



WBGU

GERMAN ADVISORY COUNCIL ON GLOBAL CHANGE
WISSENSCHAFTLICHER BEIRAT DER BUNDESREGIERUNG GLOBALE UMWELTVERÄNDERUNGEN

policy paper

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**Development needs
Environmental Protection:
Recommendations for the
Millennium + 5 Summit**

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1 From Rio to New York

Fighting poverty and protecting the environment count among the most urgent challenges facing the international community. Narrowing the massive disparities in the satisfaction of basic needs and the distribution of prosperity, and thereby reducing the untenable social imbalance in the world, must be a primary objective. With the adoption of the Millennium Development Goals (MDGs), the international community is facing up to this Herculean task. The commitment to halve, by the year 2015, the proportion of the world's people living in absolute poverty is the centrepiece of, and the major challenge posed by, the MDGs. What would the world be like in 2015 if all the MDGs were actually achieved? More than 500 million people would no longer be living in extreme poverty, characterized by hunger, living conditions unworthy of human dignity, a life expectancy often below 50 years, and a lack of prospects and life chances. 30 million children would no longer die of disease and undernourishment before their fifth birthday. Another 350 million people would have access to safe drinking water, and 650 million people would have primary healthcare and sanitation for the first time.

Gearing international development policy towards the attainment of the MDGs requires exceptional efforts to improve human development and security in the poorest countries of the world.

The Millennium + 5 Summit

In September 2005, at a high-level plenary to be held at the start of the 60th session of the UN General Assembly in New York, heads of state and government will review the progress made by the various countries and regions of the world towards achieving the MDGs. The Summit will also discuss whether the developing and donor countries are pursuing appropriate strategies to implement the MDGs. The Summit can serve as a launch pad for more intensive efforts by the international community to combat poverty and initiate a radical reform of the United Nations. Failure will mean not only the perpetuation of the poverty crisis but also a major setback for international cooperation.

The reorientation of international development policy towards the MDGs is a remarkable advance

compared with the predominance of structural adjustment programmes in the 1980s and 1990s. Although these programmes encouraged the emergence of market forces in some developing countries and helped to dismantle state structures which impeded development, they rarely achieved a sustainable reduction in poverty. The focus has now shifted – quite rightly – towards economic and development policies which not only promote growth and competitiveness but also aim to significantly reduce poverty (pro-poor growth strategies). In February 2005, the UN Millennium Project, headed by Jeffrey Sachs, presented its report, 'Investing in Development. A Practical Plan to Achieve the Millennium Development Goals', as a major global initiative towards the attainment of the MDGs. The report is the core development policy document for the Millennium + 5 Summit.

A further key document for the Summit was presented by the High-level Panel on Threats, Challenges and Change in December 2004 and sets out 'a new vision of collective security'. The Panel members – former heads of government, foreign ministers, and national security, military and development experts – see transnational threats such as poverty, terrorism, weapons of mass destruction and environmental degradation as equally significant and interlinked. Crisis prevention, especially through poverty reduction and development, is highlighted as the first line of defence for a collective security system.

UN Secretary-General Kofi Annan's report 'In Larger Freedom: Towards Development, Security and Human Rights for All' is the basis for the Summit negotiations. It draws inspiration from the two reports mentioned above, which were prepared at Annan's request, and combines proposals to resolve urgent global problems with comprehensive UN reform. Besides Security Council reform and proposals to create a Human Rights Council, Annan also recommends measures to promote policy coherence and improve the effectiveness of the United Nations. In the short term, he recommends better coordination of humanitarian relief and the United Nations' development and environment policy agendas. The report also underlines, however, that: 'In the medium

and longer term, [the United Nations] will need to consider much more radical reforms' in this area.

Deficits in the Sachs and Annan reports

WBGU endorses many of the recommendations made in the preparatory documents for the Summit but draws attention to two key deficits.

Firstly, the linkage between poverty reduction and environmental changes does not receive adequate consideration, especially in Sachs' strategy on achieving the MDGs. The Sachs report is based on the 'primacy of poverty reduction' and treats environmental policy as a sectoral issue peripheral to the MDG strategy. And although the UN Secretary-General emphasizes that: 'We fundamentally depend on natural systems and resources for our existence and development', and therefore calls for coherence between environmental and development policy, his report also fails to send out the clear message that larger freedom can only be achieved if security, development and human rights are given equal priority to and linked with the protection and sustainable use of natural life-support systems. Secondly, although the Annan report clearly identifies the problems associated with a fragmented and weak global governance architecture in the environmental and development spheres, the task of resolving these problems is not included on the current reform agenda for September 2005.

The MDGs and the vision of the Rio Earth Summit

By contrast, WBGU underlines that global environmental policy cannot be peripheral to, but must be at the heart of, the MDG strategy. The highly respected environmental advisory bodies set up by the UN – the Intergovernmental Panel on Climate Change (IPCC) and the Millennium Ecosystem Assessment (MA) – have convincingly demonstrated, in their reports, that unless countermeasures are taken, the impacts of global environmental changes will threaten human existence to an even greater extent in future. While the polluters who are responsible for causing global and transboundary environmental problems, such as climate change, are predominantly based in the industrialized countries, the vast majority of those affected live in the developing world. Poor people are especially vulnerable to environmental changes. Environmental degradation is already a significant obstacle to the attainment of the MDGs.

So it is important to remind ourselves, at the Millennium + 5 Summit, of the conclusion drawn at the Earth Summit in Rio de Janeiro (United Nations Conference on Environment and Development – UNCED), 1992): environmental and development policies are inextricably linked. This outcome and vision of the Rio Earth Summit must apply especially to any promising long-term strategy aimed at reducing poverty worldwide and narrowing the potentially explosive North-South divide. Policy coherence between the Millennium Development Goals and the vision of the Rio Earth Summit is essential.

2 A new development policy consensus

For a long time, development policy was regarded as niche politics, far removed from the supposedly more important fields of foreign and security policy. WBGU endorses the view expressed in the Sachs and Annan reports that in an era of mutual dependencies, development cooperation must be central to the quest for a global system built on equity and stability. Because global poverty, state failure, the disintegration of societies and political and religious fundamentalism are mutually reinforcing, development spending, especially to achieve the Millennium Development Goals, is not charity but a prerequisite to safeguard our global future.

In light of the Sachs and Annan reports, an international consensus on four development policy strategies to achieve the MDGs – direct poverty reduction and economic growth, more investment in development cooperation, good governance, and partnerships with fast-track countries (poor countries with development-oriented elites and good governance) – is emerging in advance of the Millennium + 5 Summit. WBGU endorses these approaches but underlines that they can only be successful in combination with effective environmental policies.

Direct poverty reduction and economic growth

Both the Sachs and the Annan reports outline the key elements of a development strategy for the least developed countries (LDCs) which aims to create economic dynamism while directly contributing to improving the living conditions of the poorest. This is an innovative approach, for it helps to end the paralysing ideological dispute between the protagonists of basic needs strategies, on the one hand, and pure growth-oriented approaches, on the other. An MDG-oriented development policy must focus on three targets simultaneously:

1. It must make direct contributions to reducing poverty by improving the social situation and life chances of the poorest groups, thereby laying the foundations for future development. There is a general consensus that there are key levers which improve the social conditions of the poor-

est groups in the least developed countries in structural terms; these are guaranteed universal access to primary education and a high level of investment in the modernization, development and expansion of the educational system; accessible primary healthcare for all; and promoting equality and education for women and girls.

2. The policy must help to boost the productive capacities of poor groups. The focus here is on investment aimed at improving food security and stabilizing subsistence production. In urban centres, the priority is to upgrade slums and adopt strategies which improve productivity in the informal sector, thereby encouraging linkage with well-performing sectors of the formal economy.
3. It must help to strengthen economic sectors which show major potential for growth by boosting their competitiveness and encouraging linkage with the 'economy of the poor'. Investment in human capital, innovation and technology transfer, and the establishment of efficient infrastructure (e.g. in the energy and transport sectors), including transborder infrastructure, are essential prerequisites to integrate the poorest developing countries into the global economy and enable them to share in greater global prosperity.

Investment in development cooperation

Development experts agree that there must be a steady increase in the industrialized countries' Official Development Assistance (ODA). Many LDCs do not have the capacity, without assistance, to mobilize the necessary spending to achieve the MDGs. In 2002, around US\$16 thousand million out of the current net ODA of US\$65 thousand million (which amounts to around 0.23 per cent of the industrialized countries' gross national income – GNI) was spent on MDG-oriented projects. The Sachs and Annan reports conclude that to finance MDGs on a global level, ODA must increase to US\$135 thousand million annually in 2006 and US\$195 thousand million by 2015, i.e. around 0.44 per cent of donor

countries' GNI in 2006 and 0.54 per cent in 2015. In WBGU's view, it is necessary to achieve an ODA spending target of at least 0.7 per cent of the industrialized countries' GNI. The increase should be incremental so as not to overtax the developing countries' implementation capacities and also to curb the inefficient use of funds. Unless the industrialized countries achieve a substantial increase in their ODA spending, the MDGs might as well be shelved.

Good governance

Development strategies can only be successful, and resources used effectively, if the elites in the poor countries genuinely commit to an MDG-oriented development process and practice good governance. The donor institutions and countries can support the partner countries' reform agendas and provide economic and political incentives to guide the direction of change, but they must not absolve the developing countries of their responsibilities. Above all, adopting rigorous anti-corruption measures, improving the performance of public administrations, enforcing the rule of law, promoting accountability and transparency in politics and the economy, and effective human rights protection are key building blocks in a successful MDG strategy. By focussing on good governance, development cooperation intervenes in the internal affairs of developing countries. This requires consistency in donor nations' own conduct – for as long as the industrialized countries promote good governance while continuing to cooperate with unsavoury regimes in the interests of opening up new markets, combating terrorism or safeguarding resource flows, international cooperation can never be credible or effective.

Rapidly increasing ODA spending in developing countries afflicted with bad governance (including failing states) is not a sensible approach. However, for security and humanitarian reasons, the international community cannot afford to write them off as hopeless cases. Instead, the international community must identify longer-term strategies to establish the institutional and political conditions for successful MDG reforms in these countries. In many cases, the primary task is to identify ways of addressing the causes of crisis and conflict, such as the escalating conflicts over resource distribution. Mediating between conflict parties, providing humanitarian relief, supporting the disarmament and social reintegration of combatants, and establishing basic social

and political infrastructures are the first steps towards stabilizing fragile states.

Strategic partnerships with fast-track countries

Various indices (e.g. from the World Bank and Transparency International) show that around 15–20 of the LDCs are governed by development-oriented elites and display the requisite level of good governance. This applies to countries such as Mali, Malawi, Senegal and Ghana. Donors should move quickly to support the reform endeavours of this group of countries by honouring their pledges of trade concessions and debt relief and substantially increasing ODA payments. This would also signal to poorly governed countries that the international community rewards good governance. WBGU supports the fast-track concept but points out that this approach only makes sense if industrialized and developing countries agree on a division of labour. Based on an integrated strategy, good performers should work especially closely with two or three donors, instead of with a large number of bi- and multilateral organizations as is currently the case. This would greatly simplify coordination, reduce administrative costs and enhance individual responsibility and governance structures in the LDCs concerned.

3 Environment and development are inseparable

The development policy strategies outlined above represent an important and necessary shift in emphasis in international poverty reduction, but fail to take account of the impact of global environmental changes on poverty worldwide. To achieve long-term viability, the strategies must be embedded in the vision of the Rio Earth Summit.

Global environmental changes exacerbate absolute poverty

Global human-induced environmental changes may significantly alter – sometimes irreversibly – the nature of the Earth system. They impact on the natural life-support systems of a significant proportion of humankind and intensify global poverty. Developing countries bear the brunt of this environmental change, and will continue to do so in future.

Climate change

Agriculture, a key economic sector in the developing countries, is highly vulnerable to climate change. Temperature changes, the availability of water, the spread of diseases in plants and animals, the fertilization effect of rising CO₂ levels and the probable increase in extreme weather conditions are all factors in this context. As a result of climate change, harvest yields in developing countries will begin to fall at an earlier stage than in the industrialized countries, thereby increasing the threat to food security and resulting in greater dependency on food imports. Climate change is also conducive to the spread of certain infectious diseases. For example, the greater prevalence of malaria is a problem which particularly affects those developing countries, whose infrastructure and institutions lack the adaptive capacity to cope with this threat.

Water scarcity and water pollution

Already, more than 1 thousand million people worldwide, mainly in the developing countries, lack an adequate supply of safe drinking water. By 2050, 25 per cent of the world's people will live in countries affected by chronic water scarcity. An adequate water supply is a fundamental prerequisite to safe-

guard the basis of human existence. For subsistence farmers, water scarcity can result in severe harvest losses, jeopardizing their income and food base. Furthermore, polluted drinking water is a major cause of disease and death in poor countries.

Soil degradation

Soil degradation poses a direct threat to food production in developing countries. The availability of arable land is decreasing, and undernourishment and malnutrition are increasing, with the attendant risks of disease. Drylands are especially hard-hit. More than 250 million people worldwide are already suffering from the impacts of desertification and a further 1 thousand million people in more than 100 countries are considered to be at risk. Population growth will worsen the situation as per capita availability of arable land decreases.

Loss of biodiversity and resources

For rural communities in developing countries, ecosystems are a source of food, drugs and building materials. Around 80 per cent of rural populations are reliant on traditional herbal medicines, for example. Human intervention in the biosphere reduces biodiversity. Furthermore, with the shift away from traditional cultivation techniques towards more intensive farming, many traditional useful plants are being lost, further diminishing the genetic base for the propagation of plant species and indirectly increasing the risks to food security. This change often leads to the overuse of biological resources as well, which in turn may worsen poverty and trigger further environmental degradation.

People living in absolute poverty are especially vulnerable

People living in absolute poverty are directly reliant on natural resources and well-functioning ecosystems in their daily struggle for survival. Poor population groups are especially vulnerable to environmental changes as these people often depend on agriculture, are more exposed to risks which threaten their survival, and have very few coping and adaptive

capacities. Absolute poverty does not just mean income and asset poverty, but may also entail susceptibility to disease or a lack of food security. These various dimensions of poverty are closely linked to the state of the environment. Anyone depending on traditional biomass use to meet his or her energy needs will suffer especially from progressive deforestation. This increases the time spent collecting fuelwood, for example, while the lack of illumination in the evenings reduces educational prospects. Rainstorms, strong winds or droughts do not only destroy crops; they may also lead to homelessness or death. People in developing countries are especially vulnerable to a likely increase of extreme weather conditions. For example, in 1998, Hurricane Mitch caused the deaths of more than 9000 people in Central America, whereas the equally powerful Hurricane Andrew claimed just 62 lives in the USA in 1992.

So without a pro-active environmental policy, achieving the MDGs and sustainable development will be impossible. This is borne out in unequivocal terms by the first global analysis of ecosystems, undertaken by the Millennium Ecosystem Assessment. 60 per cent of ecosystems, which provide benefits such as food, water purification, climate regulation, etc., are being degraded or used unsustainably, adversely impacting on the poor in particular and impeding development.

Protecting the global environment is impossible without development policy

Conversely, environmental protection will also have little impact without economic and social development in the developing countries. In these countries, the majority of the poor population groups are directly dependent on the natural environment for their survival (e.g. through subsistence farming). The poor are often forced to over-exploit the natural resources which form the basis of their livelihoods. This destructive exploitation causes irreversible damage to the natural environment more rapidly in the tropics than in Central Europe. Many of the still-intact primary ecosystems are located in developing countries, and some of these countries are undergoing a phase of dynamic growth, resulting in a substantial increase in resource consumption. This not only intensifies the pressure on the remaining primeval forests and biodiversity; it also significantly increases greenhouse gas emissions.

In order to achieve global environmental targets under these conditions, the industrialized countries

are reliant, in their own interests, on close cooperation with the developing countries. These countries are struggling to overcome major economic and social problems and can only be persuaded to become partners in global environmental protection if this is underpinned by development policy. For example, in the energy supply sector, promoting alternatives to traditional biomass use can help avert the over-exploitation of forests. By creating other income-generation opportunities as an alternative to agriculture, the pressure on soils and water resources can be reduced. Moreover, development policy can make a key contribution to 'leapfrogging' the interim stages of non-sustainable technological development, thereby sidestepping the mistakes made in the industrialized countries' development model. For these reasons, development policy cannot ignore environmental aspects.

Coupling environment and development can create positive synergies. For example, by replacing traditional biomass use with modern forms of energy, 1.6 million deaths from indoor air pollution can be prevented each year, and deforestation can be reduced at the same time.

In the following chapters, WBGU recommends that at the Millennium + 5 Summit, the German Government lobby pro-actively for the following goals: systematic linkage between poverty reduction and environmental protection, the forging of strategic partnerships with 'anchor countries', a reform of the institutional architecture for development and environment policy, and more intensive efforts to fund a coherent environmental and poverty reduction policy.

4 Linking poverty reduction with environmental policy

Strengthening the environment in the international list of objectives

Although the Millennium Declaration explicitly recognizes respect for nature, the Millennium Development Goals (MDGs) fall short of what is required from an environmental perspective. Their strong focus on social policy deficits implies that poverty reduction can be achieved irrespective of the condition of the world's natural life-support systems. But on the contrary: the objective of ecologic sustainability is a key prerequisite for the attainment of the other goals. Unlike the other MDGs, however, very few quantifiable and substantive targets or a fixed timetable have been set for ecologic sustainability, with the result that – also in the view of UNEP and UNDP – it remains rather vague. A clearer definition of the environmental policy dimension of sustainability, taking account of the systemic interactions between poverty reduction and respect for the global environmental balance, is a key priority.

WBGU therefore recommends the reinforcement of the environmental policy dimension of the MDGs and the adoption of meaningful indicators in this context. The establishment of quantitative targets and a fixed timetable will facilitate evaluation, thereby easing the way for the development of further political processes. Among other things, the environmental targets defined in the Plan of Implementation adopted at the World Summit on Sustainable Development (WSSD) and those established by other multilateral environmental agreements could be incorporated into this process. There is considerable ground to make up, especially in the climate field. The targets contained in the Kyoto Protocol are an important first step, but they cannot halt dangerous climate change. Far more ambitious emissions reduction targets must therefore be agreed.

Moreover, a cross-sectoral, integrated approach must be adopted in order to avert goal conflicts between the poverty and environmental dimensions and to improve coherence. A longer timescale is required: the Millennium Development Goals and the goals adopted by the WSSD are only the first important milestones. The implementation of a

global sustainability strategy must extend well beyond 2015. The international list of objectives should be reviewed and revised regularly at world conferences. The further conceptual development of the objectives should be agreed at the Millennium + 5 Summit and driven forward in the coming years in conjunction with UNEP and UNDP. The UN Commission on Sustainable Development (CSD), one of the leading promoters in the development of sustainability indicators, should play a key role in this context.

Taking greater account of vulnerability to environmental disasters

There has been a strong increase, in recent decades, in the occurrence of environmental disasters and associated damage. Floods alone affect 140 million people each year. Settlement in at-risk areas, channelization of rivers and deforestation have contributed to the increase in flood damage. In developing countries, this material damage may often absorb a significant proportion of GDP, thus significantly impairing a poor country's development. Almost all deaths from environmental disasters occur in developing countries. Poverty reduction policy must therefore be adapted in line with the anticipated regional impacts of global environmental change:

- Disaster risk management should be integrated appropriately into poverty reduction strategies (especially the Poverty Reduction Strategy Papers – PRSPs) and ongoing planning processes (e.g. the National Action Programmes on Desertification, national environmental action programmes, and the implementation of the UN Millennium Development Goals).
- Resource conservation (e.g. hillside forests, river floodplains or mangroves) helps maintain valuable ecosystem services, reduces flood damage, and provides further benefits, and should therefore be reinforced as a key building block of development cooperation.

Linking the recommendations of the Sachs report with environmental protection

The Sachs report recommends linking direct poverty reduction with the development of economically weak sectors, and the modernization of dynamic economic sectors in the developing countries. WBGU endorses this integrative approach, but calls for these social and economic policies to be coupled to environmental policy imperatives. Poverty reduction must take account of environmental policy needs, and environmental protection should not conflict with development goals. The aim must be to draw fully on the synergies generated by coupling the two realms, but also to identify and resolve goal conflicts at an early stage. Below, the three strategic fields of development policy are discussed, outlining roughly how the integration of environmental policy can take practical shape:

- *Direct poverty reduction:* The Sachs report identifies primary education, basic healthcare and gender equality as strategic starting points. There are obvious linkages with environmental policy measures here – for example, in relation to water supply and energy services. Through integrated management of water resources, clean water can be supplied likewise to natural ecosystems and human communities. Access to modern energy forms can greatly ease the pressure on ecosystems while reducing many of the health risks posed by air pollution. They also remove the need to waste time and energy collecting fuelwood and drinking water, so that girls and women, in particular, have more free time available for education and productive activities. If education is to make a meaningful contribution to sustainable development, it must also promote environmental awareness, responsibility and an understanding of the interaction between human activity and environmental impacts.
- *Strengthening the productive capacities of the poor:* The Sachs report recommends investment in agriculture, food security and subsistence production. These measures can only be successful in the long term if, in the planning process, potential climatic changes at local level are taken into account. These may result from global climate change, but also from local large-scale land-use changes or aerosol pollution. Agriculture must adapt to these changes by selecting appropriate cultivation techniques and plant

varieties, for example. Access to the latest environmental information – such as El Niño forecasts – should also be supported. In this context, subsistence farmers should be encouraged to cushion the impact of harvest losses more effectively, e.g. by storing food for the event of a disaster or diversifying their income sources.

Environmental protection must also be considered in the intensification of agriculture. The expansion of irrigation systems almost invariably causes the environmental problem of salination, so the benefits and disadvantages must be carefully weighed up. Use of fertilizers and pesticides should always be subject to an environmental impact assessment: groundwater pollution, for example, can cause long-term damage to health. Environmentally compatible alternatives, such as agro-forestry and the diversification of land use through bioregional management, should be given greater priority. In urban agglomerations too, there is great potential for synergies between environmental and development policy. The necessary upgrading of slums, especially the introduction of waste disposal systems and wastewater management infrastructure, cuts pollution of soils and watercourses. A modern energy supply can reduce air pollution. In the informal urban sector, there is great potential to reduce environmental risks to health and phase out production techniques which damage the environment, and this potential can often be exploited at minimal cost.

- *Promoting dynamic sectors of the economy:* Here, investment in human capital, innovation, technology transfer and infrastructure is important. However, these aspects may conflict with environmental policy goals and, ultimately, poverty reduction: for example, road-building may lead to the destruction of primary forests, and the expansion of energy and transport systems may significantly increase greenhouse gas emissions and cause local air pollution. This latter problem arises primarily when obsolete technologies, e.g. second-hand industrial plant or vehicles supplied by the industrialized countries, are used. An integrated approach to environmental policy goals means setting a course towards sustainability at an early stage. Modern, low-emission technologies and renewable energies should be used and the benefits of building new transport routes should be carefully weighed up against the needs

of environmental and resource protection. As there is a global interest in preserving the primary forests and avoiding further increases in emissions, the international community has a responsibility to provide appropriate compensation in this context.

In the technology and energy sectors, conditions for an integrative approach are very favourable. On the one hand, the use of new technologies does not necessarily result in additional costs; indeed, renewable energy use, in particular, may actually be cheaper in the medium to long term. On the other hand, the Kyoto Protocol's Clean Development Mechanism (CDM) creates a blueprint for the organization of transfer payments from the industrialized countries. The goal conflict between road-building and forest conservation is more difficult to overcome, however. The construction of transport routes is an important building block for socio-economic development, but road-building is also a key factor in the – sometimes illegal – clearance and settlement of virgin tracts of primary forest. For that reason, development cooperation should give greater priority to supporting the planning of environmentally compatible transport options.

Because the various dimensions of poverty are closely linked to environmental changes, the individual programmes and measures carried out, often in isolation, in the field of international development policy are inadequate to achieve the Millennium Development Goals. The examples outlined reveal various possible ways of linking MDG strategies to the vision of the Rio Earth Summit in a systematic way. If these linkages are integrated into overall strategies, positive synergies can be achieved. In particular, the preparation of the PRSPs must be based on a binding and consistent environmental strategy, and potential goal conflicts between economic development, poverty reduction and environmental protection must be explicitly addressed. At the Millennium + 5 Summit, practical steps in this direction should be agreed between the industrialized and the developing countries.

RECOMMENDATIONS

- Strengthen and further elaborate the environmental policy dimensions of the MDGs
- Integrate disaster risk management appropriately into poverty reduction strategies, ongoing planning processes and the implementation of the UN Millennium Development Goals
- Integrate the maintenance of valuable ecosystem services more fully into development cooperation
- Ensure that the preparation of the PRSPs is based on binding and consistent environmental strategies

5 Forging strategic partnerships with anchor countries

The least developed countries, especially in sub-Saharan Africa, are quite rightly the focus of efforts to achieve the MDGs. In this context there are also calls for a reduction in development cooperation with fast-growing economies such as China, Brazil and India. In WBGU's view, this is a short-sighted approach. If these anchor countries develop in economic and political terms, they pull other countries in their region along in their wake. Moreover, due to their size, they are also of pivotal importance in resolving global problems and promoting global governance. Close cooperation with the anchor countries is therefore essential to achieve sustainable development and poverty reduction worldwide:

- Achieving the target of significantly reducing poverty worldwide will crucially depend on a small number of anchor countries. 63 per cent of all people living on less than a dollar a day come from India (approx. 360 million), China (approx. 207 million) and Nigeria (approx. 83 million). However, the industrialized countries should shift away from traditional poverty reduction projects in these countries and develop forms of cooperation which strengthen the social dimensions of the market economy.
- The anchor countries also play a key role in achieving ecologic sustainable development targets. China, India and Brazil are already some of the world's largest producers of greenhouse gases, accounting for a total of 23 per cent of these emissions, with a strong upward trend. These countries' integration into the post-Kyoto process is therefore essential for effective climate policy. The problem of global deforestation also cannot be resolved without countries such as Brazil, Indonesia and Russia. Above all, the strong economic growth in the anchor countries – especially populous countries such as China, India and Brazil – is a key factor accounting for their growing share of global environmental problems. This trend suggests that the anchor countries will be as important as the USA, for example, in achieving sustainable development worldwide.

- Global environmental changes which are caused and accelerated by the industrialized nations – but also the anchor countries – worsen poverty and increase the vulnerability of disadvantaged population groups in the least developed countries. The German Government and the EU should therefore devise development, environmental, economic and foreign policy strategies with the maximum possible coherence, with the aim of initiating and intensifying environmental measures in the anchor countries.
- Many anchor countries are taking an increasingly pro-active and self-confident role in the international political and economic arena. They are key to the further development of global governance structures. Some are entering into new strategic alliances and are thus acquiring substantial influence. One example is the trilateral democratic bloc – the Group of Three (G3) – formed by India, South Africa and Brazil.

Anchor countries could, and should, share in the costs of poverty reduction and environmental protection at home. However, incentives and offers of cooperation from abroad are still important in supporting responsible environmental and development policy action in the anchor countries through strategic partnerships. This is the only way to set a course which strengthens these countries' global responsibility and integrates them progressively into global governance processes.

RECOMMENDATIONS

- Involve anchor countries more fully in international environmental policy, especially the post-Kyoto process
- Support anchor countries in developing social security systems and effective environmental policies, instead of sponsoring traditional poverty reduction programmes

6 Reforming the development and environment policy architecture

The major challenges posed by poverty reduction and environmental protection can only be resolved on the basis of international treaties and effective international organizations, i.e. global governance. To this end, the UN must improve its capacity to steer policy and become the institutional backbone of a global partnership between the industrialized and the developing countries. WBGU endorses the UN Secretary-General's view that a radical reform of the international institutional system is necessary, and supports endeavours to strengthen the United Nations' role as a pivotal intergovernmental organization with a view to mobilizing and coordinating collective action. This does not mean weakening the international financial institutions and the World Trade Organization (WTO), but integrating them more systematically into a coherent global governance architecture. In this context, the reform proposals presented by WBGU go beyond the adjustments to the UN's development and environment policy course presented in the Annan report in advance of the Millennium + 5 Summit.

Strengthening legitimacy in the multilateral system

The UN system's guiding role in future policy development and the greater focus on environmental and development issues will also depend on enhanced participation of the developing countries in multilateral decision-making bodies such as the International Monetary Fund (IMF), the World Bank and the regional development banks. WBGU welcomes initiatives aimed at reforming the distribution of voting rights in the World Bank's and IMF's decision-making bodies. The North-South parity already practised in the Global Environment Facility (GEF) and under the Montreal Protocol on Substances that Deplete the Ozone Layer could, over the medium term, become a model for a decision-making structure in the international organizations that is based on greater equity and partnership. As proposed in the UN Secretary-General's report, the expansion of the Security Council to include not only other industrialized countries

but also influential representatives from the developing countries would be a welcome step in this context. A further priority is to involve civil-society actors (businesses, interest groups and non-governmental organizations) usefully in the United Nations' decision-making process. Reference should be made, in this context, to Kofi Annan's proposals on participation, which were presented in September 2004.

Overcoming the fragmentation of international development policy

The fragmented institutional system underpinning international development policy is often not part of the solution to development problems but is itself part of the problem. Increasing ODA spending therefore only makes sense if the international development policy architecture is reformed at the same time. To this end, the UN institutions' profile must be sharpened and their competences delineated more clearly. Currently, too many organizations, programmes and funds are operating on the basis of overlapping mandates, leading to a loss of efficiency. This also has an adverse impact on their acceptance in the international public arena and the willingness of states to reinforce the multilateral institutions. The Annan report addresses the problems associated with the UN system's lack of coherence and the interaction between UN actors and the IMF, WTO and regional banks – but merely presents proposals for minor reforms at this stage, presenting the case for more radical reforms in future. WBGU recommends that the reforms outlined in the Annan report be initiated as soon as possible within the framework of the Millennium + 5 Summit:

- The many multilateral development organizations should, in future, draw on their own particular strengths and specializations, and overlaps between spheres of activity should be removed. A clear demarcation of responsibilities and a division of labour are key prerequisites for coordination, coherence, effectiveness and cost reduction in international development policy.

- A review should be undertaken to determine which organizations, programmes and funds should be merged.
- A final question to be addressed is whether any organizations have outlived their usefulness and should be wound up.

The urgent need for this type of radical reform becomes apparent when we consider that there are currently 50 development agencies operating within the UN system with a total annual budget of around US\$5 thousand million (2002, 2003). This fragmentation must be overcome in order to strengthen multilateral development policy.

It is equally important to refocus international development policy towards the national Poverty Reduction Strategy Papers (PRSPs), which have replaced the traditional, primarily donor-oriented structural adjustment programmes of the 1980s and 1990s in the poorest developing countries (IDA countries) and the heavily indebted poor countries (HIPC). Although the PRSP process certainly does not match up to all its self-imposed expectations, it points in the right direction. The key tasks in this context are as follows:

- align donor activities with the developing countries' PRSPs in order to enhance country leadership and prevent the emergence of parallel structures in developing societies;
- establish programmes which are coordinated on a multilateral basis within the PRSP framework, in order to replace the highly diverse and often conflicting programmes run by individual donors;
- harmonize donors' management and evaluation practices in order to reduce the very high transaction costs incurred by the developing countries engaged in international cooperation;
- increase budget funding for reform-minded governments in fast-track countries in order to boost their individual responsibility on a lasting basis;
- coordinate donor activities on the ground, so that in future, more decisions are adopted in the developing countries themselves.

Establishing these arrangements in international development policy would represent a quantum leap forward. At the Millennium + 5 Summit, binding roadmaps for the implementation of these objectives should be formulated.

Enhancing environmental governance in the UN

WBGU underlines the need to establish a more coherent regulatory framework for global environmental governance which will drive forward the processes of standard-setting, of academic debate and of the monitoring of international conventions.

In order to enhance the importance attached to environmental issues within the UN system and improve the coordination of environmental work, WBGU recommends that UNEP be converted into a UN specialized agency. Only an overarching organization equipped with lead functions can enhance the protection of natural life-support systems and ensure closer linkage between environmental themes and basic economic and social issues at all levels of environmental governance. The multilateral environmental agreements – which have resulted in innovative reforms over the last 30 years – should be integrated into a new international environmental agency in order to promote coherence and progress in environmental policy. The new agency would also ensure that poverty reduction and economic development in the poor countries are integrated into global environmental policy and a fair division of burdens is established at global level.

What is currently lacking is a cohesive contribution by the scientific community on the problems of global change. For biodiversity and soil, the level of knowledge about the stage reached in, and the pace of, degradation and its potential impacts is still patchy and rarely feeds into policy-making. In light of the positive experience gained in the climate field (IPCC), WBGU recommends that similar scientific bodies or panels be established to advise on and monitor international soil and biodiversity policy.

Replacing ECOSOC with a Council on Global Development and Environment

WBGU considers that the only way to overcome the much-lamented lack of coherence in the international system and improve the enforceability of sustainability goals is to establish a new lead agency in the UN system. The Economic and Social Council (ECOSOC) cannot fulfil this role due to its focus on socio-economic issues and its lack of real authority. WBGU therefore recommends that it be replaced by a Council on Global Development and Environment, which should be established on the same hierarchical level as the Security Council. Environment and development issues are key to the future of humankind.

They should therefore be given the same high priority as security issues in the UN system. This new Council would provide the strategic and policy framework, coordinate the activities of the multilateral organizations working on development and environment – including the International Monetary Fund and the World Bank – and focus their work towards the guiding vision of sustainable development. However, this will only be successful if the new Council's decisions have more binding force than ECOSOC decisions in providing policy direction. The new body should be composed of around a dozen permanent members from the key industrialized and developing countries, and the same number of representatives of the world's regions elected on a rotating basis. The permanent members should not have a veto, and decisions would require not only an overall majority but also separate majorities among the industrialized and the developing countries respectively (North-South parity). This medium-term reform project should be initiated at the Millennium + 5 Summit.

The German Government's endeavours to secure a seat for Germany on the UN Security Council will gain in acceptance if it intensifies its commitment to international environmental and development policy and takes a pro-active role within the international community by presenting innovative concepts for the further development of the UN system.

RECOMMENDATIONS

- Boost the involvement of the developing countries and civil-society actors in the UN bodies
- Harmonize donor activities to a greater extent and establish a clearer demarcation of responsibilities among the multilateral development institutions
- Convert UNEP into a UN specialized agency
- Strengthen environmental policy advice by establishing new scientific panels
- Replace ECOSOC with a Council on Global Development and Environment

7 Global poverty reduction *and* environmental policy are financeable

WBGU estimates that the North-South financial transfers required to fund global poverty reduction and environmental policy will be in the region of US\$200-300 thousand million annually. This is based on numerous existing estimates. WBGU assumes that all measures will be embedded in a coherent sustainable development strategy, that positive synergies will be created between environmental protection and poverty reduction measures, and that resources will be used efficiently. Furthermore, it assumes that the developing countries will also be willing to mobilize their own resources for these purposes. However, this figure of US\$200-300 thousand million does not include appropriate compensation payments for damage caused by climate change, and nor does it include international transfers for the preservation of biodiversity worldwide. WBGU considers that no reliable estimates of the levels of funding required in this context are currently available. WBGU assumes that the annual financial transfers required in the fields of climate protection and biodiversity in the coming decades will amount to a maximum of 1 per cent of global GDP, and the figure may well be much lower in many cases. WBGU thus endorses, on the one hand, the Sachs report's recommendation that ODA be steadily increased to three times its current level. On the other hand, these transfers are not adequate to fund a successful and comprehensive global sustainability policy. Besides traditional ODA, other funding mechanisms are urgently required.

Particular consideration should be given to environmental policy funding mechanisms in this context. An enhanced Clean Development Mechanism (CDM) could make a contribution here – provided that incentives are created to encourage CDM-related investment in the least developed countries as well. Over the long term, however, an expansion of emissions trading will also be required, together with the integration of the developing countries into a global emissions reduction system and the establishment of more effective funding mechanisms. WBGU recommends that polluters be required to make payments into an international fund as compensation for the damage sustained by developing

countries as a result of climate change. Moreover WBGU calls for the introduction of charges for the use of global common goods (especially international aviation and shipping). Compensation payments are also recommended for countries which renounce the destructive use of environmental resources located on their sovereign territory and whose protection is a shared human responsibility (e.g. primary forests, biodiversity).

The financial transfers may be lower if, over the long term, successful international environmental governance means that less funding is needed for poverty reduction. The requirement for financial resources can be further reduced if global economic conditions are made socially and environmentally sustainable. This means, first and foremost, that the developing countries must be granted better access to the industrialized countries' markets through the abolition of trade barriers and agricultural subsidies, along with reduction of debts. Furthermore, corporate liability for environmental damage should be intensified. This would encourage a more responsible attitude towards investment, thus preventing environmental damage from arising in the first place.

Provided that there is the political will, the international community has the capacity to provide the requisite funding. For the purposes of comparison, the OECD countries' annual spending on agricultural subsidies total around US\$350 thousand million, while global military expenditure amounts to almost US\$1000 thousand million.

Inaction is more expensive

Initially, there may well be considerable opposition in the industrialized countries to any increase in ODA and the establishment of new funding mechanisms. Similarly, those with vested interests at stake are unlikely to endorse the abolition of subsidies and market liberalization for products from developing countries. However, the costs of inaction are so high that this resistance will have to be overcome and the necessary political will created. By investing in poverty reduction and environmental protection, the costs associated with environmental degradation and

the weakening of human capacities (resulting, for example, from poor nutrition and a lack of health and education) can be avoided. For example, the 'monetary dividend' generated by halving the number of persons suffering from undernourishment is estimated to be US\$120 thousand million per annum. Investing in healthcare in the developing countries could produce an economic yield six times higher than the initial investment. The benefits of protecting the environment and natural resources also greatly outweigh the costs incurred. Not only the developing countries but also the industrialized nations will benefit from global poverty reduction and environmental protection: global environmental protection reduces environmental damage in the industrialized countries too. New markets will be created, more intensive trade with developing countries will benefit exporters and consumers alike. Also the number of poverty and environmental migrants will decline and the breeding ground for terrorism will be narrowed. In sum, WBGU assumes that the financial benefits of global environmental and development policy will greatly exceed the required financial input stated above.

Joint financing of poverty reduction and environmental protection

The current debate about new funding mechanisms for global poverty reduction must be continued as a high priority and linked to the debate about innovative sources of financing for global environmental policy. New funding strategies, such as user charges for global common goods proposed by WBGU, are already available. At the Millennium + 5 Summit, courageous decisions must be adopted in order to establish a sound financial basis for future global environmental and development policy.

RECOMMENDATIONS

- Boost ODA expenditure significantly, with the adoption of a binding timetable to achieve, at the least, the target of spending 0.7 per cent of gross national income on ODA
- Press ahead with the establishment of an international fund system, financed by polluters, to pay for global environmental policy, e.g. through the introduction of user charges for global common goods
- Establish a system of international compensation payments for the damage sustained as a result of climate change
- Introduce international compensation payments for countries renouncing the destructive use of natural ecosystems

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