



DFID Consultation on the White Paper: Eliminating World Poverty Submission from CAFOD

I. Introduction

CAFOD welcomes DFID’s wide-ranging consultation on its third “Eliminating World Poverty” White Paper. The consultation includes questions about the international environment, donor policies and the national structures and processes that all need to interact positively to generate development and economic growth. CAFOD is not able to respond across the whole breadth of the consultation’s questions. Instead we make comments on just a handful of issues which we believe should be taken into account in the White Paper.

II. Key recommendations in this submission

- DFID should make a long term commitment to supporting and engaging with civil society in developing countries in order to enable civil society to hold governments to account for the use of resources intended to reduce poverty.
- DFID should recognise and where appropriate support the role of faith-based organisations in development and in HIV/AIDS-related programmes, especially in fragile states.
- DFID should become the champion in Whitehall of measures to compel tax havens to be more transparent and ultimately to abolish them; of extractive transparency; and of trade measures that will exempt developing countries from liberalisation commitments in agriculture
- DFID should strengthen EITI and seek to make extractive industry transparency a condition of ECGD guarantees and multilateral lending and ensure that civil society is able to participate effectively in monitoring revenue transparency.
- DFID should scale up its work on social transfers and ensure that there is support for them from other donors and developing country governments.
- Given the increasing focus on delivery and the quality of aid requires more intense engagement with other stakeholders – civil society, developing country governments, multilateral institutions, other donors – DFID should ensure that it has sufficient staff to engage effectively with these multiple stakeholders.

III. Civil Society

Resources in adequate quantity – internally generated, overseas development assistance, debt cancellation – are necessary but not sufficient conditions for economic growth and development to take place. The remaining conditions are a favourable international trade regime, helpful policies on the part of international donors and good government committed to poverty eradication and sustainable and balanced development.

Providing that all donors fulfil their 2005 pledges, we expect to see ODA increasing from present levels (\$75 billion a year) to about \$125 billion by 2010. CAFOD endorses the general thinking behind DFID's support for Direct Budget Support to developing country governments which are judged to have "good enough" governance and a commitment to poverty eradication.

One consequence of DBS is that the boundary between international and external concerns on the one hand and national and internal concerns on the other is blurred. Both foreign donors and national civil society find themselves asking the same questions: how is the national budget allocated between sectors? who participates in decision-making? how is spending to be monitored? how effectively are the resources being used? and what is their impact? These concerns and the need for active civil society participation are just as relevant for the Protection of Basic Services (PBS) approach to budget support whereby resources are channelled to district authorities to enable them to provide basic services. The civil society component of this approach is likely to be more challenging because civil society organisations and local authorities outside capital cities may be less likely to have the skills and the disposition to enter into fruitful dialogue around issues of delivery and accountability. The determined and tactful support of donors such as DFID for this component will be crucial.

We wish also to stress that we are distorting reality if the delivery-to-accountability process is seen as bipolar with the government delivering and the civil society holding the government to account. Such a view is also dangerous: if it prescribes a model in which the government delivers and civil society criticises from the sidelines, it is likely to increase tensions and polarisation. In Ethiopia, where CAFOD and Trocaire, the Irish Catholic agency have a joint office, the best service delivery is seen as being achieved through a collaboration and complementarity between government, which has the main responsibility, and civil society, communities and the private sector. Government needs civil society and the private sector to co-deliver with it. Civil society in its turn needs to redefine its role and embrace appropriate "gap filling" so that in the end communities get a better deal. Communities and their organisations – as opposed to NGOs – also have their roles and responsibilities

Nevertheless, while avoiding too rosy-eyed a view of civil society, CAFOD contends that a confident, competent and vigorous civil society is one of the elements that need to be in place in order to ensure that resources made available for development and poverty reduction are used effectively. It is also vital to maintain the social contract between state and citizen, in order to ensure that government remains more accountable to its citizens than to donors. CAFOD's experience suggests that the building up of this confident, competent and vigorous civil society is a long-term undertaking that requires donors, both governmental and voluntary sector, to stick with it in terms of training, accompaniment and funding. CAFOD suggests that DFID do four things to enable this to happen:

1. Make funds available to UK NGOs to enable them to work with civil society organisations in developing countries in order that they can participate effectively in discussions with government about decisions of how to allocate the budget; monitor the proper use these funds; gauge impact; and enable them to strengthen capacity in management, policy analysis and monitoring and evaluation.
2. DFID should be aware of the possibilities for the private sector and communities themselves to participate in these discussions and in service delivery alongside civil society organisations – and encourage governments to open up spaces where these discussions can be conducted. DFID should

also encourage governments to remain open to participation by civil society and others, despite the inevitable provocations and difficulties that are bound to arise.

3. Ensure that support to governments is balanced by broader programmes of DFID support to national civil society organisations.

4. Encourage local DFID offices to create spaces that promote greater collaboration both between local NGO networks, and between northern donors and southern civil society and other stakeholders on issues such as budget monitoring and impact.

Even now, nearly eight years after the first HIPC initiative was first launched, relations between government and civil society can be quite uneasy even in countries that have in principle been open to civil society. CAFOD does not mean to imply that such discussions can be easy or tension-free. In any country where needs outstrip the means to satisfy them there are bound to be difficult decisions about priorities and it is the government's task to make the final decision about the balance to be struck between different sectors and competing interests. These decisions, however, need to be informed by the voices of civil society. We note in particular World Bank findings that

“Most PRSPs have not considered the full range of policy actions required for growth and poverty reduction, focusing instead on public expenditures, especially social sector spending, with less emphasis on other aspects of a broader strategy to encourage poverty-reducing growth, such as infrastructure and rural development. The approach has so far not contributed significantly to understanding the linkages among growth, poverty incidence, and macroeconomic policies at the individual country level.”¹

A long term commitment to improving the quality of civil society input to the PRSPs and establishing better linkages between grassroots groups and more academic urban NGOs could have clear benefits for feedback on and design and implementation of the Poverty Reduction Strategies. However, other reports underline the huge uncertainties that can derail poverty reduction strategies and the dispersion of views about what constitutes pro-poor growth.²

DFID should also seek to ensure that key meetings between donors and governments, such as the Consultative Group meetings, should be opened up to civil society. If actual participation in the meeting were seen at this stage as too difficult, there should be formal parallel meetings with civil society at the same time as the CG meetings proper, and these should be actively supported by DFID. In addition, in order to support civil society monitoring of government expenditure, DFID should make greater efforts to make more widely available and in more accessible form, details of its development programmes and its direct support to government.

Civil society and fragile states

The comments above relate largely to countries which are not regarded as fragile states. The emergence of a strong and confident civil society in fragile states is just as important because civil society organisations (CSOs) can provide a channel through which some development assistance can flow; CSOs can also act as monitors of existing government structures; and even act as seedbed for the emergence of more dependable and less corrupt government structures. DFID should support civil society in fragile states by providing funding through NGO intermediaries which are able to provide a level of accompaniment that DFID itself would find difficult, if not impossible.

¹ *The Poverty Reduction Strategy Initiative – Findings from 10 Country Cases of World Bank and IMF Support*, World Bank Operations Evaluation Department & IMF Independent Evaluation Office; World Bank 2005

² e.g. *Evaluation of Poverty Reduction Strategies in Latin America – 2004. Honduras: The Challenge of Pro-Poor Growth*; José Cuesta – ISS; SIDA, Stockholm, March 2005

Churches are a particular subset of civil society. They exist primarily to serve the spiritual needs of the community and for this reason are able to build a level of trust that gives them a more durable presence than many NGOs with more limited objectives. In addition many churches engage in very practical actions to promote the welfare of the community and see this as an integral part of their spiritual mission. This does not mean that these practical actions are limited to only to church members. Indeed it is not uncommon to find situations where these are the only effective welfare services open to communities where governmental structures are very weak, perhaps because of their remoteness, or have broken down completely, for example in times of conflict. In these situations the Churches are often the only organisations providing welfare services that reach the poorest of the poor. Yet they are often overlooked by state planning systems, and to date have made very limited progress in accessing development funds directly. For example, despite playing a key role in the fight against HIV, particularly in areas such as mitigation and on issues such as orphans and vulnerable children, Churches and faith-based organisations (FBOs) have found it very difficult to access the Global Fund or even to engage with Country Coordinating Mechanisms (CCMs – see below).

DFID should make every effort to support such groups because of their ability to serve and indeed to represent communities in extreme stress. As well as seeking to provide direct support to appropriate initiatives, DFID could help to ensure that the work of such groups is factored into national planning around key services such as education and health. Furthermore Churches and FBOs can make a unique contribution towards conflict prevention, resolution and reconciliation, and support for their engagement in this type of work should be supported, subject to appropriate safeguards.

IV. Faith-based organisations (FBOs) and HIV/AIDS

CAFOD welcomes DFID's commitment to the G8's Gleneagles goal of achieving universal access to treatment by 2010, to the imminent five year review of the UN General Assembly Special Session on HIV/AIDS (UNGASS+5) and to the setting of interim targets by UNGASS+5 to be reached year on year.

If these targets are to be achieved there has to be full recognition of the role played by faith-based organisations in health and in wider social and educational work in relation to HIV and AIDS. DFID should note that FBOs provide a large proportion of the health care in sub-Saharan Africa. 25-40 per cent is a widely acknowledged estimate. Yet faith-based organisations are under-represented in terms of grants made by the Global Fund, receiving only a tiny proportion of it disbursements. A survey, now four years' old, found that:

1. For many reasons, there is a general lack of knowledge about the Global Fund among Faith-Based Organizations.
2. The FBOs that are aware of the Global Fund are generally not satisfied with the degree to which they are able to participate in the Coordinated Country Mechanisms.
3. Government attitudes toward Faith-Based Organizations make a difference.
4. Faith-based organizations are very interested in working with their CCMs and the Global Fund.

Current reports seem to indicate that there has been little improvement since this report was written. At meetings in Geneva in January 2006 hosted by ILO, between UN agencies and Catholic organisations engaged in HIV-related work worldwide, Global Fund representatives stated that FBOs and NGOs together provide 80% of HIV responses, but FBOs receive only 2% of global fund monies,

Now that the cost of treatment for HIV and associated infections has come down, it is vital that all health care providers should be able to make full use of them. One of the priorities of CAFOD's partners has been to respond to the needs of children orphaned by and otherwise made vulnerable because of HIV. The needs and rights of these children have not until recently received the recognition they deserve from the international community. Given that this is also a priority concern within DFID's paper "Taking Action", it is imperative that the British government act to mobilise Global Fund resources and concerns to more adequately address this. Now that the possibility exists to keep parents alive, healthy and productive during children's formative years, it is essential that health providers of all sorts be able to access the Global Fund in proportion to the contribution that they make to health care in the countries where they work.

CAFOD welcomes the UK government's considerable contributions to the Global Fund. The \$1.8 billion assigned to the Global Fund in the past year make the UK a leading contributor. Given the funding needs and shortfalls experienced by the Global Fund, however, we urge DFID to increase the UK contributions year on year and to use its considerable influence to persuade other donor governments to do likewise. Donors must also make real, in cash terms, the monies pledged and they should do this with new money not money diverted from other development assistance budgets.

CAFOD supports DFID's commitment to seeking year on year targets to be set by UNGASS+5. We urge DFID to do everything in its power to hold member states to the commitments they have made.

V. Corruption and capital flight

DFID is right to highlight corruption as a corrosive and energy-sapping evil that needs to be tackled. While recognising that action needs to be taken to control the demand side of corruption, CAFOD recommends that HMG should look first at what more it can do unilaterally or together with other northern donors to address the supply side of corruption. Recognising the need to continue to support poor people and to strengthen government systems where corrupt states exist, DFID should also work to understand better the risks associated with such support for example whether more robust government systems may in fact help corrupt executives remain in power.

1. Tax havens

The first step should be to see what can be done to reduce the attractiveness of tax havens to individuals seeking safe places in which to park the proceeds of corruption. The issue of tax havens is of course much wider than that of corruption because they are essential to strategies of tax avoidance and tax evasion which deprive both developed and developing countries of tax revenue that can be used to fund public investments and services. Making deposits in tax havens open to inspection by national tax authorities would be a first step towards the reduction in attractiveness that we seek. CAFOD does not underestimate the strength of the likely opposition to such move but it would be good to see DFID become a champion in Whitehall for transparency in tax havens and their eventual abolition.

Furthermore, HMG's strong and successful support for increased debt cancellation for developing countries would be strengthened by increased efforts to return stolen assets.

CAFOD recognises that the issue of tax havens extends beyond issues of development financing and corruption in developing countries. We believe that there is a strong moral case to be made against high net worth individuals and corporations enjoying all the benefits of the rule of law and economic opportunities in developed countries while paying less than their fair share to support the structures

and institutions that provide these benefits and opportunities. This includes setting adequate requirements for UK companies operating in the developing world.

2. Extractive Revenue Transparency

The Extractive Industries Transparency Initiative (EITI) is a promising first step towards ensuring that all revenues accruing to governments from extractive industries are accounted for. CAFOD believes that such revenues belong to the people of a country just as much as development assistance and the proceeds of debt cancellation and should therefore be subject to the same accountability processes. The progress of the EITI Independent Advisory Group to date is encouraging. CAFOD will be looking for its work to result in a robust validation process that highlights clearly both achievements and progress towards transparency and what remains to be done by countries and companies. This will ensure that the initiative remains credible in the face of free-rider problems. The tripartite nature of the initiative – involving governments, companies and civil society – is its real strength. CAFOD expects HMG to ensure that this remains a feature of future EITI structures and that civil society groups receive sufficient support to participate effectively in monitoring revenue transparency and hold their government accountable for the use it makes of these revenues.

While welcoming the progress that EITI has made, CAFOD recognises the real test of its effectiveness is still to come. In addition, the voluntary nature of participation will mean that many people in resource-rich developing countries still miss out on development because of corruption and opaque deals. HMG should therefore look at how EITI can be complemented by mandatory requirements.

3. The Export Credits Guarantee Department (ECGD) and transparency³

Given the particular risks attached to oil, gas and mining projects, the ECGD should incorporate revenue transparency into all future export credit agreements with extractive sector clients. This issue was not picked up in the recent consultation on changes to anti-corruption and bribery procedures. Transparency should be a minimum requirement to prevent corruption and to ensure accountability over investments backed by taxpayers' money. The ECGD should conform to the IFC and MIGA's standards as these bodies have already committed to transparency requirements for all natural resource project finance. The UK Government should also work through the OECD Export Credit Working Group to ensure consistency in all ECA policies for extractive industry insurance and guarantees. HMG should also encourage commercial banks, and particularly signatories to the Equator Principles, to insist on the same level of transparency.

4. International financial institutions and regional development banks

It is likely that DFID's contributions to IFIs and regional development banks will grow in the coming years. It is all the more important, therefore, that they too should have strong transparency conditions attached to their operations. In particular, CAFOD believes that any project-level or country-level financial assistance should be approved only if revenues from extractive sector are published and audited. This would also be consistent with the US Government's position, set out in legislation passed in 2004 and 2005 concerning the re-authorisation of US funding for international financial institutions.

³ CAFOD is indebted to the Publish What You Pay coalition for the formulation of recommendations regarding the ECGD, IFIs and the EU Transparency Obligations Directive

5. EU Transparency Obligation Directive

In 2004, the EU adopted the Transparency Obligations Directive to harmonise EU member states' reporting requirements for listed companies. It included a provision stipulating that EU member states should encourage disclosure of extractive company payments to governments.

“The home Member State should encourage issuers whose shares are admitted to trading on a regulated market and whose principal activities lie in the extractive industry to disclose payments to governments in their annual financial report.”

The deadline for implementation of the Directive by member states is January 2007. HMG and regulatory agencies should take concerted action to implement the Directive's recommendations as a bare minimum for listed companies in the UK.

VI. Social inclusion and disadvantaged groups⁴

DFID is already undertaking work on social transfers and has accumulated persuasive evidence that social transfers can deliver development benefits across a number of areas touched on by the consultation. DFID should now be working with other donors and developing country governments to make social transfers a reality and to introduce wider – possibly national level – schemes.

- **accountability:** the establishment of cash transfers as a matter of right – pensions or child allowances – strengthens the link between citizen and state, with the citizen claiming a right and the state discharging a duty.
- **determination of eligibility:** this requires a reliable ID system for determining identity and reducing the possibilities of fraudulent claims, something that is itself desirable. Where eligibility is determined by a poverty threshold, it requires consultation and participation about the criteria that will determine eligibility. This is one way to involve civil society in an area of social welfare in which NGOs have not generally been seen as important stakeholders. In principle, however, owing to the cost of means testing, CAFOD believes that it will be more efficient to realise people's rights by moving towards universal benefits, and to integrate social protection into the heart of developing country government policy on poverty reduction and social development.
- **distribution system:** social transfers must necessarily remain the responsibility of the state but can be distributed through public sector channels or through partnerships with the private or voluntary sectors. In either case the system must be robust and minimise the possibilities of losses through dishonesty. Having one integrated system for the distribution of social transfers is also likely to be less wasteful than multiple different schemes run from different institutions. Insofar as the requirements of social transfers lead to a strengthening of public or private sector structures for serving the poor, this is in itself desirable.
- **social inclusion:** one corollary of MDG1 – to halve the proportion of the world's poor living in extreme poverty by 2015 – is that, if it were achieved, the other half of the population still living in extreme poverty would by definition be more difficult to lift out of poverty. The half remaining below the \$1.00 a day poverty line will include the most vulnerable and the chronically poor. Social transfers are one way to reach the very poorest through universal social pensions for older people or through other targeted or conditional benefits and to boost social inclusion and reduce inequality.

⁴ See the Commission for Africa's endorsement of social protection as a right and a positive instrument for development that will effectively address inclusion. *Our Common Interest*; esp pp. 68-80

- **developmental benefits:** social transfers have been shown (not least by DFID) to have developmental benefits because they put cash in the hands of the poor, including poor women, who can then use it as they see fit – to enable children to go school, as inputs for productive activities, to improve nutrition and so on. Very nearly all the social transfers will be injected into the local economy and will contribute to a local multiplier effect. By putting just a little decision-making power in the hands of the poor, cash transfers are one way of making subsidiarity real.

The provision of universal social transfers will also add demand-side pull to the supply-side provision of health and education services and strengthens the accountability of service providers to their clients.

- **scaling up:** the increases in ODA promised in 2005 will test absorptive capacities in the poorest developing countries, that is, the countries on which DFID’s programmes are increasingly focused. Providing that robust systems can be put in place, national social transfer schemes would be one way to channel rising levels of ODA.

Developing country governments, however, will be reluctant to commit to the expenditure required by national-level schemes without a guarantee from DFID and other donors that long-term predictable funding will be available to underwrite these social transfers. DFID therefore will need to secure agreement from like-minded donors for this approach. In addition, the ministries responsible for social protection and social transfer programmes in developing countries are generally poorly resourced and funded. It will be important for DFID to support them to increase capacity and in so doing to develop national social protection frameworks that allow for the integration of existing (fragmented) schemes in one system.

VII. International trade

CAFOD’s main concern in terms of international trade has been with the poorest countries, some of which are members of the G33, the group which is arguing that there should be exemptions from liberalisation commitments “Special Products”. While disagreements remain about the procedure for designating Special Products, CAFOD welcomes the positive language on Special Products in the main text of the Hong Kong declaration⁵ and urges HMG to ensure that modalities on Special Products provide meaningful protection and support for food security, livelihood security and rural development.

The response of LDCs to the EU’s “Everything but Arms” initiative has been disappointing.⁶ While there are acknowledged problems with rules of origin, this also points to serious deficiencies in trade capacity which need to be addressed through long term programmes of capacity building and investment in infrastructure to enable LDC producers and exporters to meet the quality and health

⁵ Doha Work Programme, Ministerial Declaration – 18December 2005. Page 2; para. 7: : “Developing country Members will have the flexibility to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. Developing country Members will also have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers, with precise arrangements to be further defined. Special Products and the Special Safeguard Mechanism shall be an integral part of the modalities and the outcome of negotiations in agriculture.”

⁶ See, for instance, Hansard 19 Oct 2004 : Column 647W, a written answer showing that imports into the EU from LDCs were static from 2000 to 2003 with the Everything but Arms Initiative, introduced in February 2001, having virtually no impact in this period.

and safety standards required by consumers and official standards agencies in the European Union. As negotiations on the Economic Partnership Agreements (EPAs) under the Cotonou Treaty pick up speed later this year, it will be very important for DFID to ensure that there is positive interaction between DG Trade and DG Development in the European Commission and that sufficient aid – in terms of both quantity and quality – is made available to enable ACP countries to take advantage of the market access to the European Union.

CAFOD welcomed the statement on EPAs made on 21st March 2005 by Douglas Alexander (attached), both in specific relation to EPAs and as a general statement of HMG's approach to trade negotiations. Since the UK is only one voice in the EU, it will be important for HMG to invest real political capital and to make common cause with other like-minded member states to ensure that these principles are reflected in the EC's negotiating positions with ACP governments.

VIII. Delivering the 2005 commitments

Ensuring the UK's ODA is spent effectively requires deep, long-term engagement with stakeholders in the countries DFID is working in. It also requires that DFID explore innovative ways to use DFID's aid money to deliver poverty reduction in varying country contexts. The GTZ-funded cash transfer programme in Kalomo, Zambia, which is attracting so much attention, is a good example of such innovation. This is particularly important as DFID seeks opportunities for scaling up. CAFOD is concerned that pressures on DFID's staffing numbers, and particularly the loss of technical development professionals, is debilitating DFID's ability ensure best value for money and maximum impact.

DFID should continue to use its position as a respected development agency to influence other organisations to improve their aid delivery mechanisms. CAFOD supports DFID's work to ensure poverty reduction is at the heart of EU aid expenditure. CAFOD also recognises the importance of UN reform and the work which DFID has been undertaking to ensure that the UN is better able to deliver aid programmes. In particular we support the Secretary of State for International Development's proposal for the 'four ones'. DFID should work more at the national level to improve UN coherence and effectiveness, for example through secondments of DFID staff to UNDP country offices.

IX. The arms trade

Light weapons and small arms cause more deaths than any weapons of mass destruction. While the UK introduced implementing legislation in 2004 to control brokering from the UK of arms deals between third countries, there is no effective international legislation to stop arms brokers from plying their trade in countries that have not introduced their own legislation. The UK should work with like-minded governments to secure an effective international treaty to control arms brokering together with a set of exemplary sanctions for individuals and companies that contravene the agreed rules.

CAFOD
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