the terms of trade effects generated by the Uruguay Round of trade negotiations. The UNDP estimates that under the WTO from 1995 to 2004 the 48 least developed countries will be worse off by $600 million a year, with sub-Saharan Africa worse off by $1.2 billion.

2 United Nations Millennium Declaration – 2000 www.un.org/millennium/declaration/ares552e.htm

3 This paper focuses on achieving the MDGs in sub-Saharan Africa because of the depth and pervasiveness of poverty on the continent. Also, Africa will be a key priority for discussion at the G8 heads of government summit in Scotland in 2005. However, for CAFOD the issues covered and policy prescriptions are applicable equally to low-income countries outside Africa and some middle-income countries.

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10 CAFOD's partners, the *Jesuit Centre for Theological Reflection*, produces a monthly "cost of living index", which indicates the salaries of many public sector workers fall well below the food basket cost. See www.jctr.org.zm

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