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## **Executive Summary**

These are difficult and uncertain times. Difficult, because the current global recession seriously threatens the achievement of the Millennium Development Goals, and may push more than 90 million people into poverty. Uncertain, because the scale of the downturn is not yet known, and the impact could be even more serious.

Combined with other huge challenges already happening, or on the horizon, including the demands of a growing population and the onset of climate change, this is an important moment to reaffirm our commitment to international development and to review priorities.

The past year has witnessed a series of unprecedented events. For most of 2008 discussion focused on rises in the prices of food and oil. There were winners and losers from both price spikes, but it was clear that many poor people were seriously affected. In September 2008 a credit crunch turned into a full-blown financial crisis and this has now turned into a global recession. This crisis is evolving and our knowledge about its full effects remains incomplete, but the signs in early 2009 are of a deep and prolonged downturn, with a profound impact on people's lives.

Other important trends are emerging. There is an increasing concentration of extreme poverty in fragile and conflict-affected countries, or regions. The most recent poverty projections put the number of people living in extreme poverty at 1.4 billion. Throughout the world, the effects of climate change are already being felt and are set to get much worse. The International Panel on Climate Change suggest that if we continue with 'business as usual', we are set for global temperature rises of up to 4 °C by the end of the century, with devastating consequences for the poor, as well as our global prosperity and security. It is also clear from discussion at the G20 and elsewhere, that tackling shared global challenges requires institutions fit for purpose: efficient, accountable and of sufficient scale and scope to deliver the global public goods that the world now needs.

There will be different views about the way forward. These will reflect interpretations about the causes and scale of the current crisis, different regional dynamics and the speed and scale of climate change. This conference will focus on a set of priority issues: the economic downturn; climate change; food security; fragile and conflict-affected countries; reform of the international system; and the MDG agenda. Some topics, like gender and inequality, cut across the five priorities. Each of these issues will have to be reframed in light of the current global challenges.

## Introduction

This is a background paper to the DFID Conference on international development '*Eliminating World Poverty: Building Our Common Future*'.<sup>1</sup> It does not seek to set out proposed responses but aims to provoke thought on the emerging challenges faced by developing countries and the rest of the world, and sets out a series of questions to address the priority issues.

In the most simple case, the global recession would prove to be sharp but short, and will leave untroubled a development model which has been strongly focused on the benefits of rapid globalization. International systems and policy frameworks will prove to be consistent with plans to tackle conflict and state fragility, climate change and other long term challenges. Business-as-usual may need to be modified slightly but will resume in fairly short order.

However, this outcome seems unlikely. An alternative response will likely be needed, one that is principled in its approach to policy; based on sound analytics; and robust in the face of uncertainty. The demands of the current crisis will be considered in this alternative, alongside the long term business of achieving inclusive and sustainable development. To be successful, the alternative will need to engage the public in both North and South, and offer a development 'story' with new resonance and new ambition.

The paper is organised into four parts. Part one briefly reviews recent progress in developing countries. Part two sets out the emerging challenges, both immediate and longer term. Part three sets out a series of questions for consideration in priority policy areas in response to the emerging challenges.

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<sup>1</sup> The paper was prepared by the Overseas Development Institute and the Department for International Development. It does not necessarily reflect UK Government policy.

## **Part One: Recent Progress in the Developing World**

Progress in developing countries has been remarkable in recent years. Many millions around the developing world have benefited from the combined efforts of developing and developed country governments, private sector, and a range of international actors. International development has enjoyed a high profile in the developed world, and there are results to show: better policy frameworks, centred on achieving the Millennium Development Goals, backed by increased financial assistance.

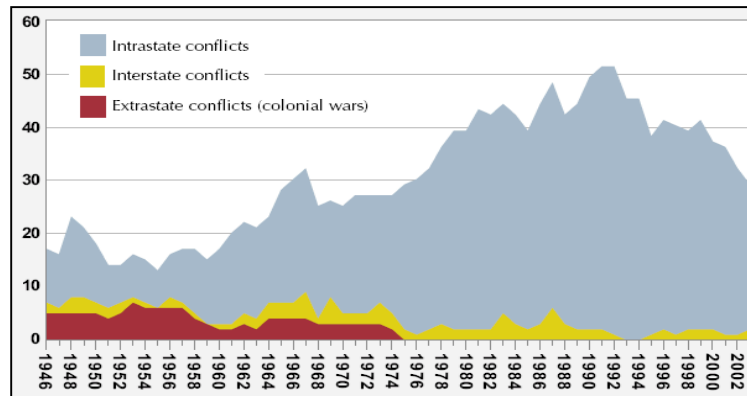
But is progress at risk? There are three reasons to be concerned. First, the severity of the financial crisis and recession mean that the progress already achieved may well be reversed. Second, longer-term challenges are becoming acute, with a rising population; rapid urbanisation; conflict and state fragility; and climate change. Third, irrespective of other issues, progress is uneven between regions and between the different components of the MDGs. Africa will not meet many of the targets for 2015, and, in most countries, health and education goals have been harder to achieve than those for income. Even if all the goals were to be met, as much as half the abject poverty found in 1990 would still remain.

Putting these concerns together underscores the importance and urgency of keeping international development at centre-stage. The opportunity to do so is helped by recent concerted efforts of the international community to overcome recession and broker new global deals on financial regulation and climate change. The welfare gains if progress can be maintained are historic, both in ambition and impact; the losses if progress is reversed would shame us. Importantly, the potential benefits will be shared in both poor and rich countries. A more peaceful, prosperous, environmentally sustainable and socially just world brings tangible benefits to all. Conversely, an unequal and divided world brings conflict over the distribution and use of natural resources, money and power.

The current outlook is worrying, but it is worth remembering that the distance so far travelled is impressive. For one, poverty is falling. The latest World Bank estimates, published in 2008, show that numbers falling below the new poverty line of \$US 1.25 per day fell from 1.8 billion in 1990 to 1.4 billion by 2005. With world population rising, the proportion below the poverty line fell sharply, from 42% in 1990 to 26% in 2005.

Governance is improving and conflict is falling. Two thirds of states are now considered electoral democracies, however imperfect. The number of conflicts in the world has fallen sharply, from over 50 in the early 1990s, to fewer than 30 today (Figure 1).

**Figure 1: A less violent world: Numbers of conflicts, 1946–2003**

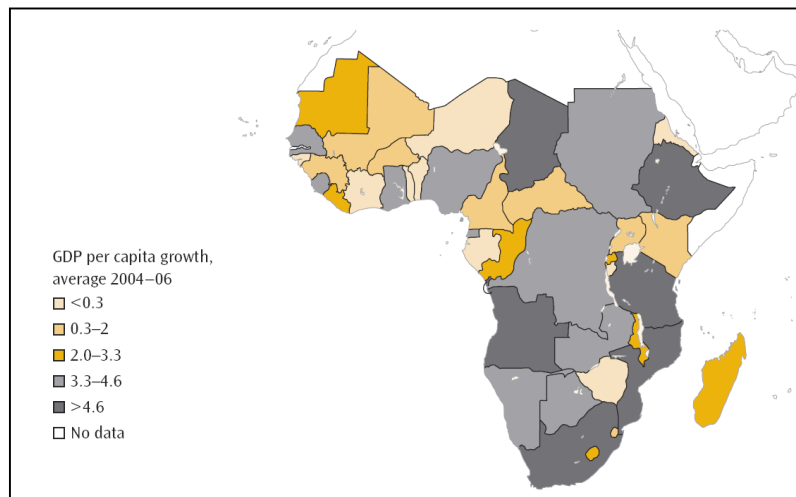


Source: Human Security Centre, 2005

Health and education are improving. In the past 30 years, infant and child mortality in developing countries have both fallen by half, and life expectancy has increased by a decade, from 56 to 65. At the end of 2007, 3 million people in low income countries were receiving anti-retroviral therapy for HIV/AIDS. In the past 15 years, enrolment in primary schools in developing countries has increased to 85%.

These improvements are not independent of each other. The research evidence shows that human development gains reinforce each other: women’s education improves child nutrition; better fed children do better in school.

**Figure 2: GDP per capita growth in Africa**

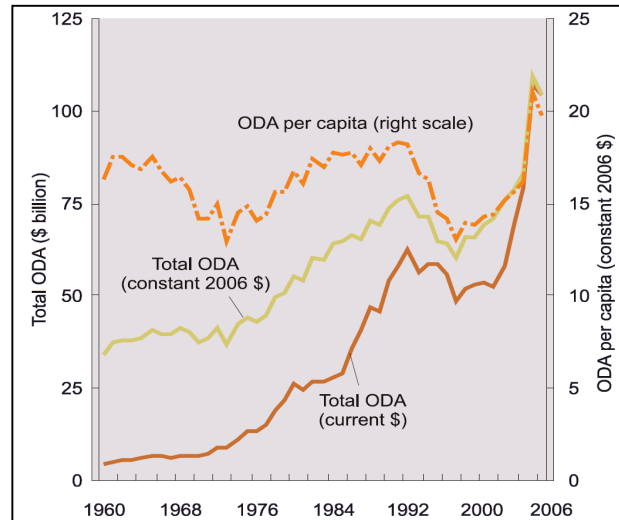


Source: World Bank, 2008a

Growth underpins much of this progress, especially when shared across income groups. Some countries have seen extraordinary growth in per capita income. Botswana, for example, which had a per capita income of \$US 210 in 1960, had reached \$US 3,800 by 2005. Per capita income in Thailand rose from \$US 330 in 1960 to over \$US 3000 today. All these figures are in constant prices, adjusted for inflation. Across the developing world, growth rates have increased, averaging 7-8%

in the years leading up to the current crisis. In Africa, as the map in Figure 2 shows, more than 20 countries have achieved growth rates in per capita income of more than 2% per annum.

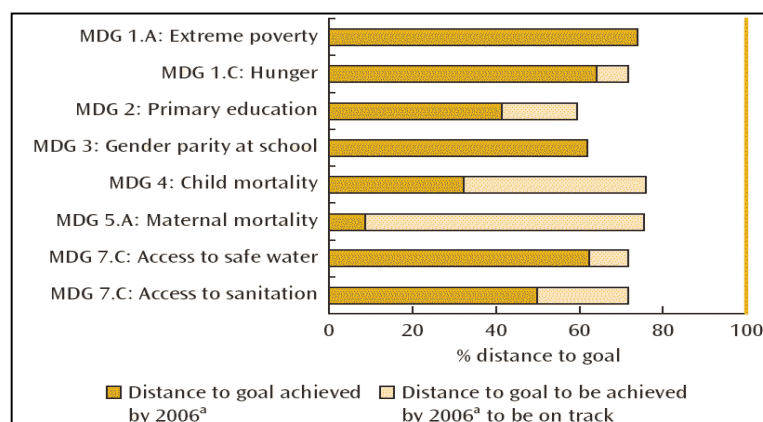
**Figure 3: Long-term trends in ODA, 1960-2006**



Source: UNCTAD, 2008

The achievements reflect the efforts of many development actors – public, private and voluntary – working together to support the efforts of countries and communities. Aid has played its role too. Following a fall in real terms in the early and mid 1990s, aid volumes have increased sharply since 1999, and especially since the Millennium Summit in 2000, which agreed the MDGs, and the Financing for Development Conference in Monterrey in 2002. Figure 3 shows that aid, including debt relief, is currently running at about \$100 billion per year, 30% in real terms above the previous peak in 1992.

**Figure 4: At the global level, progress and prospects vary widely across MDGs**



Source: World Bank, 2008a

a) Most recent year for which data are available

Of course, progress is uneven and incomplete. Figure 4 shows that good progress is being made globally on reaching the MDG of halving absolute poverty – indeed, this goal has already been met, thanks to rapid progress in China, especially. For other goals, progress is much slower: child and maternal mortality stand out.

Even where there has been good global progress on some goals, this often masks regional variation. There are clear regional patterns in progress which depend on initial conditions and recent growth performances. Although Asian countries perform well in the income poverty goal, Latin America and the Middle East have performed well in health, education, and gender equity. Sub-Saharan African countries lag much behind other regions, and progress is slower in fragile states. Variation in MDG performance is also notable within these broad groups. In the past decade, poverty reduction in SSA has ranged from a decrease by 4.6% in Ghana between 1999 and 2006, to an increase of 3.8% in Uganda between 2000 and 2003.<sup>2</sup>

The record of the last ten years shows what can be achieved. The shortfalls emphasise the urgency of the task outstanding. The urgency is compounded by the impact of the current crisis, which has turned rapidly from a financial crisis affecting markets in developed countries to an economic crisis affecting all countries.

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<sup>2</sup> Bourguignon et al (2008)

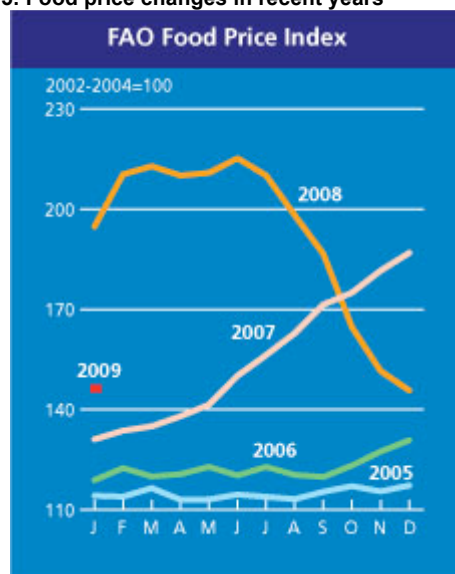
## Part Two: The Challenges

### Food and Fuel Crises

Today, the global recession dominates all discussion. For most of 2008 however, discussion in development circles focused on rises in the prices of food and oil.

There were winners and losers from price spikes of both food and fuel, but it was clear that many poor people were seriously affected. The food price crisis was especially serious, not surprising when prices of wheat and rice more than doubled – and when the poorest groups spend up to 80% of their incomes on food. The World Bank estimate that world poverty is likely to have increased by 130 million people due to increased food prices from 2005 to 2007. It is difficult to estimate the contributions of the various factors leading to this, but they include poor 2007 harvests in Europe, drought in Australia in 2006 and 2007, increasing oil prices and biofuels. Factors such as export bans further exacerbated shortages and price increases. The evidence suggests that speculation had at most small and transitory effects.

Fig 5: Food price changes in recent years



Source: FAO, 2009

The rise in food prices required a response in humanitarian relief and social welfare, but also presented countries with budgetary and balance of payments problems. There were also political problems, with food riots in more than 30 countries.

The food price crisis illustrated an important lesson: shocks affect poor households directly, but also cause macroeconomic and political problems which can have long-term consequences. In this case, people went hungry, with long term costs to nutritional status and health; household resources were eroded; growth was disrupted; and political stability was undermined. Despite a significant supply response to the increased prices, with record harvests registered mainly in high and middle income

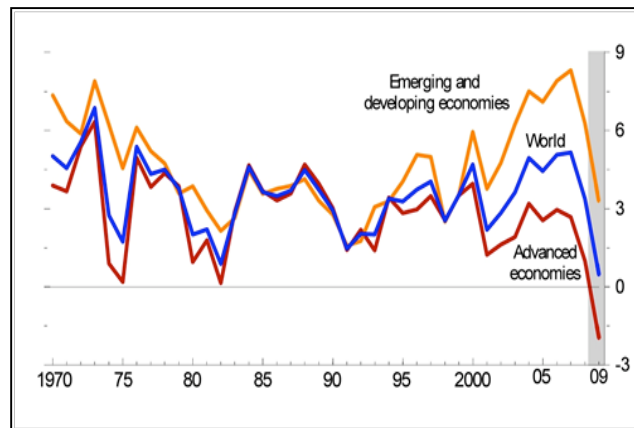
countries, the negative impacts will long outlast the fall in food prices in the second half of the year (Figure 5).

It is useful to place recent developments in a historical context. The commodity price surges of last year have many similarities to those recorded during the commodity price boom of the early 1970s (1971-1974). For example, the underlying causes of the booms both had strong links to strong global economic growth, lower than usual inventory and spare capacity and supply constraints, which in turn placed high upward pressure on prices. Furthermore, these events have not overcome the long term decline in commodity prices.

### Financial and Economic Crises

In September 2008 the credit crunch into a full-blown financial crisis and now into a global recession. This is an evolving crisis and our knowledge about its full effects remains incomplete, but the signs in early 2009 are of a deep and prolonged downturn.

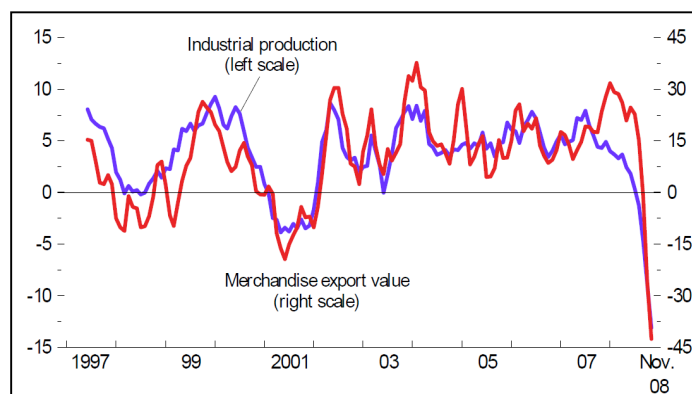
Figure 6: GDP Growth (percent change)



Source: Adapted from IMF, 2009

Global growth estimates have been revised rapidly and successively downwards, with the latest estimates (Figure 6) showing developed countries with negative growth and developing countries with much diminished growth rates, some negative on a per capita basis. Industrial production and merchandise export growth rates have plummeted (Figure 7).

Figure 7: Growth in Global Industrial Production and Merchandise Trade (Annualized 3-month percent change)



Source: IMF, 2009

Losses will grow as the crisis extends in time. But the duration and true scale of the effects linked to the crisis are still unknown and change as the data emerge. Examination of the aftermath of past severe financial crises shows deep and lasting effects on asset prices, output and employment. In OECD countries, increases in unemployment and house price declines have generally lasted for five and six years respectively. Output declines have tended to last only two years on average. The Asian financial crisis, however, caused long term losses on a very large scale: \$US 346 billion for Indonesia between 1997-2002, for example, equivalent to 177% of one year of GNP.

Developing countries are likely to be affected in different ways and to differing extents, depending on what happens to: i) the volume and price of exports of goods and services; ii) remittances; iii) foreign direct investment, equity investment and commercial lending; and iv) aid.

The expectation is that there will be significant impacts in all these areas, but the effects will be diverse and lagged, with countries most affected being those where the various linkages intersect. The evidence is beginning to accumulate.

Trade volume is forecast to fall by at least 2% in 2009, and with prices also falling, the outlook for export earnings, and for jobs in export industries, is bleak. Chinese exports fell by 17.5% year-on-year, Taiwan's by 44.1%, whilst imports were even bleaker with China's falling 41.3%.<sup>3</sup> Individual countries are experiencing trade shocks in goods and also in services like tourism. Zambia is facing a 40% fall in copper prices; in Cambodia, tourist bookings are down 40%; in Kenya, tourist arrivals fell 30% during the first nine months of 2008. An indication of the slow down in trade is the cost of shipping, which has fallen dramatically. The Baltic dry index has declined in a matter of months from over 12000 to under 1000.

Remittances have fallen, a particular worry for countries like Lesotho, Honduras, Lebanon, Guyana or Jordan, all of which earn 20% or more of GDP from this source. Kenya estimates a 40% drop in remittances; Mexico 4%.

Financial flows are also down. Net private financial flows to emerging markets are likely to be down by over 80% this year, from almost \$US 1 trillion in 2007.<sup>4</sup> Together with large exchange rate movements in some middle and low-income countries, means less investment taking place and lower future growth. There has been a sharp impact on stock market values in developing countries. The Egyptian stock market fell by 57% in the second half of 2008, the Nigerian by 45% and the South African by 28%.

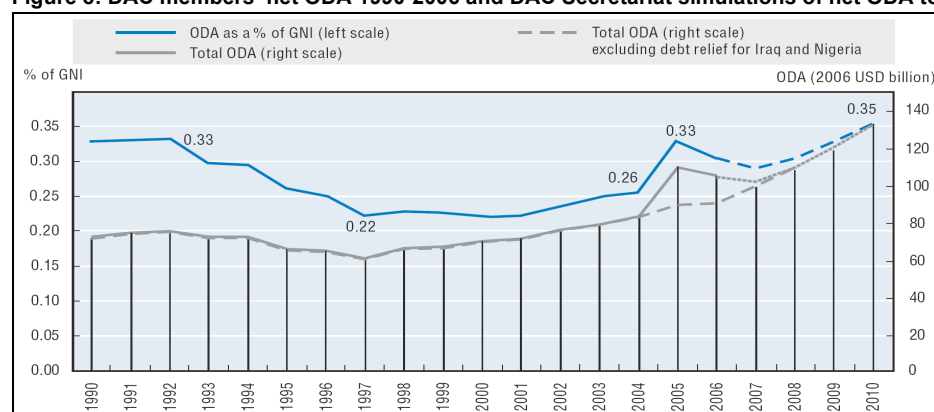
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<sup>3</sup> DFID, 2009

<sup>4</sup> Institute of International Finance, 2009

Finally, aid flows have so far held up, but with worries about whether commitments made at Gleneagles in 2005, and subsequently reiterated at G8 and EU Council meetings, will actually be met. Figure 8 shows that donors are collectively lagging some \$US30 billion below the commitment made for 2010. A question is whether public support for aid can be sustained in a downturn.

**Figure 8: DAC members' net ODA 1990-2006 and DAC Secretariat simulations of net ODA to 2007 & 2010**



Source: OECD, 2008

These numbers conceal the human impact of the crisis. In China, 26 million workers have already been laid off in troubled export sectors. India projects job losses on a large scale. And in South Africa, mining companies have so far revealed plans to axe 14,000 jobs. The World Bank estimates that an extra 20 million people will fall below the poverty line for every 1% fall in growth.

Some countries and communities will face higher risks than others. Those least affected have large internal markets, large reserves, strong fiscal and balance of payments positions, and well regulated banks. There are many countries which do not have these characteristics.

There have been previous recessions and financial crises, from which the world economy has recovered. This time, counter-cyclical measures have been put in place, through interventions in the banking system and through fiscal and monetary stimulus. Developing country concerns may be overshadowed by those of the advanced economies, but they have not been neglected, for example, in meetings of the G20. Shifts in the international political context provide a real opportunity for putting in place a new framework of global cooperation. But the risks are also real. Developed countries are facing a crowded domestic policy agenda and, together with the immense fiscal demands of the crisis, will cause strain on maintaining the focus abroad as well as at home. The recent international meeting in Poznan illustrated the difficulties in arriving at a global deal on climate change, and the need for long term commitment to tackle mitigation, adaptation and development. The lack of a global trade deal remains a concern, as do signs of a return to protectionism.

The critical challenge is to find a way through the current crisis while ensuring that development remains a priority. Early interventions, including effective social protection systems, are necessary to protect living standards and avoid the erosion of as-

sets that prejudices long-term development. In the 1980s, the then financial crisis and slow-down had major negative impacts on the welfare of the poor. It took some time for the impact to become visible, and it was not till 1986 that the publication of, 'Adjustment with a Human Face', triggered investment in social programmes to offset the adverse impacts of budget cuts. It took a decade or more for many countries to recover.

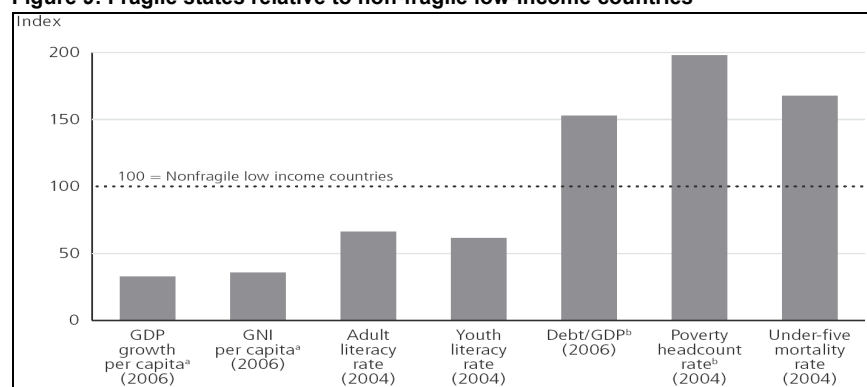
The food, fuel and financial crises, together with a deep economic downturn confirm how interdependent the world is. Climate change, state fragility, violent conflict, population growth and urbanization are all rising up the agenda. They throw into sharp relief questions about the long term viability of aspects of the market-economy model which has been dominant since the Second World War. At the same time, the development context is changing: more poor people in hard to reach places; more poor people in towns; and more poor people affected by climate change.

The recession will set back progress, but longer term projections point to a shift in the balance between low-income and middle-income countries, with a number of better performing, low-income countries, such as India and Vietnam, graduating to middle-income status. World Bank projections show that the number of low income countries will fall by a third by 2015, and the number of people living in countries with low income status will fall by half. There is also increased appreciation of the new centres of emerging global economic power, with the rapid rise of China, India, Russia, and others relative to OECD countries. Asia's share of world income has already increased from 23% in 1970 to 38% in 2000 and can be expected to be around 49% in 2025, and 54% by 2050. There is also new evidence which suggests that the poorest countries are starting to benefit from this growth, with China now being Africa's second largest trading partner.

### *Poverty in Fragile and Conflict Affected Countries*

A related trend will see a concentration of extreme poverty in fragile and conflict-affected countries, or regions. The most recent poverty projections put the number of people living in extreme poverty at 1.4 billion. Of these, roughly one quarter live in fragile states. Half the children in the world who die before reaching their fifth birthday were born in these countries. One in three women whose deaths are related to pregnancy or childbirth are in fragile states. Fragile countries, where the state lacks either the capacity or the will to deliver basic services and meet the aspirations of the people, are much more likely to be affected by violent conflict. Of the 34 countries furthest from reaching the MDGs, 22 are affected by or emerging from violent conflict. Figure 9 shows the development gap between countries considered fragile and other low-income countries.

**Figure 9: Fragile states relative to non-fragile low-income countries**



Source: World Bank, 2007 a) Excludes oil exporters b) Comparator group includes IDA and blend countries

The causes and consequences of fragility and conflict are complex, but include poor governance and lack of leadership, predatory elites, and high levels of horizontal inequalities. At root, conflict and fragility often stem from failures of governance, increasing the risk of violence as the response to disputes. Even without endemic violence, problems emerge when the relationship between citizens and state is weak, and the legitimacy of the government is questioned.

Effective engagement in different fragile situations has become a key priority for the international community. The sense of priority reflects the coming together of two issues: (i) growing evidence that poor development performance is closely related to conflict, fragility and insecurity, and (ii) concerns that the MDGs will not be reached in situations of conflict and fragility unless a different approach is adopted, which addresses the causes of conflict and fragility, as well as investing in the MDGs.

There is recognition that engagement in fragile and conflict-affected countries is not working as well as it should. Greater attention must be paid to addressing the needs of their diverse populations, and the underlying causes of conflict. The international community needs to do more to promote peace building and state building, which addresses the security of poor people, as well as providing the context within which the MDGs can be achieved. This will mean moving from ad hoc interventions to stronger coordination and integration. Support needs to be better informed by social and political economy analysis, and geared towards the longer-term.

### Population Growth and Urbanisation

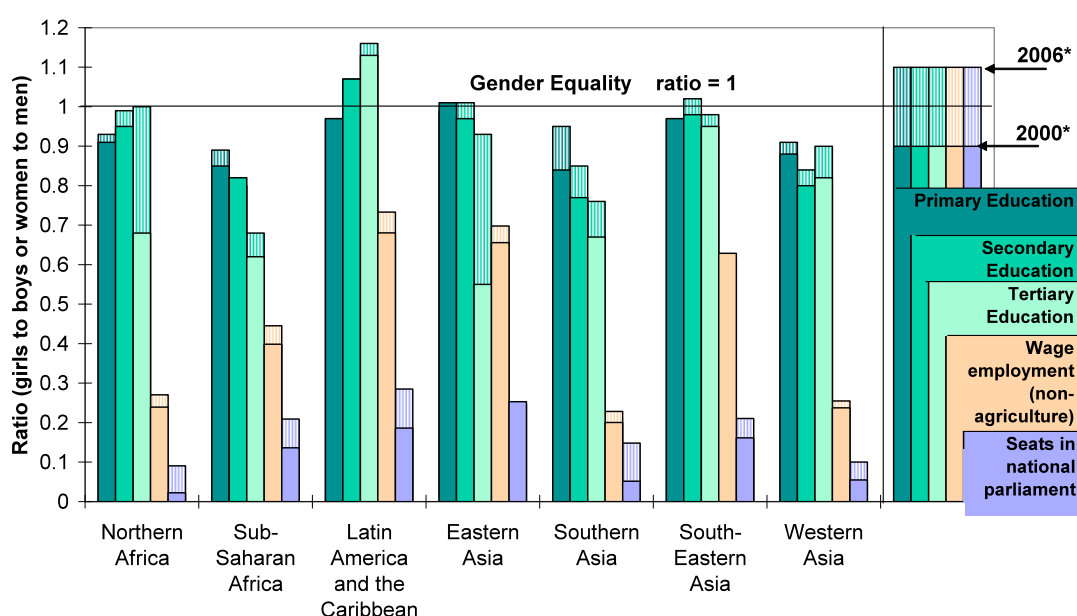
Two demographic trends also look set to shape the development agenda in the coming years. First, a demographic window of opportunity is opening in some low income regions, as dependency ratios fall. Second, urbanization is rapid.

Lower dependency ratios can lead to more girls attending school, later marriage, healthier children and higher family incomes. It is not universal however. In Sub-Saharan Africa particularly, populations in countries such as Burundi, DRC, Niger and Uganda are all expected to triple in size by 2050. Globally, the number of 15-24 year olds will double by 2050.

High population growth is often associated with high levels of maternal mortality, under-five mortality and poor access to reproductive health services. High rates of population growth are almost universally linked with poorer outcomes for girls and women, along with increased resource scarcities and migration.

Gender equity remains central to the MDGs, although progress has been mixed (Figure 10). Between 2000 and 2006 there has been an increase in gender equality in education, wage employment and representation in national parliaments in the majority of regions. No region has seen a decline in gender equality in any of the three areas. Large increases in gender equality in tertiary education have been made in Northern Africa and Eastern Asia. Sub-Saharan Africa is the region most off track on gender equality in education. The majority of developing regions are far from meeting gender equality in wage employment.

Figure 10: Gender Equality progress between 2000\* and 2006\* for the MDG3 Indicators

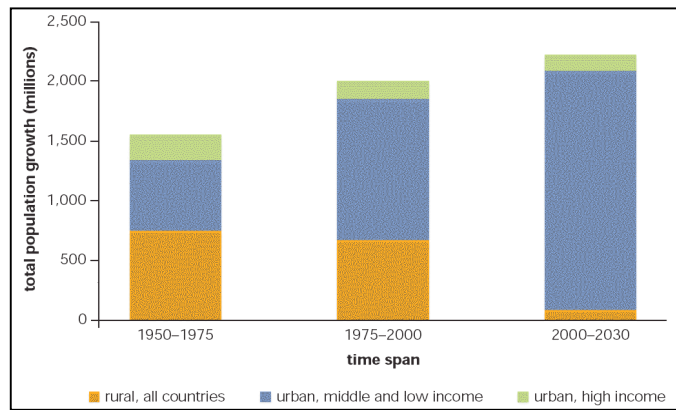


\* All data is 2000 and 2006 except national parliament seats data which is 2002 and 2008

Source: DFID

Linked to population increase is the fact that, for the first time in history, more people are now living in urban than in rural areas. Projections show developing countries with 80 percent of the world's urban population by 2030, with Africa and Asia hosting almost seven out of ten urban inhabitants in the world (Figure 11). Historically, urbanisation has played an important role in economic and social development. Countries that are urbanised tend to have higher incomes and stronger institutions, and are better able to withstand the volatility of the global economy. But urban growth also brings challenges.

**Figure 11: Population Growth to 2030: Low- and Middle-Income versus High-Income Countries**



Source: Commission on Growth and Development, 2008

But urban growth also brings challenges. World Bank data show that poverty is increasingly an urban phenomenon, with most of the urban poor living in slums. Today, nearly 1 billion people in the world live in slums. That is one third of the urban population. In Africa alone, the number of slum dwellers is already at 200 million. By 2030, on current trends, the numbers in slums will double, to 2 billion people. Slums are associated with often very poor housing conditions, and severe pressures on land, services and infrastructure. Without careful planning, the pressure on urban areas will continue to intensify, potentially locking growing cities into unsustainable futures. New approaches to tackling urban crime and violence are needed. Urban development therefore needs to address the multiple challenges of supporting sustainable, climate-resilient growth, along with stronger local governance and communities, better jobs, better basic services and personal safety and security for poor populations.

### Managing Climate Change and Resource Stress

Climate change needs to be central to all development policy. Holding greenhouse gases in the atmosphere to 450 or 500 parts per million, and temperature rise to 2 degrees, will be a massive task. The Stern Review stated that in order to stay within these limits, by 2050 the average carbon 'ration' per person on the planet needs to be around 2 tonnes per annum. This compares with a figure for the US today of 20 tonnes, for the UK of 10 tonnes, for China of 5 tonnes and for India of 2 tonnes. Only the very poorest countries fall below the threshold – Ethiopia, for example, emits only 0.1 tonnes per person per annum, one hundredth of the level of the UK. The richer countries need to reduce their carbon emissions by at least 80% by 2050. The world as a whole needs to reduce emissions by half. It is impossible to imagine this being done without paradigm-shifting changes in technology, pricing and social organisation. With rising population, the load cannot be carried by developed countries alone. All must play their part in mitigation. All will have to adapt to higher temperatures.

Although developed countries must accept the main responsibility for causing increased carbon dioxide concentrations in the atmosphere in the past, climate change

is absolutely a development issue – for three reasons. First, developing countries will have to make a contribution to mitigation, if greenhouse gases are to be stabilised at 450-500 parts per million. Second, even stabilisation at these levels will still result in warming of at least 2°C, which will cause significant adaptation problems for developing countries. And third, independently of these two impacts, developing countries will be affected by global policies attempting to reduce emissions, for example if support for biofuels pushes up the price of food.

The key questions facing policy makers are largely about how to secure a global deal that will deliver major carbon reductions, and in the process promote development and safeguard the interests of the poorest and most vulnerable (Box 1, over-leaf).

Important steps were taken at the climate change conference in Poznan in December 2008, including progress on establishing an adaptation fund on which developing countries will be able to draw. A detailed road map has been drawn, leading to the final destination at Copenhagen. But the estimates of how much this will cost are growing all the time. The UNDP Human Development Report for 2008 estimated that adaptation alone would cost some \$86 billion by 2015.

**Box 1: Challenges, Opportunities and Growth**

**Key messages**

- The world faces an unprecedented challenge which requires urgent global action to sustain growth and guard against the risks of catastrophic climate change.
- The global response to climate change must be carefully designed, whilst limiting transactions costs, and without creating additional market distortions, perverse incentives, or promoting protectionism.
- The technologies involved will be transformational, but action, if taken now, is both manageable and affordable.
- By promoting reduced pollution, improved resource efficiency, and energy security, cost-effective policies can bring about a safer, cleaner, and more prosperous world without jeopardising growth or poverty reduction. By contrast, inaction stands eventually to damage both growth and social stability.
- According to the Stern Review, avoiding the risks of dangerous climate change requires that global greenhouse gas emissions peak within the next fifteen years are halved relative to 1990 by 2050, and then decline to less than 10 Gigatonnes (GT) of emissions (2 tonnes per capita).
- The developing countries, which by 2050 will account for around eight billion out of a world population of nine billion, and the greater part of global emissions, will have to be fundamentally involved in achieving global emission reductions.
- The world should aim for a liquid international carbon market in order to allow for the most effective, efficient, and equitable emissions reductions.
- In addition, non-price interventions are required to expand the global market for low-carbon technologies, support common standards, and promote cost-effective reduced deforestation.
- Developing countries should integrate low carbon approaches into their development planning and be able to benefit from scaled-up opportunities to participate in the carbon markets.
- Developed countries will need to take on immediate and binding national emissions targets, demonstrate that they can achieve low carbon growth, and transfer resources and technologies to help developing countries adapt to climate change as well as undertake mitigation action.
- Existing international institutions will need to evolve in order to deal with the nature and scale of the challenge, coordinate global financial flows, and support vulnerable countries in adapting to the impact of climate change. Where gaps exist, it might be necessary to design and create new institutions.

Source: Stern, 2008

Indeed, in the poorest countries, the immediate challenge may be adaptation. A key priority is promoting and protecting livelihoods of the most vulnerable.

Adaptation and mitigation both require a long-term perspective. It may or may not be true that contemporary natural disasters are climate-related, but the worst effects are certainly still to come, with predictions of reduced agricultural yields as a result of increased temperature and precipitation. In the meantime, economies and societies are changing. With the rise in urban populations already noted, planning for growth and resilience in the long term requires a clear-sighted vision of the climate-change resilient city of the future. We should not be afraid of scenario-planning: the very nature of development, after all, is long-term transformation.

Climate change is a driver of resource scarcity, but other factors contribute, including population growth and rising income. Water scarcity is increasing as a result of these pressures.

### *The Challenge to Globalisation*

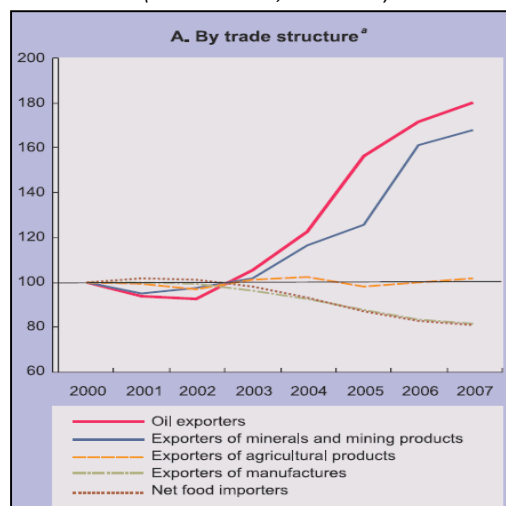
Maintaining growth is a priority. The fundamentals remain, but the rules of the game are changed by at least three factors: the financial crisis; a new emphasis on inclusive growth; and the impact of climate change.

The fundamental characteristics of high, sustained growth, as captured by the Growth Commission, revolve around open trade policy, macroeconomic stability, high savings and investment, well functioning markets, and sound governance and institutions with a credible commitment to growth. Historically, trade has been an important engine of growth, growing at around twice the speed of economies as a whole. Experience also suggests that those countries which have achieved the highest levels of growth have often opened their economies to trade and foreign investment in ways particular to individual circumstances. Countries with developmental states and high rates of investment have done well in growth terms.

Does the financial crisis change the equation? Certainly, there is more appetite for state engagement and regulation than was characteristic of the Washington Consensus. Some go further, and question the fundamentals of globalization, not least because many of the success stories, including China, have not uniformly followed orthodox prescriptions. China's entry into the world economy has doubled the world labour-capital ratio and led to a commoditization of manufactures which has complicated industrialization in poor countries.

Figure 12: Net barter terms of trade, selected countries, 2000–2007

(Index numbers, 2000 = 100)



Source: UNCTAD, 2008

a) Developing and transition economies

As Figure 12 shows, the terms of trade of manufactures have deteriorated over the last five years, whereas those of agricultural exporters and oil and mineral exporters have increased. This stands conventional thinking on its head.

It is also important to understand not only the economic context, but also the underlying social and political dynamics, which are often constraints to growth. Technically well-supported policies and projects can and do fail for lack of effective political support and weak government capacity. Support is needed for international actors to work more effectively with governments to identify policy reforms which are technically feasible and have the broadest political support.

The need for inclusive growth also implies changes in policy. Around the world, income inequality has been increasing in many developing countries, partly as a result of high returns to skilled labour in open economies. Research on inequality shows that it undermines social cohesion, but also hampers growth in the long run.

Finally, climate change will require major changes in growth paths if climate change targets are to be met. As Professor Lord Stern has argued, a degree of mitigation is in each country's interest, while action on adaptation is needed now to ensure developing countries can continue with the business of improving livelihoods and wellbeing. He argues that by promoting reduced pollution, improved resource efficiency, and energy security, cost-effective policies can bring about a safer, cleaner, and more prosperous world without jeopardising growth or poverty reduction. By contrast, inaction stands eventually to damage both growth and social stability.

## Ensuring an International System Fit for Purpose

Finally, it is clear from discussion at the G20 and elsewhere, that tackling shared global challenges requires institutions fit for purpose, efficient, accountable and of sufficient scale and scope to deliver the global public goods the world now needs.

Recent developments point to the changing locus of economic and political influence in the world, with the emergence of economic powers such as China, India and Brazil, and the end of cold war hegemony as the main driver in the global governance system. With new configurations such as the G-20 emerging in response to the global financial crisis, the stage is set for a new style of global and regional cooperation. Achieving this requires changes in the institutions that currently govern the global commons, from the UN system to the international financial institutions and regulatory bodies, and a set of principles for improved collective action, involving more emphasis on representation, accountability and responsiveness. UN reform is already on the agenda (Box 2).

An example: important discussions are taking place in 2009 about how to respond to the costs borne as a result of the recession by poor countries and poor people. The respective roles – and resources – of the IMF, the World Bank, the Regional Development Banks, the UN, the EU and the bilateral donors are all under review. These organizations differ – in scale, of course, but also in speed, accountability, conditionality, commitment to harmonization and alignment, and in many other ways. What are the system-wide characteristics that will optimise support for development?

### Box 2: 'One UN' panel recommendations

- a. The establishment of One UN at country level, with one leader, one programme, one budget, and, where appropriate, one office;
- b. The establishment of a UN Sustainable Development Board to oversee the One UN Country Programmes
- c. The appointment of a UN Development Coordinator, with responsibility for the performance and accountability of UN development activities;
- d. The appointment of an independent task-force to further eliminate duplication within the UN system, and consolidate UN entities, where necessary;
- e. The establishment of a MDG Funding Mechanism, to provide multi-year funding for the One UN country programmes;
- f. Multi-year core funding for UN organisations committed to and demonstrating reform;
- g. A common UN evaluation system to be established by 2008;
- h. A set of measures to enhance the UN's leading role in humanitarian disasters and emergencies;
- i. An independent assessment of international environmental governance;
- j. Upgrading of UNEP;
- k. The establishment of a dynamic UN entity focused on gender equality and women's empowerment; and
- l. New formal agreements on the respective roles and relations of the UN, the World Bank and the IMF.

Source: UN, 2006

## Part Three: The Response

Progress in development is being set-back by the recession, and faces long-term challenges as the world urbanises and warms. At the same time, it is important to sustain public commitment to development. An active response based on firm principle is required to 'tell the story' and deliver sustained progress. What, though, should be the principles of that response?

The Millennium Development Goals provide a starting point, but are themselves instruments of a wider vision, summarised in the Millennium Summit, held at the UN in 2000. The Summit agreed the MDGs as a means to an end, based on the principles in Box 3.

### Box 3: United Nations Millennium Declaration – Fundamental Values

- **Freedom.** Men and women have the right to live their lives and raise their children in dignity, free from hunger and from the fear of violence, oppression or injustice. Democratic and participatory governance based on the will of the people best assures these rights.
- **Equality.** No individual and no nation must be denied the opportunity to benefit from development. The equal rights and opportunities of women and men must be assured.
- **Solidarity.** Global challenges must be managed in a way that distributes the costs and burdens fairly in accordance with basic principles of equity and social justice. Those who suffer or who benefit least deserve help from those who benefit most.
- **Tolerance.** Human beings must respect one other, in all their diversity of belief, culture and language. Differences within and between societies should be neither feared nor repressed, but cherished as a precious asset of humanity. A culture of peace and dialogue among all civilizations should be actively promoted.
- **Respect for nature.** Prudence must be shown in the management of all living species and natural resources, in accordance with the precepts of sustainable development. Only in this way can the immeasurable riches provided to us by nature be preserved and passed on to our descendants. The current unsustainable patterns of production and consumption must be changed in the interest of our future welfare and that of our descendants.
- **Shared responsibility.** Responsibility for managing worldwide economic and social development, as well as threats to international peace and security, must be shared among the nations of the world and should be exercised multilaterally. As the most universal and most representative organization in the world, the United Nations must play the central role.

The United Nations approach is rooted in the concept of human development, pioneered by the first UNDP Human Development Report in 1990 and underpinned by the work of Amartya Sen, Mahbub Ul Haq, Frances Stewart and others. The MDGs are thus central to development, but embedded in a wider context.

There will be different views about the way forward. These will reflect interpretations about the causes and scale of the current crisis, different regional dynamics and the speed and scale of climate change. This conference will focus on a set of priority issues: the economic downturn; climate change; food security; fragile and conflict-affected countries; reform of the international system; and the MDG agenda. Some topics, like gender and inequality, cut across the five priorities. Each of these issues will have to be reframed in light of the current global challenges.

In terms of immediate priorities, one focus is on mitigating the impact of the recession, on managing recovery, and then on re-establishing long term trajectories for growth, environmental sustainability and human development, 'building back better'.

The following sections frame the key issues to be addressed at the conference, and pose a series of questions, to provoke thought and discussion.

### *Managing the Crisis and Re-establishing Growth*

The current crisis is such a large shock that it dominates other topics. How can the shock be managed? What are the priorities for a sustainable, resilient and inclusive global economy in the post-crisis world?

The short term:

- How fundamental a challenge does the crisis pose to the current global growth model?
- How can developing country governments respond to the shock and protect their populations, while avoiding competitive protectionism as a response to the crisis?
- What international financial rules and systems are most appropriate with respect to development?
- What additional resources are necessary, provided by whom and on what terms?

The longer term:

- What patterns of growth are likely to be necessary to help countries adapt to climate change?
- What role can the private sector play in contributing to a more responsible and sustainable growth model?
- What kind of long term investments are needed to promote low carbon growth while supporting growing populations sustainably and with fewer shocks?

### *Fragile and Conflict Affected Countries*

Making progress in conflict affected and fragile countries will require a new framework:

The short term:

- What actions are needed to take forward the commitment in Accra to an international dialogue on state-building and peace-building?
- How can international partners work more effectively in delivering an early and flexible response to increasing risk of conflict and deteriorating governance?

- How can country-level development assistance give greater consideration to the need to improve the safety, security and access to justice of the poor?
- How can support for improved state capacity be better sequenced with support for local political processes?

The longer term:

- What kind of internationally agreed framework is needed to guide international assistance in fragile and conflict affected countries?
- How can defence, diplomacy and development actors take greater account of the drivers of fragility and conflict when promoting state-building and peace-building?
- What kind of innovative models could leverage not just public but also private sector support for long term reconstruction and recovery in fragile settings?

### Climate Change

Critical policy questions for the short and longer term include:

The short term:

- How can spending on shoring up the global economy in the short term have long term benefits for the environment?
- How can international partners ensure strong developing country participation in future international agreements on climate change?
- What priority issues need to be tackled now to protect and promote the interests of the poor in any future climate change deal?
- What can be done to scale up mitigation and adaptation efforts in the short run?

The longer term:

- What kind of international framework is needed to oversee the sustainable use and management of forest resources?
- What principles should drive the evolution of climate financing to ensure coherence and compatibility with different country and sector needs?
- What kinds of partnerships and alliances (public, private and philanthropic) are needed to support climate-change resilient development now and in the future?

### International Reform and System-wide Effectiveness

The effectiveness of the international system will be a priority if collective action goals are to be reached. The system is already in flux, with the emergence of the G20 and the new demands being placed on it by the climate change agenda. Many configurations of institutions are possible, with differing size, legitimacy, accountability options and formal status – and, in some cases also differing degrees of effectiveness.

The short term:

- What international financial mechanisms are needed to underwrite past development gains and to protect the poor in the face of the current crisis?
- What steps are needed to follow-up on the commitments made in Accra to greater international mutual accountability and transparency in the global aid system?
- How can the governance of the IFIs provide greater shareholder voice for low-income countries?
- What is the future role of the EU?

The longer term:

- What principles should govern the future allocation of resources to the UN and the Multilateral Development Banks? What should be the share?
- How can efforts to improve the effectiveness of the UN be linked more firmly into an agenda for system-wide reform (including the IFIs and other regulatory bodies)?
- How can the performance of the international aid system be monitored and assessed more effectively?
- How should EU development cooperation evolve?

### Overcoming Food Insecurity

Policy questions include:

- How can increased leverage of the private sector meet the gaps from public sector investment, including in rural infrastructure and other areas?
- What market mechanisms should be used to reduce food price volatility and mitigate price risk?
- What measures should be used to strengthen regional and global markets to avoid food protectionism and reduce harmful trade barriers?
- How can public spending be targeted more effectively to achieve maximum impact on agricultural productivity growth and poverty reduction?

- How can the international system be made to work more effectively to respond to food insecurity in the short and long term?

### The Millennium Development Goals

Questions relative to the MDGs include (a) how to maintain a focus on the MDGs during the recession; (b) how to obtain the best value out of the Goals in the run up to 2015 and, (c) what kind of international framework will be needed post-2015 to ensure continued progress in developing countries? Some questions include:

The short term:

- How can the Goals continue to provide useful incentives for progress and for international support over the period to 2015?
- What can be done to accelerate progress in critical lagging areas?

The longer term:

- Given other methodological approaches to measuring social and economic progress ([www.oecd.org/progress](http://www.oecd.org/progress); <http://www.stiglitz-sen-fitoussi.fr>) in what ways might the MDG paradigm need to change to incentivize progress post 2015?
- What should a progress framework be attempting to address?
- Has the structure of the MDG paradigm proved appropriate?
- Should the Goals be universal but the targets more closely linked to an individual country's 'stage of development'?
- Should the reduction of absolute poverty and hunger remain the priority focus?
- Would it be preferable to consider a broader framework for incentivising progress on global public goods?
- Should the international community consider a more radical approach?
- What kind of process is needed and by when, if a consensus position is to emerge on (a) the need for, and (b) the content of a post-2015 framework?

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