2020 economic scenarios: global contexts and implications for DFID

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Some of the big dilemmas we may face in 10 year's time…

Do we give up on climate change mitigation agreements and strategies?

Shall we consider working only with Regional Development Banks?

How do we accommodate new donors in a multi-polar world?

How do we reduce the volatility of commodity prices and ever-increasing world energy prices?

Will our bilateral programmes only be effective in a few sectors, for instance in humanitarian and education?

What this slide pack will cover:

The purpose of this slide pack is to inform the audience on plausible states of the world in 2020 as we emerge from the global financial crisis, using a range of scenarios, and its implications for developing countries. It is not intended to be exhaustive but, instead, to stimulate a debate on whether DFID is well-placed to achieve its policy objectives over the coming decade.

3 sections: -

- The economic scenarios in 2020 – the fundamentals of the global economy and changing dynamics
- Model how the scenarios will affect growth rates and poverty reduction on PSA countries, including lessons from country workshops in India and Kenya.
- Discussion points and thought starters, from the scenarios/modelling, on DFID implications.

Inputs (the scenarios)

Modelling

Considerations for DFID policy in a changing world

Implications for growth and poverty reduction

Section 1: The scenario narratives

This pack outlines a set of four scenarios around the future of the global economy, developed by The Futures Company and Institute of Development Studies, for the UK government's Department of International Development.

The scenarios illustrate four robust and internally consistent scenarios of paths that the global economic recovery could take, and are designed to provide a response to the following question:

"What are the implications of the global financial crisis, and its aftermath, regionally and globally, for Low Income Countries, taking a 5-10 year view?"

The scenario narratives are designed to provide descriptions of alternative coherent and plausible futures, and are informed by structured and rigorous analysis of the most significant drivers of change.

Please note that the purpose of futures and scenarios work is not to predict the future, but to help organisations manage in an environment of uncertainty. There is more information on the methodology behind the scenarios in the Appendix.

The Four Scenarios

Western (re)invention: Scenario outline

- Policies put in place to prevent the worst excesses of the recession prove successful in developed economies, and many return to robust levels of economic growth by 2012. Western economies prove resilient, flexible and adaptive in the face of this global rebalancing of capital flows, and maintain their share of global GDP – though there is no fundamental reform of the banking system.
- The continued long term trend to increasing oil prices penalises export-orientated economies (such as China), and rejuvenates domestic manufacturing in Europe and North America. In parallel, infrastructure bottlenecks, water shortages and political instability all prove a drag on the pace of growth in developing markets.
- Heavily pushed by Western powers (and particularly the EU), there is global agreement on a common framework for regulating carbon emissions, and some asset transfer from wealthy to low income countries via a carbon credits system.
- The G20 proves too complex and burdensome a decision-making body, and negotiations tend to be led by the EU, US, China and Japan.

Western (re)invention: Key Drivers

- Development of Western-multilateralism
- Rejuvenation of Western economies and maintenance of their share of GDP
- Steady increases in energy price
- Common framework for emission reductions
- Continued growth in information flows
- Stabilisation at present levels of inequality
- Asset transfer from rich to poor countries via carbon credits

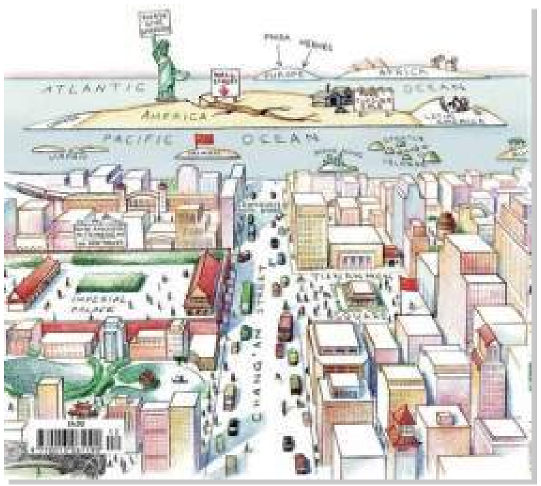
The Odd Couple: Scenario Outline

- The fragile economic relationship between the United States and China, in which Chinese trade and capital surplus support America's continuing debts, remains in this scenario the house of cards on which the global economy is built. But the United States is vulnerable in the wake of the global financial crisis, so China takes its opportunity to turn its economic leverage into greater political and diplomatic influence - increasing power and influence over international organisations, gained with American support.
- Driven by steadily rising energy costs and slower demand, the level of global trade flows failed to reach the heights of 2005/6. Under pressure from domestic voters, many politicians in developed countries were tempted to re-introduce old trade barriers – often under the rubric of environmental legislation.
- 2010 saw the successful agreement on a common regulatory framework for significantly cutting carbon emissions by 2050 – though neither the US or China were wholly signed up to the common agreement on emissions reductions.

The Odd Couple: Key Drivers

- Development of ‘mini-lateralism’
- Rise in protectionism / restrictions on trade flows
- Steady increase in energy prices
- Continued growth in information flows
- A common regulatory framework for emission reductions
- Continued internal polarisation of wealthy/poor

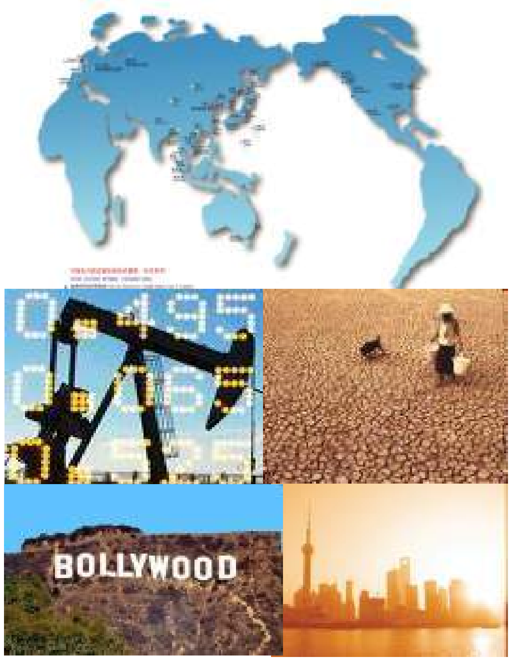
South by Southeast: Scenario Outline



- Hampered by billions of dollars of bad loans and failure to significantly reform the banking system, Western economies continue to stagnate following the global recession.
- In parallel, there is a return (or in some cases continuation) of growth in the global South and East. In search of raw materials, China (and increasingly India) increase their holdings (and influence) in Africa. Their growing influence is not just economic, but cultural. Cricket's IPL, Bollywood films, tai chi and Chinese food all challenge the hegemony of Hollywood, burgers and the Premier League.
- Though there were calls for a 'New Bretton Woods' to better regulate the global economy, policymakers failed to agree on a set of globally transparent and effective rules to apply to a world of differing capitalisms. The result was that the idea of a single 'international community' comprised of nation states is no longer a reality. Rather, a series of *de facto* trading blocs emerged.
- There is no overarching 'deal' to significantly reduce carbon emissions, and instead the approach to emission reductions is piecemeal. The poorest countries are generally excluded from any requirement to reduce CO2 emissions.

Image source: The Economist, March 21st, 2009

South by Southeast: Key Drivers



- Mini-lateralism
- Rapid shift in wealth from West to East
- Stabilisation of current levels of inequality
- Greater state control of information flows
- Sharp rise in energy prices
- Low income countries excluded from global climate change negotiations until emission threshold reached

Roller Coaster: Scenario Outline

- There is crisis of confidence (and subsequent collapse in value) of the US dollar, as institutions believe that the US is at risk of default. This collapse creates huge economic volatility – including negative growth and rising unemployment globally. In the short term, the absence of any alternative currency, the IMF (via Special Drawing Rights) effectively becomes the global lender of last resort. Longer term, the Euro proves the only currency with a large enough economic base to take the weight.
- In parallel with the decline in trade, there is also a decline in the influence of multilateral institutions. The World Bank is sidelined, and the MDGs and poverty reduction in general have less political traction.
- At the same time, the slow and unsteady rate of economic recovery, combined with little excess refinery capacity, have led to significant volatility in the oil price. There is little international coordination on managing flows of speculative 'hot' money, leading to greater volatility in the oil price.
- At a national level, there is some action to protect populations from the worst excesses of the crisis, leading to some political action to tackle significant income inequality.

Roller Coaster: Key Drivers

- Collapse of the dollar
- Bi-lateralism
- Political action taken to reduce inequality and exclusion
- Decline / stagnation of information flows
- Increased volatility in energy prices
- Piecemeal / regionalised environmental regulation mechanisms

Section 2 - Trends in economic growth and poverty reduction: Implications from the scenarios

This section explores the implications for growth and poverty reduction in low-income countries of the four futures scenarios.

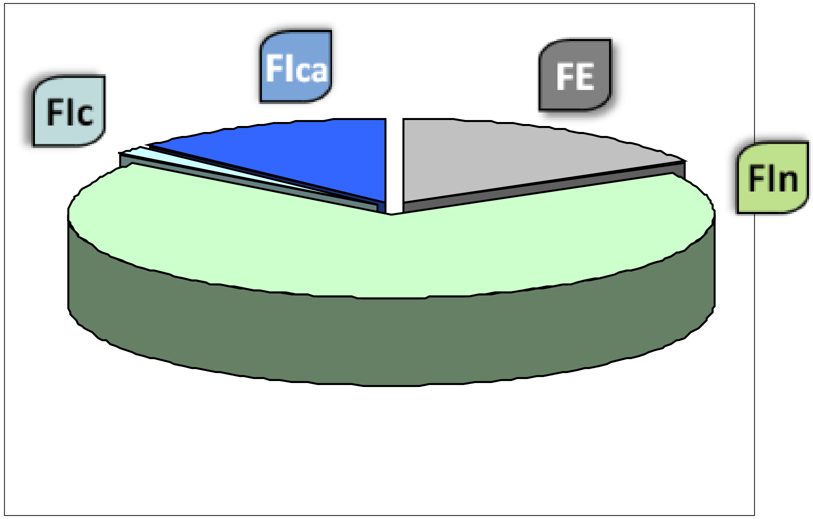
We address the implications of each scenario with a modelling approach that seeks to demonstrate possible pathways, causal linkages and transmissions between the scenarios developed and economic growth and poverty reduction via key economic variables, with an explicit statement of underlying assumptions.

The result is a narrative that outlines the implications of each scenario for a range of LICs and can help inform possible policy responses for different types of LICs.

More information on the modelling work is available in the Appendix.

Modelling PSA countries by typology

	Fragile states	Non-fragile states	Total Population
Fuel exporters FE	DRC, Nigeria, Yemen, Sudan	Vietnam	**375,876,200**
Fuel importers (non-dependent) FIn	Bangladesh, Pakistan, Nepal	India	**1,516,090,584**
Fuel importers, and (non-fuel) commodity export dependent FIc	Kenya, Cambodia		**39,002,772**
Fuel importers, and (non-fuel) commodity export and aid dependent FIca	Afghanistan, Ethiopia, Rwanda, Sierra Leone, Uganda, Zimbabwe	Ghana, Malawi, Mozambique, Tanzania, Zambia	**286,770,809**



Total population of country offices, subdivided by country groupings

- Net Fuel exporters
- Net fuel importers with neither primary commodity export dependency nor aid dependency
- Net fuel importers with primary commodity dependency but without aid dependency
- Net fuel importers with both primary commodity export dependency and aid dependency

Western (re)invention: Variables and trends

Variable	Direction of variable	Trend details
Fuel prices	↑	*Rising steadily*
Non-fuel commodity prices	↑	*Higher prices due to robust global growth*
Size of aid flows	↑	*Rising significantly because of western recovery and climate change asset transfers*
Size of private capital flows	↑	*Rising due to western recovery*

The 'Western Reinvention' is a scenario where:

- **fuel prices are rising steadily**
- **non-fuel commodity prices rise** as the return of strong economic growth in the West (c. 3-4%) drives an increase in non-fuel commodity prices
- **aid flows rise dramatically** and shift composition. Traditional aid flows are dwarfed as carbon/climate aid and trading comes to be viewed as an appropriate substitute
- **private capital flows increase** - both as a result of high commodity prices, and asset transfer via carbon trading. In addition, some LICs are able to capitalise on the demand for low carbon technologies, and to 'leapfrog' countries with legacy dirty infrastructure (e.g. via significant investment in solar). One result of this is greater FDI into LICs with natural resources.

Western (re)invention: Scenario outcomes

	Overall macroeconomic and poverty reduction prospects
Fuel exporters FE	GREEN
Fuel importers (non-dependent) FIn	GREEN
Fuel importers, and (non -fuel) commodity export dependent FIc	GREEN
Fuel importers, and (non-fuel) commodity export and aid dependent FIca	GREEN

Code:
GREEN = positive prospects;
ORANGE = mixed prospects;
RED = negative prospects.

What does the 'Western Reinvention' scenario mean for different types of countries?

- *Fuel exporters*: a potentially **positive scenario** because steadily rising fuel prices support growth and fund healthy public budgets; labour demand is buoyant due to global growth and private capital flows and as a result income poverty, education and health indicators are all likely to improve.

For *fuel importers* things are **generally positive** with a caveat on the speed of fuel price rises.

- *Fuel importers with neither primary commodity export dependency nor aid dependency*: largely a potentially **positive scenario** because growth is led by global recovery and private capital flows. Public budgets are healthy as a result and income poverty, education and health all improve as a result.
- *Fuel importers with commodity dependence but without aid dependency:* this is also a largely a potentially **positive scenario** because non-fuel commodity prices are rising supporting growth, labour demand is buoyant due to global growth and as a result public budgets are healthy and income poverty, education and health all improve gradually.
- *Fuel importers with commodity dependence and aid dependency:* this is again largely a potentially **benign scenario** with the same caveat on fuel price trends. This group of countries benefit hugely from climate aid and trade as well as rising non-fuel commodity prices. Growth is strong as a result as is labour demand and public budgets are healthy. As a result there is real progress on income poverty, education and health indicators.

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The Odd Couple: Variables and trends

Variable	Direction of variable	Trend details
Fuel prices	↑	***Steadily rising***
Non-fuel commodity prices	↓	***Stagnation due to growth and trade volume stagnation and sluggish recovery (with commodity price declines perhaps slowed by protectionism)***
Size of aid flows	↓	***Declining due to lack of multilateralism***
Size of private capital flows	↓	***Falling as a result of protectionism***

The “Odd Couple” is a scenario where:

- **fuel prices rise steadily**
- **non-fuel commodity prices stagnate** due to growth and trade volume stagnation and sluggish recovery (with commodity price declines perhaps slowed by protectionism;
- **aid flows decline and change in composition** due to a lack of multilateralism; traditional aid in particular declines but non-traditional aid increases. There are changes in the way aid is measured and defined – aid is more typically tied to trade and investment. However, if climate change aid is a result of a climate agreement this could dwarf other flows and thus reverse the overall trend on aid)
- **private capital flows static/declining and changing composition** (as a result of protectionism). If trade volumes fall, capital flows will probably fall too but not necessarily. Increased regional investment could be more significant.

The Odd Couple: Scenario outcomes

	Overall macroeconomic and poverty reduction prospects
Fuel exporters FE	
Fuel importers (non-dependent) FIn	
Fuel importers, and (non -fuel) commodity export dependent FIc	
Fuel importers, and (non-fuel) commodity export and aid dependent FIca	

Code:
GREEN = positive prospects;
ORANGE = mixed prospects;
RED = negative prospects.

What does the "Odd Couple" scenario mean for different types of countries?

- *Fuel exporters:* this is a world of **good prospects** – good growth prospects because of fuel price rises; labour demand prospects are low though questionable as growth is fuel-led with stagnating commodity prices, aid, and private capital inflows. Public budgets, assuming the fuel revenue is used productively, should be healthy. These impacts may be mitigated by creating fiscal space for public expenditures, which could also maintain education and health budgets and secure some progress of the education and health MDGs. The key policy issue is whether the fuel revenues are channelled into social spending.

For *fuel importers* things are more mixed.

- *Fuel importers with neither primary commodity export dependency nor aid dependency:* this scenario is potentially **not too bad** because although the fuel price rise slows growth there may be better prospects for non-commodity exports (manufactures and services) from these countries and other sources of finance; thus growth, labour demand, and public budgets may not bare the impact as much as other groupings. Furthermore, income, education and health poverty may not come under such significant pressure because of this. However, it depends on the impact of an increase in food prices on consumption, poverty and health.

- *For fuel importers with commodity dependence and without aid dependency:* there is potentially a **double whammy** in fuel and commodity prices so growth, labour demand, public budgets are all likely to stagnate whilst food prices rise. These countries may become aid dependent as a result. Income poverty is hit by lower growth, and education and health are under pressure due to loss of fiscal space.

- *Finally, for fuel importers with commodity dependence and aid dependency:* potentially a **triple whammy** of fuel prices rising, commodity prices stagnating and declining aid. Income poverty may be severely impacted by lower growth and place education and health under pressure due to loss of fiscal space.

South by Southeast: Variables and trends

Variable	Direction of variable	Trend details
Fuel prices	↑	***Rising steadily***
Non-fuel commodity prices	↑	***Higher prices due to robust BRIC growth***
Size of aid flows	↓	***Falling because of declining influence of West. Shift to non-traditional donors.***
Size of private capital flows	↓	***Overall stagnating. Fall in OECD private capital flows offset somewhat by rise in non-OECD private capital flows***

"South by Southeast" is a scenario where:

- **fuel prices are rising steadily.**
- **non-fuel commodity prices rise** due to significant demand from China and India and greater protectionism may increase prices too.
- **aid flows are falling** overall due to declining influence of the West but offset somewhat by non-traditional donors as aid flows shift composition to non-traditional donors.
- **private capital flows are stagnating overall and shifting in composition** as non-OECD capital flows increase at the same time as a decline/stagnation in OECD capital flows. Regional investment patterns become more pronounced – i.e. Chinese FDI in ASEAN; South Africa in SADC; Russian in the Stans and remittances from EC stagnate or fall but remittances from MICs to LICs increase and regional migration expands in 'growth centres', i.e. Beijing and migration fluctuates with growth in those centres.

South by Southeast: Scenario outcomes

	Overall macroeconomic and poverty reduction prospects
Fuel exporters FE	GREEN
Fuel importers (non-dependent) FIn	GREEN
Fuel importers, and (non -fuel) commodity export dependent FIc	GREEN
Fuel importers, and (non-fuel) commodity export and aid dependent FIca	ORANGE / RED

Code:
GREEN = positive prospects;
ORANGE = mixed prospects;
RED = negative prospects.

What does the "South by Southeast" scenario mean for different types of countries?

- *For fuel exporters* this is again a **potentially positive** scenario due to rising fuel prices fuelling growth and public spending. Labour demand might benefit in a limited way from fuel-led growth and/or from robust demand from the BRICs but be constrained by a lack of private capital. As a result income poverty, education and health indicators have the potential to improve steadily.

For *fuel importers* things are more mixed.

- *For fuel importers with neither primary commodity export dependency nor aid dependency* the outlook is **potentially positive** too due to robust growth in the BRICs fuelling growth and labour demand. Again, as a result income, poverty, education and health indicators have the potential to improve steadily.

- *For fuel importers with commodity dependence but without aid dependency* this is a **potentially positive** scenario because higher non-fuel commodity prices would support growth and healthier public budgets, and thus income poverty reduction and improved education and health indicators.

- *For fuel importers with commodity dependence and aid dependency* this scenario is potentially **more negative** because although rising commodity prices would support growth and public spending, the impact of drastically declining aid budgets could have greatly influenced income poverty, education and health.

Roller Coaster: Variables and trends

Variable	Direction of variable	Trend details
Fuel prices	↑↑	*Volatile and rising significantly*
Non-fuel commodity prices	↓	*Lower prices due to global recession*
Size of aid flows	↓	*Fall due to global recession impacts on aid budgets in traditional and non-traditional donors*
Size of private capital flows	↓	*Fall due to global recession and volatility prevents investments*

"Roller Coaster" is a scenario where:

- **Fuel prices are volatile and rising.**
- **Non-fuel commodity prices are falling** due to declining demand and recession. However, the impact on commodities which represent stores of value (gold, diamonds) usually rise in these periods. Prices for food and water increase as less trade exacerbates food shortages.
- **Aid flows decline** due to recession, and global mistrust increases. There may be an increase in some bilateral flows, especially where these are linked to diplomatic, strategic or political objectives. Aid flows from foundations will also fall. Regional aid may become more important.
- **Private capital flows** decline overall, particularly from OECD countries due to recession, which might be partially offset by non-OECD flows as China's investments take advantage of non-fuel commodity price trends.

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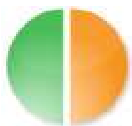
Roller Coaster: Scenario outcomes

	Overall macroeconomic and poverty reduction prospects
Fuel exporters FE	
Fuel importers (non-dependent) FIn	
Fuel importers, and (non -fuel) commodity export dependent FIc	
Fuel importers, and (non-fuel) commodity export and aid dependent FIca	

Code:
GREEN = positive prospects;
ORANGE = mixed prospects;
RED = negative prospects.

What does "Roller Coaster" scenario mean for different types of countries?

- *Fuel exporters*: potentially a world of **good prospects** due to rising (albeit volatile) fuel prices. Growth will be fuelled by the fuel price rise (albeit price volatility may lead to stop-start growth); labour demand prospects are more mixed if growth is fuel-led and the prolonged global recession leads to depressed export markets for manufacturing and services. The outlook for public budgets is good but again it could be a volatile picture if fuel prices rise on an erratic trend. The prospects for income poverty reduction are mixed if growth is fuel price-led, but health and education budgets could be expanded as a result of oil revenues.

For *fuel importers* things are **much less positive**.

- *For fuel importers with neither primary commodity export dependency nor aid dependency* the high fuel prices will dampen growth, which is unlikely to be offset by other export markets due to a global recession so labour demand will also be weak and public budgets under pressure leading to likely potentially **adverse impacts** on income poverty, education and health indicators.

- *For fuel importers with commodity dependence but without aid dependency* things are potentially **worse** due to the stagnation of non-fuel commodity prices as a result of the recession in addition to the fuel price rise. Both will dampen growth; labour demand and depress fiscal space potentially leading to adverse impacts on income poverty, education and health indicators.

- *For fuel importers with commodity dependence and aid dependency* this scenario is potentially even worse than for the grouping above. The triple-shock of fuel price rises; declining non-fuel commodity prices and falling aid budgets overall (even with rises in non-traditional aid) make this scenario **particularly bleak** for these group of countries.

India and Kenya: self assessment by workshops

The global economic and social scenarios were tested with a range of stakeholders in both Delhi and Nairobi (please see the full report for a full list of workshop participants). These sessions were designed to provide an additional review of the global scenario narratives, and to enable participants to consider more specific, country-level implications of the scenarios for India and Kenya.

The following slides outline the major implications of these discussions under each of the scenarios, and provide a practical illustration of how the scenarios can be used to consider implications for LICs at a country level.

Kenya country office self-assessment

Western (Re)invention

Economic growth:

Poverty reduction:

The Odd Couple

Economic growth:

Poverty reduction:

Roller Coaster

Economic growth:

Poverty reduction:

South by Southeast

Economic growth:

Poverty reduction:

India country office self-assessment

FIn

Western (Re)invention

Economic growth:

Poverty reduction:

The Odd Couple

Economic growth:

Poverty reduction:

Roller Coaster

Economic growth:

Poverty reduction:

South by Southeast

Economic growth:

Poverty reduction:

India and Kenya: overview of the perceived impacts

Kenya

- The overall tenure of responses at the workshop in Kenya was **pessimistic**. Many participants saw poor or worsening outcomes for economic growth and poverty reduction in Kenya under most scenarios.
- The pessimism expressed by the group was broadly driven by a number of interlinking factors:
  - Many felt that Kenya was **vulnerable to continued political instability** and high levels of corruption (both of which are detrimental to economic growth, and in particular were likely to further damage the tourism industry).
  - The **economic decline experiences by many traditional donor countries** implied in many of the scenarios was seen as having a negative impact on poverty reduction – both in terms of aid, remittances, tourism and inward investment.
  - **The role of China** was discussed in come detail. The Chinese already invest in Kenyan infrastructure (though not yet in the social sector), and many were concerned that continued Chinese investment would contribute to political corruption, would not be tailored to poverty reduction, and would provide continued cheap competition for Kenyan exports. (It is worth stressing that an alternative perspective voices was that the role of China was more positive - projects are delivered effectively and cheaply).

India

- Responses to the scenarios from an Indian audience tended to be more **positive** in nature.
- Many felt that India had weathered the current downturn well, and was in a good position to take advantage of the subsequent economic upswing. India's relatively low reliance on international capital flows and high levels of domestic savings we cited as reasons why India had been less affected by the recession. Participants tended to be bullish about the future.
- The IT and business services sector, where Indian companies continued to leverage their large, educated and English speaking audience, was seen as positioning India strongly to take advantage of any economic upturn.
- However, a number of potential blockages to continue poverty reduction in India were also discussed by the group:
  - The **impact of political instability on Indian growth and poverty reduction** was a concern. Continued domestic instability or further tensions could result in higher defence expenditure at the cost of poverty reduction.
  - There were also concerns about continued high levels of inequality in Indian society, which could lead to the benefits of headline growth not significantly benefitting the poorest.

Section 3 – The ‘So What?’ questions for DFID

This section aims to initiate a discussion, by identifying what are the key considerations and risks to for DFID policies drawn from the evidence of the scenarios and modelling. These are then synthesised into thought starters to conclude.

These are not intended to be exhaustive, but are to stimulate a debate on whether DFID are well-placed in achieving policy objectives over the next decade.

Growth

DFID priorities

Reducing the barriers to global trade

Concluding Doha and monitoring protectionism.

Private Sector enabling environment

Western Reinvention

A more balanced global growth path with safety nets and continued aid flows enable a more equitable redistribution of income to LICs. No significant losers relative to now.

Roller Coaster

Frequent sharp economic shocks adversely impacts all – a volatile world. **Everyone loses out**, but large fuel/commodity exporters feel the effects less. Aid flows are erratic and tied to trade objectives

The Odd Couple

Countries with **few natural resources and that aren't neighbours of China** are the most vulnerable. Eventually, countries also reliant on trade with US and EU suffer.

South by Southeast

BRIC-led growth benefits regional neighbours through aid and job creation. **Land-locked SSA countries** with little natural resource will the biggest losers.

Challenges ahead:

- Countries reliant on single export and aid flows are in perilous positions – what is our message; is it just about diversification?
- Huge requirement for more jobs in developing countries – what's their comparative advantage in a fragmented world (e.g. unskilled labour)?
- What needs to be done about increasing energy/oil prices? Could we do it?

Trade

<u>DFID priorities</u>

Reducing the barriers to global trade

Concluding Doha and monitoring protectionism.

Private Sector enabling environment

Western Reinvention

'Business as usual' before financial crisis. A better connected global economy. Doha is concluded to the benefit of LICs. Low carbon growth commitment also enables LICs to benefit

The Odd Couple

Rise in protectionism and mini-lateral arrangements. Doha concludes but is watered down and not enough for LICs to benefit.

Roller Coaster

Conversion from dollar to other currencies hits LICs adversely. Swings in growth can lead to civil unrest and no capacity building of state-led delivery

South by Southeast

Job creation in emerging economies generated by new global powers, particularly those with natural resources. Eastern growth benefits the poor regionally too.

Challenges ahead :

- Regional trade may start to dominate world trade. Are our policies aligned to this?
- Non-fuel commodity price fluctuations will be an ongoing problem, do we need to think about price stabilisation?
- Trade is still important for growth, but it may not be enough. What are the other drivers that will work?

Fragile States

<u>*DFID priorities*</u>

At least 50% of new bilateral support

Improving accountability and transparency through a comprehensive state-building approach.

Western Reinvention

Global deals improve efficiency and transparency of aid, leading to bigger and balanced ODA levels. Better natural resource management also will also result.

The Odd Couple

FDI continues to rise in resource-rich fragile states as China continues to invest/trade with them. Land-locked countries are most at risk of falling behind.

Roller Coaster

Growth rates erratic. Traditional aid flows fluctuates as economic growth volatility persists. LICs extremely vulnerable to global swings in demand.

South by Southeast

Aid coordination becomes increasingly difficult as new donors emerge. State-controlled information flows affect civil society and accountability of govts.

Challenges ahead :

- Fragile states dependent on aid and non-fuel commodity exports are probably be least resilient of countries – what is our message here?
- The global aid architecture will need to account for new types of aid/investment. What changes will we need to make to accommodate the new donors?

Climate Change

<u>DFID priorities</u>

Support to financing transition of LICs into low carbon growth economies

Funds in addition to existing DAC commitments of aid

Western Reinvention

Common framework for emissions reductions achieved and asset transfer from rich to poor countries via carbon credits and ring-fenced aid.

The Odd Couple

Partial agreement on a common regulatory framework for emission.

Roller Coaster

Reduction in aid leads to pressures on global funding of low carbon growth in LICs. Not in interest of developed nations to ratify further commitments.

South by Southeast

No further climate change deals at a global level; issue characterised by to piecemeal deals. LICs are excluded from deals until they reach higher income levels.

Challenges ahead :

- Is there a role for HMG in mitigation in our portfolio – do we drop it completely? What do the shares of mitigation and adaptation look like over time?
- Who are our most important partners?
- How do we make the case for those most vulnerable?

Multilateralism vs. Bilateralism

<u>DFID priorities</u>

Allocate aid based on needs basis on poverty reduction, over-and-above other considerations

Increasingly put our money through multilateral institutions

How we work with partners

Western Reinvention

The global recovery further reaffirms the benefits of multilateralism. Developed countries commit to 0.7% target and LICs benefit.

The Odd Couple

World Bank is marginalised by competing development models of aid development. WTO accommodates in time and effectively becomes a collection of bilateral trade blocs.

Roller Coaster

Besides the IMF, which effectively becomes the lender of last resort as countries make the switch from $ to the €, all other major multilaterals are sidelined.

South by Southeast

IFIs fail to adapt to the changing political economy in time. The shift in economic power consequently marginalises the WB and the WTO

Challenges ahead:

- If all major multilaterals lose the plot, we may get better VFM through RDBs. How do we make the switch and what are the priority areas?
- Our bilateral programme will need to be reconfigured to accommodate objectives we don't think multilaterals can achieve anymore. What are the key areas i.e. education, health?
- If things become so dire, do we restrict bilateral spending only to crisis and humanitarian response and the most basic of services?

Thought Starters: discussion for the group

The general outlook for maintaining poverty reduction prospects are challenging. Assuming we are moving away from the 'business as usual' before the crisis, are we able to respond and work flexibly?

There are potentially very big losers (countries dependent on aid, importing fuel and lacking in natural resources), with sustained job creation being the a major challenge for LICs. *What types of interventions do we need and what are the conditions? What will be the comparative advantage of LICs in this new world? Do we focus on regional trade agreements as opposed to global agreements? Have we though enough about commodity price stabilisation? What's our advisory message to* countries reliant on single export and aid? *What needs to be done about increasing energy/oil prices?*

It's plausible there are no further deals on low climate financing and binding emissions targets. We will may need to be more ruthless in how we invest in climate change. Is there a role for HMG in mitigation in our portfolio – do we drop it completely? What does the mitigation/adaptation pots look like over time - *by putting it all into multilaterals/global funds, the private sector or working bilaterally, or just addressing the biggest losers?*

The success of multilaterals depends on reforms being able to reflect a new political economy of the world which also involves greater global ownership. *How do we influence new donors? What's our approach as some multilaterals lose their influence? Who are our new partners? Do we work increasingly on a more regional basis with RDBs?*

If we believe bilateral programmes offer the best comparative in some cases, will we have to define our role in narrower terms. *What are the key areas i.e. education, health? If things become so dire, do we restrict bilateral spending only to crisis and humanitarian response and the most basic of services?*

How do we know what state of the world we are in? What are the leading indicators which trigger action points?

Thank you