

World in Transition



German Advisory Council
on Global Change
(WBGU)

Fighting Poverty through Environmental Policy

Summary for
Policy-Makers



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(as on 31. October 2004)

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**World in Transition:
Fighting Poverty through
Environmental Policy**

The full Report will be published by Earthscan Publications Ltd, London in summer 2005.

ISBN 3-936191-08-5

Imprint:

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Copy deadline: 31.10.2004

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Summary for policy-makers

1 The challenges of poverty reduction and environmental policy

1.1 The vision of the Rio Earth Summit

At the start of the 21st century, fighting poverty and protecting the environment are two of the most urgent challenges facing the international community. Narrowing the massive disparities in the satisfaction of basic needs and distribution of prosperity must be a primary objective. Extreme poverty, such as that prevailing above all in sub-Saharan Africa and South Asia, is the most obvious manifestation of the untenable imbalance in the world's social system.

Human intervention in the natural environment is already jeopardizing natural life-support systems, especially those utilized by the poor, in many regions of the world. Unless countermeasures are adopted, environmental changes will have an even more life-threatening impact in future. While those who are responsible for 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 groups are especially vulnerable to environmental changes as these people are more exposed to risks which threaten their survival (disease, hunger, harvest losses, etc.) and have very few coping and adaptive capacities.

So it is important to remind ourselves 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 – and this must apply to any promising long-term strategy aimed at reducing poverty worldwide and narrowing the potentially explosive North-South divide. To this end, poverty reduction and environmental protection must be forged into a coherent policy from the local to the global level. Only an integrated approach

which involves civil-society actors can fulfil the guiding vision of sustainable development. In the spirit of Rio, the German Advisory Council on Global Change (WBGU) presents the following hypothesis: *Global environmental policies are prerequisite to global poverty reduction.*

1.2 An integrated analysis of poverty, environmental change and relevant political processes

The recommendations for action set out in this report are based on an analysis of the systemic links between poverty (income poverty, diseases, malnutrition, and lack of education, social stability and social capital) and environmental changes (climate change, water pollution and lack of water resources, soil degradation, loss of biological diversity and resources, and air pollution). The manifestations of and interactions between poverty and environmental problems are investigated in their various forms. This type of integrated analysis is nothing new; what is new, however, is the consistent linking of a holistic approach with the following key questions: which institutional arrangements offer ways of coping with these problems, and where must gaps be closed? To this end, WBGU has evaluated major international political processes and developed recommendations on policy coherence. It also presents various recommendations on further research to identify the strategic gaps in theoretical and practical knowledge.

1.3 Deficits in global poverty reduction and environmental policies

WBGU's analysis reveals that the existing institutional architecture is too weak to solve poverty and environmental problems any time soon. It also shows that although most of the political processes studied perform key functions in terms of identifying themes, raising awareness and establishing a con-

ceptual framework for individual policy areas, the lack of coordination between poverty reduction and environmental policy is still a major shortcoming. The weakness of the United Nations is an ubiquitous and recurrent problem. Moreover, international trade and economic policy is not adequately geared towards the goals of poverty reduction and environmental protection. Poor policy implementation and inadequate funding are other major flaws.

Above all, there is too little recognition of the need for a new development paradigm. In particular, the principle that economic growth must be decoupled from resource consumption as far as possible is not adequately embedded in all policy areas. Moreover, the strategic option of leapfrogging stages of technological development is given too little consideration by international environment and development policy actors, even though there are successful examples of this approach.

2 Recommendations on policy coherence

2.1 Drawing on synergies generated by coupling poverty reduction with environmental policy

WBGU's analysis and assessment of political processes has revealed that the impact of poverty reduction and environmental policy can be greatly enhanced by dovetailing the two realms. The targeted coupling of these two policy areas can help resolve goal conflicts and ensure that financial resources are deployed more effectively. These are not the only two policy areas in need of dovetailing. Trade and economic policy, for example, must also not conflict with internationally agreed environmental and poverty reduction targets. Although this position is generally endorsed by the international community, there is still a major gap between the pledges made and their actual implementation.

Compensation for the negative impacts of environmental changes and the assumption of liability

BEARING THE COSTS OF ENVIRONMENTAL DAMAGE IN LINE WITH THE 'POLLUTER PAYS' PRINCIPLE
Industrialized countries are responsible for a substantial proportion of the emissions of persistent trace gases and modifications to natural biogeochemical cycles which trigger global environmental changes

such as climate change. Very often, it is the developing countries which are most severely affected by the negative impacts. The payment of compensation for the ongoing environmental damage caused since the problem was identified would take account of the industrialized countries' responsibility and could help reduce the vulnerability of poor people in developing countries, e.g. to climate change, and thus fight poverty. On the issue of climate change in particular, WBGU recommends that states be obliged to pay appropriate compensation for climate damage in line with their contribution to global warming, taking 1990 as a baseline year for the calculation of their emissions.

MAKING PRIVATE ENTERPRISES LIABLE FOR ENVIRONMENTAL DAMAGE

Enterprises which cause environmental damage through their use of natural resources or their environmentally harmful activities should – in line with the 'polluter pays' principle – face liability under civil law. Appropriate regulations should be established in both national and international law. The – inadequate – sectoral environmental liability regimes which exist at international level (e.g. in the law of the sea or in relation to transboundary movements of hazardous wastes) should be reinforced and extended to other environmental media (e.g. freshwater regimes). The focus should be on strict (absolute) liability. Here, the object of protection should be the environment *per se*, irrespective of property status and economic value. Ongoing efforts to conclude cross-sectoral international agreements on environmental liability in civil law should also continue.

Making the global economy more socially and environmentally responsible

USING INTERNATIONAL TRADE AS A LEVER
Germany should intensify its efforts within the EU and multilateral organizations such as the World Trade Organization (WTO) to ensure that the developing countries' products are granted free access to the industrialized countries' markets. Industrialized and newly industrializing countries should open up their markets to products from developing countries to the maximum extent and abolish agricultural subsidies which distort competition. The only trade policy concessions which should be demanded from the developing countries are those which have a direct and beneficial impact on poverty reduction and global environmental protection, e.g. easier market access for goods required by the poor, or zero tariffs on goods whose use eases environmental stress (such as renewables technology). The negotiations in the

Doha Round, resumed in 2004, offer a useful opportunity to use trade as a 'lever' for the benefit of the developing countries.

HARMONIZING THE WTO RULES WITH ENVIRONMENTAL PROTECTION

Within the WTO, the precautionary principle should be given far greater priority, and multilateral environmental agreements should take precedence over WTO agreements. An appropriate addition to the exemptions contained in the GATT/WTO treaty could ensure, for example, that programmes and standards adopted under international environmental conventions are not challenged by any decision taken within the WTO's dispute settlement mechanism. Cooperation between the WTO and UNEP should be intensified. The German Federal Government should continue to lobby pro-actively for these objectives at the WTO negotiations.

INSTITUTIONALIZING ENVIRONMENTAL AND SOCIAL STANDARDS

It is becoming increasingly important to establish more binding environmental and social codes of conduct at institutional level for multinational corporations, state export guarantee schemes and the private banking sector. WBGU recommends that the Federal Government continue to work actively for the implementation of the OECD Guidelines for Multinational Enterprises. A system to monitor compliance with codes of conduct should be established at EU level. These voluntary commitments should be incorporated progressively into binding international law. Environmental standards should also be introduced for exports of used industrial goods. The granting of export credit guarantees by Euler Hermes Kreditversicherungs-AG should be brought into line with existing OECD standards at last.

Expanding environmental policies as a prerequisite for poverty reduction

Preserving the integrity of the local environment, protecting and managing resources in line with sustainability criteria, and preventing hazardous environmental changes are key prerequisites for poverty reduction. Poor people suffer most acutely from local environmental problems such as water pollution or soil degradation which put their health and life-support systems at risk. Environmental protection therefore directly contributes to poverty reduction, and maintaining the natural environment can help reduce vulnerability at the same time.

As examples, various recommendations on ways of integrating poverty reduction into environmental

schemes are as follows: As part of climate protection, WBGU recommends that the Federal Government work actively for an international commitment on the preservation of carbon stocks in terrestrial ecosystems (e.g. primary forests, wetlands, grasslands), perhaps in the form of a protocol to the United Nations Framework Convention on Climate Change. To encourage the integrated management of water resources, international funding should be pooled and deployed, as a priority, in the most water-poor regions where there is a high level of water-borne diseases. Access to clean drinking water should be recognized as a fundamental right under binding international law. In soil protection, salination is a serious problem, so a global monitoring system for the early detection of salination should be established. To reduce indoor air pollution, WBGU has proposed the replacement of traditional biomass with modern fuels. To this end, funding should be provided for pilot projects which aim to establish a distributed energy supply, e.g. using biogenic liquefied natural gas.

Reducing vulnerability through adaptation

People with adequate entitlements, such as access to education and healthcare, are better able to cope with environmentally related pressures. This aspect of poverty reduction is becoming more important in light of the predictions being made in environmental research, for even if preventive policies are implemented rigorously, many environmental changes can no longer be prevented. German development cooperation should therefore develop a strategic framework aimed at reducing vulnerability to both gradual and abrupt environmental changes.

SAFEGUARDING THE CAPACITY FOR POLITICAL ACTION

WBGU recommends that a new field of action be established in development cooperation, i.e. 'adaptation to expected global environmental changes'. In particular, the German poverty reduction strategy currently being pursued must be adapted in anticipation of the likely regional impacts of global environmental changes.

REDUCING RISKS AND VULNERABILITY THROUGH DEVELOPMENT COOPERATION

WBGU recommends the inclusion of disaster risk management in the Poverty Reduction Strategy Papers (PRSPs) and the integration of disaster mitigation into the implementation of the UN Millennium Development Goals (MDGs). Disaster prevention should also become a new sectoral priority in development cooperation.

ADOPTING A LONG-TERM PERSPECTIVE IN NATIONAL ENVIRONMENTAL PLANNING IN THE DEVELOPING COUNTRIES

Promoting environmentally relevant spatial planning as part of development cooperation is strategically important, especially in terms of boosting coping capacities. Among other things, the development and enforcement of effective environmental laws, the production of national environmental statistics, and policy coherence play a key role in this context. WBGU recommends that national environmental planning in the developing countries focus to a greater extent on these long-term impacts.

ESTABLISHING RISK PREVENTION INSTITUTIONS

Risk and vulnerability assessments provide information which is urgently needed in the planning of risk prevention schemes. An international risk and vulnerability assessment programme should therefore be established, whose task would be to develop 'Disaster Risk Indices' to identify priorities for resource use based on cost-benefit analysis.

Protecting the environment through poverty reduction

The significance of poverty's negative impacts on the natural environment is often overestimated – prosperity and industrialization play a far greater role in causing environmental change. Nonetheless, the poor are often forced to over-exploit the natural resources which generally form the basis of their livelihoods. Combating poverty through better provision of basic services, enhanced rights of participation and entitlements along with better income-generation opportunities can reduce the pressure on local ecosystems.

COUPLING POVERTY REDUCTION STRATEGY PAPERS WITH ENVIRONMENTAL STRATEGIES

Since 1999, the submission of a PRSP has been a prerequisite for debt relief and concessionary loans from the World Bank, the IMF and G7. WBGU welcomes this linkage in principle. However, too little priority has been given to environmental aspects so far. As environmental policy is prerequisite for poverty reduction, the PRSPs should include consistent environmental strategies from the outset. They should also address any potential conflicts between the objectives of economic development, poverty reduction and environmental policy.

BOOSTING LOCAL COMMUNITIES' ENTITLEMENTS AND PROPERTY RIGHTS

Better participation by local and indigenous communities in decisions on biological resources and con-

servation areas, as well as improved entitlements to ecosystem services, can help lessen the negative incentives which encourage over-exploitation of sensitive ecosystems at local level. Appropriate framework conditions (e.g. good governance, secure entitlements) are a key prerequisite here. WBGU recommends that the developing countries be given targeted support to develop these framework conditions in order to open up long-term prospects for the use of ecosystem services.

IMPROVING CONDITIONS IN URBAN SLUMS AND OVERCOMING ENERGY POVERTY

A water and sanitation infrastructure, waste disposal services, modern energy supply and transportation systems are vital to combat urban poverty. They also help to protect the local environment and reduce the pressure on adjacent ecosystems. Integrated development plans for urban slums are therefore essential, not only to combat poverty but also to prevent further environmental damage. WBGU therefore recommends that the German Programme of Action 2015 focus especially on water and energy issues.

2.2

Reforming the UN and enhancing environmental protection in the international system

WBGU considers that the major challenges of environmental protection and poverty reduction can only be mastered with the assistance of global rules and effective international organizations, i.e. global governance. This means reinforcing international law and intensifying multilateral cooperation. To this end, a major reform of the international institutional system is essential. The UN is a cumbersome organization which must improve its capacity to steer policy and become the institutional backbone of a global environmental and development partnership. This does not mean weakening the international financial institutions and the World Trade Organization, but integrating them more fully into a coherent global governance architecture under the UN's political leadership. 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's institutional system.

The vision: Subsuming ECOSOC into a Council on Global Development and Environment

Establishing a new lead agency in the UN system is the most promising way to overcome the much-lamented lack of coherence in the international institutional sys-

tem and improve the enforceability of sustainability goals. As a long-term vision, WBGU therefore recommends that a Council on Global Development and Environment be established to replace the Economic and Social Committee (ECOSOC). 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 activities towards the guiding vision of sustainable development. This would not only ensure that the problems of environment and poverty are given adequate priority within the UN system; it would also overcome the international financial institutions' *de facto* externalization out of the UN system. 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 other 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).

Since an amendment to the UN Charter would be necessary to establish the new Council, this reform project can only be achieved over the long term. In the meantime, the Chief Executives Board for Coordination should be utilized to better effect in coordinating the UN institutions. The Board is a forum which brings together the executive heads of the UN programmes, specialized agencies and funds, as well as the WTO, the World Bank and the IMF.

Enhancing the status of environmental policy in the UN system

WBGU reiterates its recommendation, which has now been taken up by the German Federal Government, for UNEP to be converted into a UN specialized agency. This would enhance the importance attached to environmental issues within the UN system and improve coordination on environmental work. 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. In parallel, the Global Ministerial Environment Forum should play a greater role in promoting international cooperation on environmental issues, and should also have the capacity to

make recommendations to other UN organizations involved in environmental activities.

The UN Commission on Sustainable Development

Due to its institutional weakness, the UN Commission on Sustainable Development (CSD) has been unable to fulfil its mandate satisfactorily until now. WBGU considers that the CSD's status should be enhanced through the appointment of a high-ranking figure – akin to the UN High Commissioner for Human Rights – as its permanent chair. Above all, the CSD chair could mediate, should conflicts arise, between the agencies working on sustainable development.

Improving participation in the international institutions

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. This means, firstly, that civil-society actors (enterprises, interest groups and non-governmental organizations) must be involved in consultation mechanisms and dialogue processes. Secondly, it means that the developing countries must play a greater role in multilateral decision-making bodies. This applies especially to the financial institutions (IMF, World Bank) and the regional development banks, which are currently dominated by the OECD countries. This power imbalance impedes the development of a global environmental and development partnership which is key to solving the problems of the environment and poverty. WBGU therefore welcomes the German Federal Government's initiative which aims to modify the voting arithmetic in the decision-making bodies of the Bretton Woods Institutions.

Strengthening the environmental component of the Millennium Development Goals

The MDGs are milestones on the path towards global poverty reduction. Through their adoption, the international community has committed itself, for the first time, to quantifiable goals and a fixed timetable. However, the strong focus on social policy deficits implies that poverty reduction can be viewed separately from the condition of the world's natural life-support systems. WBGU therefore recommends that the environmental policy objectives set forth in the MDGs be reinforced and that meaningful indi-

cators be agreed in this area. The UN Conference to review the progress made in the achievement of the MDGs (the 'Millennium Summit 2000+5') in September 2005 offers a good political opportunity to take these steps.

Enhancing cooperation between the Rio Conventions

Cooperation between the UN Framework Convention on Climate Change, the Convention on Biological Diversity and the UN Convention to Combat Desertification, as well as in the thematic fields covered by these Conventions, is extremely unsatisfactory. This is particularly true when conflicting objectives arise. The Joint Liaison Group – a forum comprising representatives of the secretariats of the three Rio Conventions – offers an opportunity to address these problems and identify not only win-win situations but also conflicting objectives. Furthermore, thematic working groups consisting of an equal number of representatives from each Convention secretariat could offer an additional opportunity to exchange views on mutual interests and propose possible solutions to the relevant Conferences of the Parties. In many cases, joint development of strategies within the framework of the Conventions may be a positive way forward. The integration of the Rio Conventions into development cooperation, as proposed by the OECD, would ensure policy coherence among the donor countries.

Improving policy advice

Knowledge and evaluation are key to the development of viable policies for the future. In order to predict and identify global environmental and development problems and map out options for action, the role of scientific policy advice should be enhanced. WBGU recommends that the knowledge base available to policymakers be improved through the production of regular assessment reports. To this end, panels – akin to the IPCC – should be established to deal with the issues of land, soils and biodiversity. The option of establishing an Intergovernmental Panel on Poverty and Vulnerability should also be explored.

2.3 Driving forward local implementation

Since the adoption of Agenda 21 in 1992 and the breakthrough of the concept of sustainable development, a heightened awareness of the link between

environment and development has emerged. The international community has agreed on a shared guiding vision of the overall direction and goals of global development. Yet in practice, economic development or power politics often still take precedence over sustainability. The guiding vision can only be implemented successfully if national and local actors are recognized as the driving forces behind this process. The transition from the development and adoption of global action plans to their practical implementation by local and national actors is mostly unsatisfactory. In view of the increasing number of international conventions, the international community must turn its attention to the widening gap between pledges and practice as a matter of urgency.

AGREEING QUANTITATIVE TARGETS AND DEVELOPING INDICATOR SYSTEMS

Quantitative and time-bound targets should not only be set at an overarching level, as in the MDGs; they are required in each separate field of action in global environmental and development policy. This approach is already being adopted in the Convention on Biological Diversity and the Kyoto Protocol, for example. But time-bound quantitative targets have not yet been established for other political processes, such as the Convention to Combat Desertification. The setting of targets makes it easier to assess political processes and their impacts at a later stage and should therefore be introduced in all areas of environment and development policy. Furthermore, ongoing monitoring of the impacts of measures through the use of appropriate indicator systems is an essential prerequisite which, although often called for, is still not fully implemented in practice.

COORDINATE THE SEPARATE IMPLEMENTATION PATHWAYS OF ENVIRONMENTAL CONVENTIONS

The implementation pathways of the environmental conventions, the National Strategies for Sustainable Development, and the National Action Plans to combat poverty generally run concurrently in many countries and are poorly coordinated. Implementation should therefore be streamlined in a consistent and coherent way at national and local level in order to improve the effectiveness and impact of the resources deployed. Integrated measures at local level could form practical fields of action.

IMPROVING DONOR COORDINATION

The greater part of official development assistance (ODA) is granted through bilateral approval procedures. Efforts are under way to improve the coordination of the development funding provided by donor countries, but are hindered by national interests:

- The OECD's Development Assistance Committee (DAC) is seeking to ensure that the international commitments undertaken at Monterrey 2002 are honoured, that development cooperation becomes more effective, and that it is targeted more specifically towards poverty reduction. The German Action Plan on Harmonization of Donor Practices points in the right direction. The German Federal Government should also work for better donor coordination in international forums, such as the DAC's High-Level Forum on Harmonization and Aid Effectiveness and the forthcoming UN Conference to review the progress made in the achievement of the MDGs in September 2005.
- The Treaty on European Union merely assigns a 'supplementary' role to the European Commission in European development policy, making it more difficult to achieve effective coordination and coherence within the EU. WBGU recommends greater communitization of development policy and its integration into the Common Foreign and Security Policy. This is especially important for the priority region of sub-Saharan Africa, where more intensive development policies at Community level could achieve substantially more than the bilateral efforts of the EU Member States, now numbering 25 in all.

MAINSTREAMING OF OBJECTIVES

The Federal Government should ensure that trade, economic, security and foreign policies do not conflict with development and environmental policy objectives. This means in Germany, for example, involving all the relevant ministries in decisions to grant Hermes credit guarantees and enhancing the role of the Interministerial Committee. Furthermore, the public profile of the Committee of State Secretaries for Sustainable Development ('Green Cabinet') should be enhanced in order to reinforce its key role in agenda-setting. In industrialized and developing countries alike, environmental policy should be taken seriously both as an independent policy field in its own right and as a cross-cutting task.

2.4

Promoting good governance

Global governance not only requires effective multi-lateral institutions and the rigorous implementation of international agreements at regional and national level. It also requires good governance in the partner countries – i.e. the rule of law, legal certainty for citizens and enterprises, respect for basic human

rights, government accountability, and anti-corruption measures.

In WBGU's view, it is sensible to link development cooperation to good governance criteria (conditionality). Within the development cooperation framework, more assistance should be granted to recipient states which are willing to reform and are taking positive action. To this end, non-purpose-specific funding (budget aid) should be provided as well – albeit subject to regular reviews.

Fragile states with a weak political infrastructure need help to develop well-functioning administrative and legal structures and effective environmental management systems. For security and humanitarian reasons too, the international community cannot afford to write off failing or collapsed states as hopeless cases. It must find ways of maintaining or restoring these states' monopoly of power as a prerequisite for peace, stability, development and environmental protection. Failing states should therefore still receive humanitarian aid and assistance with institution-building. The anti-corruption campaigns being spearheaded by international NGOs and national actors should also be supported. Germany should ratify the UN Convention Against Corruption at the earliest opportunity.

2.5

Securing the funding

WBGU estimates the additional resources (international transfer from industrialized to developing countries) needed to implement internationally agreed poverty and environmental targets to run in the low hundreds of billions of US dollars per year. Biodiversity conservation and compliance with the 'global warming guard rail' established by WBGU, i.e. a maximum tolerable temperature increase, are also likely to be achievable with global financial resources less than US\$400 thousand million, on average, annually. A prerequisite, however, is that all measures are embedded in a coherent sustainable development strategy. In the climate policy field, adaptation and compensation funds must also be adequately funded. For the purposes of comparison, the OECD countries' annual spending on agricultural subsidies total around US\$350 thousand million, while annual global military expenditure amounts to almost US\$1,000 thousand million. Global GDP stood at around US\$36,000 thousand million in 2003. In WBGU's view, the internationally agreed targets on poverty and environment are affordable.

POVERTY REDUCTION AND ENVIRONMENTAL PROTECTION ARE WORTHWHILE FOR THE INDUSTRIALIZED COUNTRIES TOO

Besides their ethical responsibility, poverty reduction and environmental protection accord with the industrialized countries' pragmatic interests as well. At least four positive dividends can be anticipated for industrialized countries:

- *Environmental dividend:* By protecting global public goods, environmental damage is reduced in the industrialized countries too.
- *Development dividend:* Reducing poverty and environmental damage worldwide creates markets for export products and investors from industrialized countries.
- *Trade dividend:* The abolition of subsidies in the industrialized countries will boost world trade. The industrialized countries will also benefit, e.g. because they will be able to import products more cheaply. Production efficiency will also increase over the medium to long term.
- *Security dividend:* By maintaining natural life-support systems and successfully reducing poverty, the numbers of refugees fleeing from environmental damage and poverty will decrease. Furthermore, improved living conditions, better entitlements and more participation rights will reduce an enabling environment for terrorism.

DISMANTLING ENVIRONMENTALLY HARMFUL SUBSIDIES AND TRADE BARRIERS

Every year, environmentally harmful subsidies amounting to around US\$850 thousand million worldwide are paid to agriculture, the fossil fuel and nuclear energy sectors, transport, the water industry, fisheries and forestry. Significant funding could be released by slashing these subsidies and allocating a proportion of the resources to development and environmental policy. If the OECD countries abolished all their trade barriers for agricultural goods and other products from developing countries, the developing countries could increase their revenue by at least US\$40 thousand million per year.

FURTHER DEVELOPMENT OF THE CLEAN DEVELOPMENT MECHANISM AND EMISSIONS TRADING

WBGU recommends that a positive decision be adopted as soon as possible on the eligibility of CDM emissions reductions in future Kyoto commitment periods. This would give investors planning security and thus ensure that investment flows are not jeopardized in the current commitment period. In a future expansion of emissions trading to include all newly industrializing and developing countries, emissions trading would replace the CDM and could thus

lead to a substantial transfer of financial resources to poorer countries. WBGU recommends that at the forthcoming negotiations, the German Federal Government press for the rapid integration of all states into a contraction and convergence regime.

ESTABLISHING A COMPENSATION FUND FOR CLIMATE DAMAGE

In addition to the provision of regular and more generous financial resources for the existing adaptation funds, WBGU recommends that polluters be required to make further payments into an international fund as compensation for the damage sustained by developing countries as a result of climate change. In principle, all countries should undertake payment commitments, which should be commensurate not only with their current emissions but also with their cumulative greenhouse gas emissions since the baseline year of 1990. Because it is impossible to predict future damage and its distribution with certainty, some measure of flexibility is required as regards the total resources available to the fund and the payments per tonne of CO₂ equivalent. Transparent rules should therefore be agreed so that the payment commitments can be adapted not only to the damage caused over time, but also to the countries' economic performance.

CREATING INSURANCE MARKETS AND EXPANDING MICROFINANCING

In order to reduce the vulnerability of the poor, WBGU recommends that development cooperation further increase its support for micro-credit schemes in developing countries. The launch of micro insurance schemes for the purpose of risk spreading in the event of individual hardship (e.g. illness) should also be considered as an element of risk management. Measures to develop and expand an international insurance fund to guard against damage caused by natural disasters, e.g. harvest losses, flooding or pests, should also be driven forward. WBGU also recommends exploring the extent to which weather derivatives, disaster loans and similar capital market products can be deployed and developed further in order to generate funding for this type of insurance scheme. At the G8 Summit in 2003, it was agreed that the introduction of insurance against hunger would be explored as an option. At the forthcoming G8 Summit, the German Federal Government should lobby for the continuation and expansion of this initiative.

BOOSTING OFFICIAL DEVELOPMENT ASSISTANCE

Official development assistance (ODA) is very important, particularly for the least developed countries. In WBGU's view, it is necessary to establish a binding timetable to achieve, at the least, the target

of spending 0.7 per cent of gross national income on ODA. Germany's announcement that it plans to allocate 0.33 per cent of gross national income to ODA in 2006, thus increasing its ODA to more than €7 thousand million annually, is a first step. As the next step, WBGU recommends an increase to 0.5 per cent by 2010.

WIDENING DEBT RELIEF

Further debt relief is essential to promote economic development in developing countries. WBGU endorses in principle an expansion of the HIPC Initiative to include heavily indebted middle-income countries. This would allow these countries to benefit from being released from a proportion, e.g. 10–20 per cent, of their debt. However, the expansion of debt relief cannot take place at the expense of other development financing: debt relief should not be factored into ODA, which is what often happens at present.

The G8 Summit in July 2005 will focus on, among other things, poverty reduction and climate protection. In this context, WBGU welcomes the British Government's announcement to cancel more of the poorest developing countries' debts. The German Federal Government should follow suit.

LEVYING USER CHARGES AND INTRODUCING NON-UTILIZATION OBLIGATION PAYMENTS

As recommended in earlier reports, user charges should be levied on aviation and the use of the seas. In addition, in order to protect environmental resources whose preservation is a common concern and responsibility of all humankind, but which cannot be defined as global public goods in the strict sense, a system of non-utilization obligation payments should be introduced.

problems of poverty and environmental degradation. With increasing resource consumption, worsening environmental damage and rising population figures, the scope for action is narrowing. WBGU therefore recommends that declarations of intent be followed by swift action and that the global partnership be taken seriously.

The governments of the developing countries have a responsibility to improve the performance, transparency and management of their public sectors, legal certainty for their citizens, and decision-makers' accountability. They should also boost poor people's entitlements and rights of participation and take seriously the environmental dimension of sustainability. Without fundamental economic, social and political reforms and a change of behaviour on the part of their elites in particular, the developing countries' efforts to free themselves from the all-pervasive problems of poverty, environmental degradation and violence are bound to fail.

For their part, the industrialized countries must change their consumption and production patterns at home while supporting viable modernization processes in developing countries. The present gap between the wealthy countries' rhetoric and their actual policies is undermining the developing countries' trust and confidence and impeding joint progress. The industrialized countries should honour the pledges that they have made: to open up their markets to products from the developing countries, to cancel the poorest countries' debt, and to provide more generous development assistance. At the very least, they should fulfil the voluntary commitments undertaken at the International Conference on Financing for Development in Monterrey.

Over the long term, an integrated approach which links poverty reduction and environmental policy affords major opportunities to the developing and industrialized countries alike.

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Breathing life into the Global Partnership for Environment and Development

The international community will only master the major challenges of environmental protection and poverty reduction if the industrialized and the developing countries embark on a new type of cooperation. A 'global partnership' was agreed at the Earth Summit in Rio de Janeiro in 1992 and, in the 2000 Millennium Declaration, was described by all the heads of state and government as one of the most important goals of international politics – although the environmental dimension was neglected in this context. To date, the partnership forged between the industrialized and developing countries has failed to develop the momentum necessary to resolve the key

