



Chronic Poverty Research Centre response to the DFID White Paper consultation document

The Chronic Poverty Research Centre welcomes the process of wide consultation that DFID is conducting. We also welcome the major themes set out in the consultation document, and believe that attention to the issues outlined below would strengthen the White Paper, and make Britain more effective in its goal to help eliminate global poverty.

The White Paper should recognise that:

- poverty persists across time and across generations – the concept of chronic poverty now has widespread use in donor agencies, governments and among the general public;
- vulnerability can be reduced by social protection – this is cost-effective, and an imperative in the global economic crisis; and
- global economic governance must bring poverty into its core – by incorporating poverty into macro-economic responses to the crisis.

Chronic poverty needs to be recognised in the DFID White Paper. Many people are poor for all their life, and their children, and their children's children are often poor as well. Poverty that persists over time and that is transmitted across the generations is chronic poverty. The White Paper should recognise that poverty is not just deep (extreme) but also *persists over time*.¹

Use of the term chronic poverty is now widespread. It is increasingly used in donor agency documents, for example within the EU² and national government documents.³ It also resonates with how the general public thinks about poverty, as demonstrated by the World Attitudes Survey.⁴ *DFID needs to use the concept of chronic poverty.*

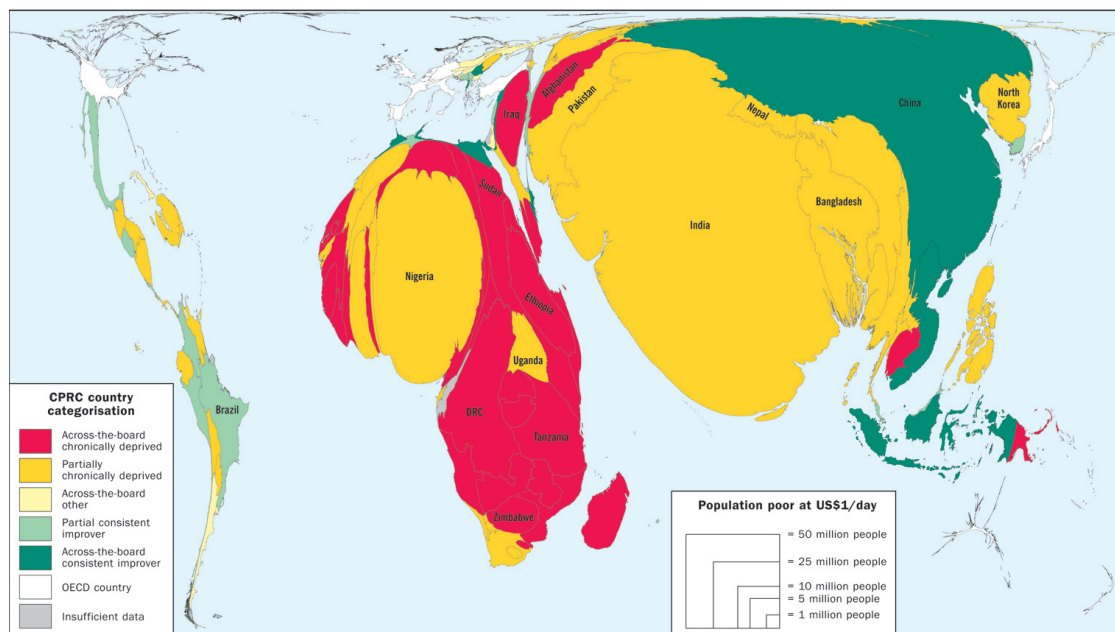
Poverty is not static in the way that it is presented in the DFID White Paper. Poverty is *dynamic*. People move in to and out of poverty over time. Some people can move in to poverty even when many others are moving out of poverty, and still others stay trapped in poverty. This occurs even when countries have respectable growth records. Growth raises the value of assets such as land to which poor people have no title to, leading to their dispossession, and fall into poverty.

Poverty reduction occurs when the outflows from poverty exceed the inflows into poverty. With the global economic crisis, more people are falling into poverty and the sources of growth that drive outflows via increasing employment are stagnating. Moreover, as growth falls so do public revenues, thereby reducing the potential for more pro-poor public spending to provide the basic services that raise human development indicators, as well as infrastructure to reduce spatial poverty traps. We need more social protection to address rising poverty, action to mobilise more domestic revenue, and aid to maintain public spending and avoid macro-economic distress.

Fragile states remain an urgent priority. But too often the approach is driven by a security agenda to the neglect of poverty reduction and development. The risk that aid could be misused (as during the Cold War) is rising again as donor agencies are asked to step up their support to the governments of countries that are strategically important but which would not otherwise warrant large aid inflows based on their human development record. Unless major reforms are achieved, this aid could be wasted. This will undermine the hard work that DFID and others have engaged in to reduce the public's scepticism regarding aid effectiveness. *DFID must therefore try to maximise the poverty reduction dimensions of its aid to fragile states.*

Poverty is very high in fragile states, but the majority of the world's poor people are not in fragile states. Many will not be affected significantly by climate change in the near or medium term future. The financial crisis will likely come and go without a huge impact for many, given that their poverty is often characterised by marginal engagement in markets. There is an important message here: *DFID needs to retain its focus of the last decade on supporting poverty reduction, while addressing it in new circumstances.*

There is a strong bias to Africa in the DFID consultation document. Africa's problems are many. But it should not be forgotten that *the biggest number of poor people is in Asia.*



Source: CPRC (2008). Chronic Poverty Report 2008-09.

The financial crisis, greater climate variability, and conflicts/weak governments all draw attention to the vulnerability of poor people. *Reducing vulnerability* is the leading theme of the White Paper, and should be headlined. Their vulnerability has exposed some poor people to hazards which impoverish them, at the same time that others have been finding pathways out of poverty.

This means confirming the already strong UK focus on *social protection*. **DFID should continue and strengthen its support, especially to low income countries, on social protection**, helping countries work out what is best for them in terms of instruments, systems, and underlying philosophies. *Long term funding* is needed to give governments confidence to invest their own revenues, especially in the recession, when protection is most needed. *New, long term funding mechanisms are needed*. This should be the leading DFID response to the three threats to the poor.

People grow out of poverty in most situations through gradual asset accumulation. It is critical that growing assets are protected. Social protection can help, but so can diversified financial instruments – *savings and insurance schemes*. Creating enabling environments for these is critical. Secondly, development programmes that provide opportunities to accumulate assets more rapidly (ie build on existing small scale asset accumulation), and protect assets once created, are valuable.

Poverty is often reduced more rapidly through participation in *global value chains*, when demand is good, and where labour conditions come under scrutiny. The art of intervening in value chains to good effect is as yet ill developed. DFID should continue to support research and practical work in this area. It also urgently needs to develop low carbon transport strategies with the international traders to enable them to resist the carbon-miles critique.

Low carbon growth will be largely *pro-poor* and at the *bottom of the pyramid* – where less energy is used, and goods and services are traded locally. Measures to enhance the business environment and aid-for-trade should focus on measures which benefit this level of the economy. This means a significant reorientation, especially to *agriculture*. DFID has a lot to offer: a serious agricultural strategy, and as good an aid performance in agriculture as in other sectors (which is exceptional among international agencies, whose agriculture portfolios usually perform worse.) However, few DFID country programmes work on agriculture and food security. A more energetic approach is needed now. The focus on climate variability would back this up – agriculture will bear a significant brunt of adaptation, and also needs to work out how to reduce its significant CO₂ emissions. DFID's strong approach to *gender* issues would also suggest it should bring that experience to bear in a sector where gender mainstreaming has proved important but difficult.

Low carbon technologies and reducing emissions are important but not enough. They will not tackle many of the environmental problems facing poor people. For example, many

of the world's poorest people live in upland or remote forested areas, or in areas that are now deforested. The sustainability of their livelihoods is under threat, or has already been lost. The world needs to secure the links between poor people's livelihoods and action on mitigation and adaptation, including carbon sequestration, and reforming the Kyoto Protocol's Clean Development Mechanism. A portion of all carbon taxes should be set aside for poverty reduction. Since countries plan to shift to environmental taxes, this commitment would mobilise more funding for poverty reduction.

Climate change and poverty reduction policy frameworks need to be brought together.

This is true at the international level – the MDGs and the Copenhagen process; and at the national level – NAPAs and PRSs or national development plans. Key points of intersection need to be worked out but could include: decentralised low carbon energy and industry – potential for massive investments; pro-poor insurance to protect against variability. Integrating frameworks is not a technocratic exercise, however. It is highly political, and represents a paradigm shift in economic and broader development thinking. It will be highly contested. It will need significant *political* backing.

There is a need for *strong development inputs into the Copenhagen process*. Currently, think tanks and development movements are operating in a post-modern fashion, networked but not joined up. A more *joined up approach* would be of benefit, and DFID could support it. DFID should also offer support to informing and lobbying the US Congress on the development/climate/poverty interface, since the US policy stance is critical at this juncture.

Poverty also falls with urbanisation and demographic change. The second Chronic Poverty Report argues for a new and strategic approach to urbanisation, and for a renewed focus on the drivers of demographic change.

The IMF and the World Bank need to be reformed to work better for poor countries and poor people. However, there is a danger that too broad an agenda will go nowhere amidst the present global crisis. Thus, **reform of the international aid architecture needs to be focused around a limited number of institutional changes that have high impact.**

The G20 has expanded Bank and Fund financing to cope with the crisis. But poverty is not yet embedded in the way the IMF approaches macro-economic policy. The financial crisis is already bringing about a greater role for the IMF. DFID needs to strengthen the human resources devoted to dialogue with the IMF at this testing time, to ensure that it does not slip back into the bad practices of the 1980s' highly conditional structural adjustment. There will be a need to *protect core pro-poor expenditure* as well as *provide new resources for social protection*. This is especially important for poor women and children. Where does this money come from in a recession? Regrettably, it will have to be aid in many cases, even though we know that using national revenues is better for building a social contract. It will require strong lobbying and political mobilisation to support these expenditures as opposed to ones which provide a more effective fiscal stimulus.

Moreover, poverty cannot be tackled effectively when the 'Part 3 countries' are underrepresented on the Bank and Fund's Boards, and when the practice is maintained of an American serving as World Bank President, and a European as IMF Managing Director. This reduces the legitimacy of these institutions, and inhibits the effective mobilisation of more development finance from the emerging economies, who rightly feel that they are being asked for more contributions without any additional representation in the governance of the Bretton Woods Institutions.

Simultaneously, there is a need to make fuller use of the international organisations which are capable of delivering useful services to developing countries, and strengthen them in that. This is especially so in fragile states, where UN agencies often have a comparative advantage.

Chronic Poverty Research Centre
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Endnotes

- 1 CPRC (2008). *Chronic Poverty Report: 2008-2009*, Chronic Poverty Research Centre.
- 2 European Commission (2009). *Millennium Development Goals: Impact of the Financial Crisis on Developing countries, Brussels: Commission of the European Communities*, Commission Staff Working Document SEC (2009) 445.
- 3 For example, the 11th Indian Five Year Plan.
- 4 Armando Barrientos and Daniel Neff (2009). 'Attitudes to Chronic Poverty in the Global Economy', Chronic Poverty Research Centre.

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