CAFOD is the official aid agency of the Catholic Church in England and Wales and part of Caritas International. Across the world we bring hope and compassion to poor communities, standing side by side with them to end poverty and injustice.

Executive summary – main recommendations:

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<th>Cross-Whitehall Approach to International Development</th>
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<tr>
<td> There needs to be a cross-Whitehall approach to issues of international development to ensure policy coherence.</td>
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<td> DFID needs to maintain its central focus on poverty reduction. DFID’s aid effectiveness principles and poverty alleviation focus must be applied consistently across all of DFID’s work, including the work of the Commonwealth Development Corporation (CDC) and Private Infrastructure Development Group (PIDG) and across all UK ODA, whether it is via DFID or other departments.</td>
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Making development more inclusive and sustainable

 DFID needs to develop clear definitions and indicators for inclusive and sustainable growth to determine departmental priorities. The process for developing these and monitoring their implementation should be participatory and evidence-based, drawing on lessons learnt from a wide range of sources and countries, in collaboration with civil society.

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A major shift in DFID’s approach is needed to promote consideration of social inclusivity and sustainability as pre-requisites for poverty eradication and sustainable development. Overall, DFID must promote a far more integrated approach to addressing social and environmental objectives; one that identifies potential costs and trade-offs in order to pursue development that is both green and just and which maximizes social and environmental “co-benefits”.

All relevant departments (DFID, DECC, DEFRA, Treasury & FCO) should share a coherent strategic policy framework to ensure government interventions across the board promote climate protection, supporting poor and vulnerable countries and groups to adapt to its impacts and building low carbon, socially inclusive development.

Maximising the role of the private sector in development

Given the importance of micro and small enterprises in changing the lives of poor people, this area should be given a greater focus within economic policy and development programmes.

DFID needs to improve policy coherence by fully integrating the Government’s overall responsible business agenda into the department’s approach. For example human rights due diligence should built in as a minimum requirement for corporate partnerships. Ensuring businesses act responsibly is a crucial responsibility that DFID must uphold as they seek to increase the role of the private sector in the delivery of aid programmes and climate finance mechanisms.

DFID should develop a comprehensive strategy for its work with the private sector which shows the overall objectives and criteria for working with the private sector (including in the delivery of public private partnerships), and allows more effective and inclusive programme design and then monitoring impacts on people living in poverty. In the humanitarian sector there needs to be robust mechanisms to ensure the system-wide agreed standards for quality, coverage and accountability are adhered to.

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2 Defined as: “development that meets the needs of the present, without compromising the ability of future generations to meet their own needs”. UNEC, “Sustainable Development – concept and action”.
NEW CHALLENGES IN DEVELOPMENT AND THE NEED FOR A CROSS-WHITEHALL APPROACH

1. The challenges in international development have changed significantly since the Department for International Development (DFID) was established as a separate government department in 1997.

2. It is now accepted that aid alone is not enough to tackle poverty and that other forms of capital flows, such as taxes or FDI, need to be harnessed effectively for their contribution to development. For example, UK ODA in 2012 was £8,620 million\(^3\) whereas global FDI totaled $1.35 trillion. However, significant amounts of money are still lost due to illicit resource flows, which totalled nearly $1,000 billion in 2011.\(^4\)

3. There are a growing number of actors in international development. For example, the private sector is seen as having a growing role in service delivery as well as through promoting growth and jobs. Civil society in many countries has a strong role in accountability and governance, even though at the same time opportunities for civil society groups and citizens to participate in democratic spaces are being threatened in many countries.\(^5\)

4. There is also the recognition that current models of development are unsustainable in terms of their impacts on the environment and the urgent threat presented by a changing climate. This includes changes to seasonal patterns and the increasing frequency and intensity of environmental disasters, as well as longer-onset weather events, which are undermining hard-won development gains and reducing people’s coping mechanisms. We urgently need a transition to socially inclusive, low carbon development paths to address both environmental risks and the needs of poor and vulnerable groups.

5. It is therefore timely to look at the future of the UK’s approach to development in the light of these new challenges.

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\(^5\) CIDSE / Act Alliance (2014) *Space for Civil Society. How to Protect and Expand an Enabling Environment*
6. DFID is in a good position to do this as an internationally recognised development agency that has shown global leadership in many issues in recent years. The UK was the first major economy to reach the 0.7% target of aid expenditure. DFID has consistently come at the top of the International Aid Transparency Initiative (IATI) rankings.\(^6\) It has helped to drive international action on aid effectiveness through co-chairing the Global Partnership for Effective Development Cooperation (GPEDC). It has played an important role in highlighting the need for an increased focus on women and girls in order to address poverty. DFID is a leading humanitarian donor and acknowledged as a leader in a significant number of aspects related to humanitarian policy and practice, including eradication of sexual and gender-based violence in conflict, resilience, disaster risk reduction, and promotion of pooled funds.

7. The department has also responded in different ways to the new challenges in development. DFID was instrumental in setting up the Extractives Industry Transparency Initiative (EITI)\(^7\) in 2002 to support developing countries to improve transparency about payments to governments from oil, gas and mining companies as a way of tackling corruption and releasing resources for development. In 2011 DFID recognised climate change as “one of the most urgent challenges facing the world”\(^8\) and launched a cross-department International Climate Fund (ICF).\(^9\) Its Economic Development Strategic Framework published in 2014 seeks to work much more closely with the private sector in tackling poverty.

8. As the challenges in international development change, policy decisions on international issues are increasingly taking place in different government departments and many are cross-departmental. The Cabinet Office, with the Treasury, led on tackling tax evasion through the G8; The Ministry of Justice and the Home Office led on the 2010 Bribery Act; The Department for Business Innovation and Skills is leading on current EU legislation on transparency of oil, gas and mining companies and on UK legislation on a beneficial ownership register; The Department for Energy and Climate Change leads on climate change negotiations. The Cabinet Office, in close coordination with DFID and other departments, as well as with civil society, developed the UK’s National Action Plan for the Open Government Partnership, which includes many actions to tackle corruption and promote transparency to release resources for development.

\(^6\) http://www.aidtransparency.net/  
\(^7\) http://eiti.org/  
\(^8\) Former Secretary of State for International Development Andrew Mitchell, 2011.  
9. This situation is a necessary response to increased global interconnectedness and the complexity of international development challenges. It also demonstrates that, although DFID leads the UK government’s work to end extreme poverty,\textsuperscript{10} in order to be effective in this role, it must be supported by a high level of policy coherence across government. This means that when considering the UK’s role in international affairs, there is an element of oversight across all relevant departments. This will serve to reinforce the UK’s role as a development leader and encourage value for money through a joined-up, complementary approach.

**Recommendations**

10. There needs to be a cross-Whitehall approach to issues of international development to ensure policy coherence. One way of doing this would be to have a Cabinet Office official reporting on international policy coherence across government. Another way is having DFID officials in other departments, as is currently the case with BIS.

11. DFID needs to maintain its central focus on poverty alleviation. We agree with the latest report of the Independent Commission on Aid Impact\textsuperscript{11} that any approach to new challenges in development should be based on DFID’s core strengths and competencies in addressing poverty and the value it adds as a development agency. DFID’s aid effectiveness principles and poverty alleviation focus should therefore be applied consistently across all of DFID’s work, including the work of the Commonwealth Development Corporation (CDC) and Private Infrastructure Development Group (PIDG) and across all UK ODA, whether it is via DFID or other departments.

12. To maintain this poverty alleviation focus, DFID’s results agenda should focus on the impact of its interventions in the lives of the poorest people and not just on the easier to measure outputs, as is currently being suggested through the Payment by Results strategy. Impact is harder to measure, but essential to be sure of the difference that UK aid is making and to be able to communicate that to the British public.

13. DFID needs to have a stronger role on looking at development impacts of other UK policies, whether these are implemented through bilateral relationships or in multilateral fora, such as

\textsuperscript{10} Departmental Website, accessed 20\textsuperscript{th} August 2014. https://www.gov.uk/government/organisations/department-for-international-development

\textsuperscript{11} http://icai.independent.gov.uk/wp-content/uploads/2014/05/ICAI-PSD-report-FINAL.pdf para 3.2
bilateral trade deals, reporting requirements for companies, climate change negotiations. It should apply its central focus on poverty alleviation to all UK government policies connected with international development - a kind of poverty alleviation test.

14. DFID should look for ways to increase its support to all forms of civil society as a key actor in development and in promoting democratic governance. This will mean maintaining spending on strengthening governance in developing countries. It will also mean coordinating with civil society groups much more closely in the development and implementation of its policies and programmes. In the humanitarian sector this means finding ways to work directly with, and ensure the capacity of, national organisations which are present before, during and after emergency situations.

MAKING DEVELOPMENT INCLUSIVE AND SUSTAINABLE

15. Economic growth is increasingly cited by DFID as the main driver of poverty alleviation. In March 2013, Secretary of State Justine Greening outlined “a real shift in my department’s work – driving economic growth alongside our core work on basic services, working hand in hand with business to do that”. DFID’s 2014 Economic Development Strategic Framework (EDSF) states that “to achieve our vision, growth and economic development must be core to the work we do. No country has been able to eradicate poverty without economic growth.” DFID plans to increase its expenditure to $1.8bn on economic development in 2014/15, approximately a three-fold increase.

16. However, an overriding focus on economic growth alone will not address poverty, inequality or unemployment, especially in a context of increasing environmental degradation, natural resource depletion and climate change. As a 2009 report highlights: “ultimately, growth can play a major role in improving the lives of the poorest people, but only if we get it right”. In fact, the overall record of economic growth in delivering sustainable human development is disappointing. It is important that we look at the quality of that growth and the impacts it has on people’s lives.

13 Pg 3
14 See OECD, 2012. For a summary of this discussion and these challenges see CAFOD, 2014, What is inclusive growth?
15 Christian Aid, 2009
16 “What is inclusive growth?”
17. Inclusive growth has been a central aspect of the 2014 plans and strategies of the International Monetary Fund (IMF), G20, European Commission and DFID.\(^\text{17}\) It has also been included as a proposed Sustainable Development Goal (SDG) by the UN’s Open Working Group (June 2014). However, while the term is widely used, it is often poorly defined and operationalised, with a lack of coherent policy frameworks.\(^\text{18}\)

18. Inclusive growth considers the social impacts of growth, recognising that tackling inequality and poverty and promoting growth can be mutually reinforcing but that a positive relationship is not automatic. CAFOD findings\(^\text{19}\) show that for growth to be inclusive it needs to contribute to a reduction in poverty and inequality, with wider human and sustainable development objectives beyond increasing income and GDP. More than just benefit-sharing, inclusive growth should also increase all people’s ability to actively participate in the economy. Recognising that growth can only be beneficial if it is environmentally sustainable, inclusive growth should promote the sustainable use of the natural resource base on which many poor groups depend for their livelihoods, and address the threat from environmental degradation and climate change. Importantly, it cannot be assumed that any of these outcomes will automatically come through pursuing economic growth alone; proactive strategies and support for inclusivity and sustainability are needed.

19. The above presents some key ideas for a working definition of “inclusive and sustainable growth”. This was developed through a literature review on the topic and considering our own lessons from our work with partners and communities. It is a first step towards a more concrete understanding of the topic. A concrete definition could only be developed in partnership with communities living in poverty around the world. This would allow for a definition on which programmatic decisions can be confidently made. DFID would do well to develop and articulate a position on inclusive and sustainable growth in a participatory manner that can be applied across their programmes.

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\(^{\text{17}}\) See IMF annual work programme, November 2013; DFID Framework, February 2014 and European Commission, Communication, May 2014.\(^\text{17}\)

\(^{\text{18}}\) See CAFOD 2014 for a full discussion.\(^\text{18}\)

\(^{\text{19}}\) See CAFOD, 2014.\(^\text{19}\)
20. In debates about the type of growth we want, the concepts of the “green economy” and of “green growth” have also gained significant traction. Many low- and middle-income countries are developing national green growth/economy strategies. However more often than not, these tend to focus primarily on emissions reduction and green policymakers fail to take sufficient account of the social implications and costs of [greening] policies.

21. To redress the balance, policy makers should “promote a far more integrated approach to addressing social and environmental goals”, going beyond policies aimed at protecting poor and vulnerable groups from the negative impacts of greening different sectors to ones that maximize social and environmental co-benefits. One example is increasing access to sustainable, affordable, reliable and safe energy which will build low-carbon pathways and have positive impacts on different development areas such as food and water security, health, education, sustainable livelihoods, and the empowerment of women and girls.

22. Overall, environmentally sustainable growth should focus on ensuring that any growth must respect “planetary boundaries” or ecological limits. This includes promoting development pathways that are consistent with keeping global average temperature rises well below 2 degrees centigrade, as per the UK’s international climate objectives.

DFID’s focus

23. It is important that DFID gets its approach to growth right if it is to contribute to poverty alleviation and sustainable development. However, as with other donors, inclusive and sustainable growth appears poorly defined and operationalised in the available DFID strategies. In DFID’s EDSF there is a focus on inclusivity, specifically under Pillar 5 (inclusive growth, women and girls) which is intended to be integrated across the other four pillars. The framework does outline some areas for action, but what is lacking is a clear and shared understanding of what DFID means by inclusive growth and what this looks like in practice.

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20 A working definition of a green economy is “one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.” See www.unep.org/greeneconomy.
21 See for instance www.greeneconomycoalition.org
23 Ibid.
25 See: http://www.stockholmresilience.org/21/research/research-programmes/planetary-boundaries.html
24. A CAFOD literature review highlights some important factors for growth or economic development strategies to include if they want to lead to inclusive growth. These include, social protection, an explicit focus on (decent) jobs, progressive tax policies and a greater focus on institution building, environmental sustainability). Many of these are missing from DFID’s actions.

25. In terms of sustainable growth, this is almost missing entirely from the framework. Previously DFID has recognised climate change as “one of the most urgent challenges facing the world” and in 2011 launched a cross-departmental International Climate Fund (ICF). One objective was to support “[mainstreaming] climate change into UK overseas development assistance” with every DFID office undertaking a strategic programme review by 2013. Three years on, the extent to which ICF objectives are being delivered is unclear - although a forthcoming ICAI review could provide some answers. Additionally, there is little information on whether and how mainstreaming is progressing and very few links drawn to this within DFID’s new EDSF.

26. Overall, it seems that promoting environmental protection as the foundation of poverty eradication and sustainable development is a much lower priority for DFID than promoting economic growth and private sector engagement.

Recommendations

26 http://www.cafod.org.uk/content/download/17223/133621/file/Inclusive%20Growth%20full%20paper.pdf
30 See: http://icai.independent.gov.uk/reports/terms-reference-forthcoming-reports/. The terms of reference for the review (April 2014) state “only £1.49 billion has been spent as of February 2014. It is therefore still a work in progress.”
31 DFID also has a dedicated Climate and Environment Department. Its 2012 operational plan acknowledges that “the evidence base to inform investments is weak programmes [and] technical capacity across DFID to design and deliver robust climate monitoring and evaluation strategies is relatively weak”.
32 E.g. focus of ICF is: (i) demonstrating that building low carbon, climate resilient growth at scale is feasible and desirable; ii) supporting the [UNFCCC] negotiations; and iii) driving innovation and create new partnerships with the private sector. No major speech on climate change by current Secretary of State for International Development.
27. As a starting point, DFID needs to develop clear definitions and indicators for inclusive and sustainable growth to determine departmental priorities. The process for developing these and monitoring their implementation should be participatory and evidence-based and draw on the lessons learnt from a wide range of sources and countries. DFID should also draw on the expertise of NGOs with partners working in developing countries like CAFOD to provide input into these processes.

28. A major shift in DFID’s approach is needed to promote social inclusivity and sustainability as pre-requisites for poverty eradication and sustainable development. Overall, DFID must develop a far more integrated approach to policy making that has both social and environmental objectives. Particularly important is to identify potential costs of greening on poor groups and to maximize social and environmental “co-benefits” for development that is both green and just.

29. All relevant departments (DFID, DECC, DEFRA, Treasury & FCO) should share a coherent strategic policy framework to ensure HMG interventions across the board promote climate protection, including supporting poor and vulnerable countries and groups both to adapt to climate change impacts and to build low carbon, socially inclusive development. The ICF objectives 1 & 2 on supporting developing countries to build low-carbon resilient growth and poor and vulnerable groups to adapt to current and build resilience to future impacts can be the starting point for this. This also calls for a coherent approach to the UK’s input to international processes, in particular the UNFCCC and the post-2015 development framework negotiations, to ensure they are mutually-reinforcing

MAXIMISING THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

30. The term private sector covers huge diversity in terms of size, sector, location and core business activity. The number of businesses operating transnationally is growing but globally most people still work for very small or micro enterprises.

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33 Defined as: "development that meets the needs of the present, without compromising the ability of future generations to meet their own needs". UNEC, "Sustainable Development – concept and action".

34 The ICF’s 4 objectives are: i) Developing countries have adopted low carbon development pathways in line with the trajectory to a 2 degree goal; ii) Poor and vulnerable people in developing countries supported to respond effectively to existing climate variability and future impacts of climate change; iii) 50% reduction in deforestation achieved in developing countries; iv) Mobilisation of $100 billion per annum for low carbon, climate resilient development.

35 Fox, L., & Sohnesen, T. P. (2012). Household enterprises in Sub-Saharan Africa: Why they matter for growth, jobs, and
31. As mentioned above, DFID’s EDSF places a significant emphasis on the role of the private sector in delivering economic growth. However, this tends to focus on better resourced or UK-based companies and there are significant gaps when it comes to supporting the domestic private sector in developing countries. This is despite the fact that 85% of people in Sub-Saharan Africa are involved in small businesses, specifically home-based or micro enterprises and small-holder farming enterprises. There is no explicit focus on the role that domestic small business can play in economic development and how this sector will be incorporated into DFID’s overall approach to the private sector.  

32. There is growing recognition of the need for more responsible and accountable business practices, being a central topic of the G8 Discussions at Lough Erne in 2013. The UK has taken a lead in promoting international standards for businesses and appropriate regulation which reflects the global nature of transnational business. Some progress has been made in relation to anti-corruption measures which also cover business activities abroad, e.g. the Bribery Act (2010), reforms to the EU Accounting Directive and Transparency Directives in 2013 in relation to extractive company payments, and the current bill to set up a public register of beneficial ownership, resulting from the UK’s commitment to the G8 and Open Government Partnership.

33. The Cabinet Office ensured cross-departmental coordination and an innovative open policy-making process to produce the UK Government’s National Action Plan for the Open Government Partnership in October 2013, which includes various commitments to making companies more responsible. DFID does not appear to have been at the forefront of discussion on the development and implementation of the UN Guiding Principles on Business and Human Rights, even though there are clearly huge links to the impacts that corporate activities can have on poor and marginalised communities.

34. This is not an area that DFID has pursued in detail. Speeches by the Secretary of State for International Development reference responsible business, but DFID’s high level commitment to

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36 P19: For instance the heading “It’s not just about large multinational firms. Developing country entrepreneurship has a major role to play in development” is followed by a description of DFID’s activities in relation to UK SMEs.
37 https://www.gov.uk/government/topical-events/g8-2013
putting the private sector at the heart of development has not yet been matched by appropriate strategies and clear criteria for working with companies. In relation to standards, the focus has remained predominantly on voluntary initiatives rather than setting threshold requirements for responsible business practices at home and abroad.

35. Another significant trend in the last decade has been the emphasis donor governments, including DFID, have placed on using companies or investment firms to deliver aid. Increasingly this aid is being delivered via public-private partnerships (PPPs). Within DFID, this is coupled with the channelling of ODA through different types of financial instruments e.g. through the Commonwealth Development Corporation (CDC) and Private Infrastructure Development Group (PIDG), both fully part of DFID.

36. To date there is limited evidence available about the impact on poverty reduction of private sector aid delivery. For instance, donors perceive the World Bank Group as leading in the delivery of successful PPPs, yet the World Bank’s Independent Evaluation Group identified “an urgent need to introduce a more systematic way of monitoring PPPs”. It was often not possible to say “how far PPPs benefitted the poor, as large data gaps exist.”

37. Furthermore a worrying trend appears to be developing in ODA delivered through PPPs or through the CDC or PIDG. These financing mechanisms do not seem to be subject to the same criteria of aid effectiveness principles or focus on results, meaning that DFID does not apply the same poverty alleviation and aid effectiveness criteria in a uniform way across all of its interventions. The UK’s Independent Commission on Aid Impact recently commented “We found it impossible to identify how much DFID actually spends on PSD”, so the task of measuring results was undermined.

Recommendations

38. Given the importance of micro and small enterprises in changing the lives of poor people, this area should be given a greater focus within economic policy and development programmes. With regards to supporting small businesses in developing countries, it is essential that DFID

growth-how
prioritises greater representation and participation for domestic small businesses and poor producers in the policy, resources allocation and decision making process.

39. DFID should improve policy coherence by fully integrating the Government’s overall responsible business agenda into the department’s approach. For example human rights due diligence should built in as a minimum requirement for corporate partnerships. Ensuring businesses act responsibly is becoming more important as DFID puts the private sector at the heart of aid programmes and climate finance mechanisms.

40. The same development effectiveness principles and focus on poverty alleviation should be applied across all of DFID’s work and all of government ODA. This will include all PPPs, as well as the work of the CDC and PIDG. It will also apply to joint humanitarian operations with the MoD and FCO.

41. DFID needs to develop a comprehensive strategy for DFID’s work with the private sector which shows the overall objectives and criteria for working with the private sector (including in the delivery of public private partnerships), and allows more effective programme design and inclusive monitoring of impacts for people living in poverty. In the humanitarian sector there needs to be robust mechanisms to ensure the system-wide agreed standards for quality, coverage and accountability are adhered to.