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### **Globalization and interdependence: role of the United Nations in promoting development in the context of globalization and interdependence**

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### **Report of the Secretary-General**

#### *Summary*

Over the past few decades, globalization has often been identified with opportunities for growth, innovation and business transformation. There were and still remain, however, serious imbalances in the distribution of its benefits, as well as its costs and adverse consequences. The food, fuel and climate change crises, along with the current financial and economic crisis exacerbate these inequities and jeopardize development gains. The poorest and most vulnerable populations of developing countries in particular are bearing the brunt of these crises, leading many to question globalization itself.

The current economic crisis is increasingly being seen as a crisis of globalization, and especially of financial globalization. Commodity prices and trade and investment flows have already declined as a result of the ongoing global financial and economic crisis. If aid flows also decline, the impact will be even more devastating for low-income countries and the poor.

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Nevertheless, the crisis also provides a rare opportunity for the international community to guide the world economy onto a path of sustainable economic growth and recovery by more effectively addressing the problems of food insecurity and climate change. This goal can be achieved through greater multilateralism and the equitable participation of all countries, both developed and developing. At a time when resources are scarce, innovative approaches to financing are needed to address the challenges of poverty reduction and sustainable economic development. These new methods need to be developed in a spirit of partnership, cooperation and solidarity, bearing in mind common interests and the national priorities of each country. As the main institution of inclusive multilateralism, the United Nations can play an important role in facilitating such efforts.

## I. Introduction

1. As requested by the General Assembly in its resolution 63/222, the present report addresses the role of the United Nations in poverty reduction and sustainable development, and presents an analysis of this issue in the context of the current global financial and economic crisis. It also provides an overview of the international economic and policy challenges for achieving equitable and inclusive sustained economic growth and sustainable development, and of the role of the United Nations in addressing these issues, as requested by the Assembly in its resolution 63/224.

2. Over the past decade or more globalization has often been associated with opportunities for growth, innovation, and business transformation. Characterized by the integration of economies in terms of not only goods, services and financial flows, but also ideas, information and technology, globalization has created unprecedented benefits, and adverse consequences, for many developing countries. The continuing challenge is to realize its potential benefits while minimizing the considerable risks and vulnerabilities that have been created in its wake. In the context of the current environment, beset by multiple crises (food, energy, climate change and financial), the challenge seems daunting.

3. Critics of globalization argue that it is the cause of the current financial collapse, growing inequality, unsustainable urbanization and development, unfair trade and insecurity. Its proponents, however, say that globalization is the solution to today's crises. In any case, it is clear that the new patterns of interdependence that lie at the core of globalization are here to stay. Some of the key drivers of globalization, trade and investment, have undoubtedly been negatively affected by the crisis. It is reassuring that Governments are developing effective responses and building political consensus at home to implement domestic measures to restore financial stability and stem rising unemployment. However, those who have benefited least from globalization are likely to bear the brunt of the crisis. Therefore, measures are needed to minimize its impact, especially on the most vulnerable. The current economic crisis is increasingly seen as a crisis of financial globalization, with serious repercussions on the recovery and future prosperity of the world economy. The crisis challenges advocates of globalization to show its positive impact on development.

4. The crisis has made it all too clear that globalization of trade and finance calls for global cooperation and well-coordinated regulatory measures. Moreover, unfettered markets and unregulated capital flows are not beneficial to developed countries. But resolving this and other multiple crises and avoiding similar events in the future has implications beyond the realm of banking and financial regulation, and goes to the heart of the question of how to revive and extend multilateralism in a globalizing world. In that regard, the United Nations must play a central role. With this in mind, the United Nations system agreed on a joint initiative in nine key areas: additional financing for the most vulnerable; food security; trade; a green economy initiative; a global jobs pact; social protection floors; humanitarian action, security and social stability; technology and innovation; and monitoring and analysis. This common commitment is designed to assist countries and the global community to confront the crises, accelerate recovery and build a fair and inclusive system of globalization based on sustainable economic, social and environmental development for all. Ultimately, national ownership of such initiatives is critical. It

is only through a strong political will and commitment that the international community can set the global economy on a path of sustainable economic recovery.

5. Section II of the present report highlights the main facets of globalization during the current economic crisis. Section III addresses the main challenges for poverty reduction in the context of the crises, while section IV highlights the need for the international community to shift towards sustainable development as part of efforts to urgently address the current challenges.

## **II. Globalization during the current economic crisis**

6. The global economic crisis is currently placing strains on the global trade and investment system. Trade and international investment did not cause the current crisis and cannot alone bring about economic recovery, but they are crucial for long-term sustainable development.

7. Trade has generated gains for many developing countries and the adverse effects of collapsing trade volumes on growth, employment and social welfare show both its importance and vulnerability in the current crisis. Estimates show that global trade is likely to fall by at least 9 to 10 per cent this year. For developing economies as a whole, and small and low-income developing countries in particular, this could be potentially disastrous as exports account for more than 50 per cent of their gross domestic product (GDP).

8. Developing countries will be disproportionately affected because of falling demand for both their commodities and their finished goods, negative commodity price trends and the inaccessibility and costs of trade financing. Export earnings and Government revenues will likely continue to be depressed in many countries, while remittances from wealthy countries are likely to shrink. Only some of the larger emerging economies may be in a position to insulate themselves from declining trade, owing to the size of their internal markets and their policies on capital accounts and banking regulation, which have thus far kept growth relatively buoyant. Therefore, recent developments put at risk the very benefits that trade has generated as an engine of growth.

9. The situation is further exacerbated by an increase in protectionist measures, which are likely to trigger reactions and risk causing a downward spiral of protectionist retaliation. For example, based on data from the World Trade Organization, the Economic and Social Commission for Asia and the Pacific estimates that a total of 62 trade measures were enacted by its member States between October 2008 and June 2009, of which 42 were restrictive and 20 were liberalizing measures. This trend is visible in both developed and developing countries. The latter are expected to suffer more from any surge in protectionism, because their exports are often particularly sensitive to protectionist actions and they generally lack the necessary safety nets to help those affected. The most recent report of the World Trade Organization on measures taken by its members indicate some further slippages towards more trade-restrictive actions, although more adverse protectionist measures have been contained thus far. Despite continued calls by the world's leading economies to avoid protectionism, there is no clear indication that Governments will unwind or remove recent protectionist measures.

10. The current rise in protectionism will deepen the crisis, impede global economic recovery and could severely affect future economic growth in developing countries. In addition, a surge in trade protectionism, especially in the form of increased non-tariff barriers, could take a very long time to dismantle and adversely affect world trade for years to come. The current economic crisis calls for globally and regionally coordinated policy responses. Declarations against protectionism have already been made by many countries, yet new protectionist measures continue to be adopted.

11. Thus, the recent commitment of the Group of Eight to conclude the Doha Round by the end of 2010 can be seen as a welcome indication of the growing resistance to protectionism and as a reiteration of the importance of multilaterally agreed trade rules and disciplines. Existing rules already recognize legitimate trade measures and actions; further strengthening those rules and placing development at their centre could be one of the most important collective actions Governments can take. An ambitious, balanced and development-oriented conclusion to the Doha Round ensures that the global trading system will remain open to support the development efforts of all countries. Agreement on a truly developmental Doha Round can help safeguard the multilateral trading system against protectionist impulses.

12. The effects of the crisis on the availability of liquidity and the subsequent supply of trade credit are well known. Banks and other credit providers are unable to supply sufficient credit at affordable rates that traders need. Many developing and least developed economies need aid for trade in order to remain competitive and to use trade as a tool for poverty reduction. More importantly, predictable, sustainable and non-debt-creating financing is needed. Since 2005, aid for trade has grown by 10 per cent a year, bringing total new commitments to more than \$25 billion in 2007. Non-concessional aid from international financial institutions adds another \$27 billion, more than doubling the 2007 figure. Recipients of aid for trade have clearly indicated that it is one of the most important multilateral instruments for helping developing countries to weather the crisis and emerge in a better position to take full advantage of trading opportunities.

13. There is, therefore, a clear need to build upon the progress made in aid for trade. In addition, despite current conditions, the international community should deliver on its commitments to increase technical, financial and political support for aid for trade and the enhanced integrated framework for least developed countries to help strengthen the trading and production capacities of developing countries. With aid for trade and a truly developmental Doha Round, the international community can count on having two effective, global tools to combat the negative effects of the crisis. Both stem from mutual interests and cooperation and provide a further opportunity to reinvigorate multilateral cooperation.

14. A rapid reversal of capital flows, together with the rising costs of borrowing and asset price deflation, has already struck some emerging markets, particularly those still holding large stocks of external debt, and is driving some to borrow again from international financial institutions. The United Nations Conference on Trade and Development (UNCTAD) estimates that the global economic turmoil has put an end to a four-year growth cycle in international investment flows: recent data show that foreign direct investment inflows fell by 54 per cent in the first quarter of 2009.

15. Moreover, the flow of worker remittances, an increasingly important source of foreign exchange for some countries, is expected to decline as employment prospects falter in the more advanced economies. Newly available data show that remittance flows to developing countries reached \$328 billion in 2008. The World Bank estimates that remittance flows to developing countries could decline by 7 to 10 per cent in 2009, with a possible recovery in 2010 and 2011.<sup>1</sup> Remittances are relatively resilient, however, while new migration flows have declined, the number of migrants living overseas has been relatively unaffected by the crisis. Moreover, migrants tend to remit more funds to support the families they leave behind in times of hardship. In other words, remittances generally have been found to be countercyclical, for example during the Asian crises in 1997 and 1998. But when migrants themselves lose their jobs in a global recession, remittances cannot be expected to play quite the same countercyclical role. Furthermore, there is a risk that aid commitments to the poorest countries will be curtailed in the wake of the slowdown and the consequent fiscal responses in donor countries. This would be devastating for most developing countries, in particular the least developed countries, landlocked developing countries and small island developing States.

16. Warning signs of the limits to globalization's developmental impact were evident even before the breakdown in credit flows and liquidity following the outbreak of the current crisis. Due attention should be paid to two key deficiencies of globalization in its current form: the inequitable distribution of its benefits and the lack of effective global governance. While its benefits have no doubt accrued to the few rather than to the vast majority, globalization, if better managed, may benefit the majority of the world's population and eradicate poverty. The crisis does not negate the potential benefits of globalization itself; rather, it presents the international community with an opportunity to orient the world towards a globally integrated economy that operates in a more equitable and resilient manner. This objective can be accomplished through greater multilateralism and cooperation among all countries.

### **III. Poverty reduction in the context of crises**

17. The social effects of the crisis, which are already disturbing, could worsen. With falling capital flows and declining trade, the negative impact on growth could reverse the progress made thus far, especially in developing countries. If urgent action is not taken, this situation could become devastating for the most vulnerable and voiceless, and lead to growing social insecurity and the displacement of people. The timely achievement of the Millennium Development Goals is at stake. In this regard, it is crucial that efforts be focused on ensuring productive and decent work for all and universal social protection against economic insecurity and vulnerability, especially among the poorest and the most vulnerable, and on overcoming challenges to food security and strengthening agriculture devoted to food production.

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<sup>1</sup> World Bank, Development Prospects Group, Migration and Remittances Team, *Migration and Development Brief 10* (July 2009).

## **A. Full and productive employment and decent work for all**

18. Paid employment may be the best route out of poverty. Yet employment is quickly becoming one of the main casualties of the crisis, given the global slowdown in investment, production, trade and other employment-intensive sectors, such as tourism. Faltering employment is becoming a major channel through which the crisis is being transmitted to households. Unemployment has risen rapidly since 2008 and is expected to worsen in 2009 and 2010. According to initial projections, some 50 million people will lose their jobs over the next two years, but as the situation continues to deteriorate, this number could easily double.<sup>2</sup> Moreover, the current crisis is expected to have a more negative impact on unemployment rates for women than on those for men in most regions of the world, particularly in Latin America and the Caribbean.<sup>3</sup>

19. The recent turmoil has presented a new set of challenges to most regions of the world by making it increasingly difficult to achieve progress towards more sustainable and socially equitable growth and decent work for all. Government spending is the most effective way to boost employment, production and aggregate demand in times of crisis. Some Governments have already begun to implement countercyclical fiscal measures, in the form of fiscal stimulus packages, which should be sufficiently large, targeted, sustained and coordinated. For instance, Government investment should: (a) first be targeted at employment-intensive areas, including infrastructure and services projects; and (b) actively support the integration of the jobless into the labour market through employment subsidies, job search assistance and training. Countries with less capacity, however, face more constraints in adopting countercyclical measures. Most developing countries have less fiscal space and as a result, external assistance becomes especially crucial for them.

20. The promotion of small and medium-sized enterprises in both developed and developing countries can help to generate employment and boost wealth creation. In addition to being a major driver of economic growth and job creation, a diversified range of such enterprises can build resilience in communities and economies through their ability to respond rapidly to changing opportunities in local, regional and global markets. Financial institutions must be encouraged and supported in efforts to refocus their lending to entrepreneurs on new productive and innovative undertakings, in particular through small and medium-sized enterprises. Coordinated global policy options are needed to strengthen national and international efforts to create jobs and ensure sustainable enterprises and quality public services. Global coordination can be attained through the United Nations Global Jobs Pact, which includes the Decent Work Agenda of the International Labour Organization (ILO).

## **B. Protecting the poorest and the most vulnerable**

21. Markets cannot exclusively be relied on to provide livelihood security. The insecurities generated by global competition, outsourcing, labour casualization, weakened job protection and recurring financial crises have given rise to strong

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<sup>2</sup> United Nations, *World Economic Situation and Prospects 2009: update as of mid-2009*.

<sup>3</sup> International Labour Organization, *Global Employment Trends for Women* (March 2009).

demands for State support for universal social protection. Social safety nets and social protection systems must complement active efforts to create productive and gainful employment. In times of recession, Governments often reduce spending on social services, in particular in the health and education sectors, which not only curbs progress towards achieving the Millennium Development Goals, but also plants the seeds of poverty for future generations, particularly if spending on child priorities is reduced.

22. Universal social protection schemes are increasingly viewed as an investment in human resources with the potential to promote growth and improve long-term poverty reduction rather than as a set of expensive, targeted interventions that create dependency. Evidence has shown that such measures can reduce economic insecurity and vulnerability, enhance household capacity to acquire food, improve child nutrition, use health services and keep children in school. The current crisis, as well as the recent food and energy crises, highlight the need to develop universal social protection schemes to enable the poor and the vulnerable to better weather macro- and micro-level shocks.

23. Most developing countries do not have social protection systems in place, however. Recent research surveying 144 developing countries showed that 19 of 49 low-income countries and 49 of 95 middle-income countries do not have established social safety net programmes, and only about one third of all countries surveyed had some form of cash transfer programme. The scarcity of well-designed basic social security packages for workers in the developing world is of particular concern, as some structures in the public sector are extremely weak.

24. In this regard, the international community could, for instance, promote and support the development of a social protection floor to protect people during and after crises. A social protection floor could consist of two main elements:

(a) *Essential services* to ensure the availability and continuity of public services (such as water and sanitation, health care, education and family-focused social support), and access to such services; and

(b) *Social transfers* to establish a basic set of essential social transfers, in cash and in kind, for the poor and the vulnerable, to enhance food security and nutrition and provide nutritional support for pregnant and lactating women; public food distribution systems for the poor and the vulnerable; subsidies for the types of grains and bread consumed by low-income populations; fee waivers; food-for-work programmes; and the provision of minimum income security and access to essential services, including education and health care.

25. At the country level, efforts to establish a social protection floor may also require the development of policies, based on key principles such as non-discrimination, gender equity and public participation, to uphold and protect the rights of those likely to be affected.

26. Social safety nets must ensure coverage for the most vulnerable groups, such as poor populations living in remote areas, migrants, workers in the informal economy, the working poor, children, women, youth and the elderly. During previous financial crises, declining Government spending on education and health care transferred the burden of service provision to households and communities, thus adding to the already heavy demands being made on women. Policy responses, therefore, must be focused on protecting women and girls in particular. Similarly,

children in general should also be given due attention. Evidence from previous crises shows that child mortality rates rose, school enrolment dropped and children were forced into dangerous work environments. Also, reductions in health care and education caused children and their families to fall into poverty. By maintaining critical services for children and focusing on the nutritional security of poor families, countries can limit the damage wrought by the current crisis and protect their most vulnerable citizens.

27. The impact of the current economic and financial crisis is multidimensional and the capacity of countries to respond differs greatly. Past crises, such as those involving food and fuel, have revealed a serious information gap between the point when vulnerable populations feel the impact of a crisis and when decision makers have access to reliable data to inform the difficult policy choices they must make. In responding to calls for the United Nations to assist in filling this gap, the Secretary-General has brought the United Nations system together to establish a lightly structured and flexible monitoring system, the Global Impact and Vulnerability Alert System, which can track in real time changes in vulnerability across multiple dimensions and help Member States mitigate the consequences of external shocks on their most vulnerable citizens.

### **C. Overcoming food insecurity and strengthening the agricultural sector**

28. Progress made in reducing poverty and hunger in developing countries is being set back. The number of people already suffering from chronic hunger has increased from 850 million in 2006 to around 1 billion in 2009.<sup>4</sup> In many countries, the middle class is being weakened. Vulnerable groups, such as children, women, youth, the elderly, migrants and people with disabilities, are hit the hardest. Yet, the current crisis also provides an opportunity for decision makers to design alternative solutions to overcome world hunger and achieve food security. Since three quarters of the world's poor depend directly or indirectly on agriculture (as small farmers, artisans, small entrepreneurs and rural workers), special attention should be paid to broad-based rural development. Although world food prices have fallen from their recent record highs, they remain elevated in many developing countries, where there is increasing evidence that the poor are adopting damaging coping strategies, which in turn affect the quality and quantity of food consumed, with attendant increases in malnutrition. Such adverse impacts affect long-term human development and tend to be disproportionately concentrated among women, children and other vulnerable groups.

29. If both the objectives of alleviating poverty and achieving food security are to be attained, policymakers will need firstly to invest heavily in agricultural and rural infrastructures, new irrigation techniques, best practices for land and water utilization and the revitalization of agricultural service institutions. Secondly, they will need to recognize the close linkage between food and fuel markets and policies, in terms of not only the cost of inputs for food production and transport, but also the impact of biofuel policy on the net availability of food. Thirdly, there is a continued need to invest in agriculture and develop sustainable rural livelihoods, which have

<sup>4</sup> Food and Agriculture Organization, *The State of Agricultural Commodity Markets 2009: High food prices and the food crisis – experiences and lessons learned* (Rome, 2009).

been declining in policy importance for decades. Lastly, the long-term challenge of ensuring food security is not only a matter of lowering prices and increasing supply, but also fundamentally linked to the quest to increase purchasing power and reduce poverty.

30. Hence, beyond the immediate objective of providing humanitarian relief in the countries most ill-equipped to weather the present crisis, national policymakers and the international community must critically address the broader and long-term challenge of reducing poverty and hunger. These issues highlight the need for better coordination across global, regional and national development partners. The Secretary-General's High-level Task Force on the Global Food Security Crisis and the Millennium Development Goal Africa Steering Group, for example, have framed a consensus among leading development agencies on the concrete actions needed to achieve food security and the Millennium Development Goals. In particular, the Task Force has set out seven areas for action to ensure food security:

- (a) Food assistance, including safety nets;
- (b) Nutrition programmes for children, mothers and vulnerable populations, including ready-to-use therapeutic foods, maternal nutrition, exclusive breastfeeding and food fortification;
- (c) Social protection systems for vulnerable populations;
- (d) Smallholder farmer food productivity, with a primary focus on women farmers, including through measures to increase access to land, credit and agricultural extension services, improve irrigation and rural infrastructure, develop risk-hedging mechanisms and increase agricultural diversification;
- (e) Agricultural sector development; infrastructure and trade and tax policies;
- (f) Information and management systems;
- (g) Advocacy for sufficient, sustained and predictable funding and sustained investments.

31. Under the Comprehensive Framework for Action set up by the High-level Task Force on the Global Food Security Crisis, an estimated additional \$25 to \$40 billion will have to be invested annually for food and nutrition security, social protection, agricultural and infrastructure development and the improved functioning of food markets. These important investments, combined with improved terms of trade for agricultural products, could provide the necessary incentives and help poor farmers to boost production and supply. For investments in agriculture to be fully realized, the public sector must play the leading role in ensuring the provision of adequate and appropriate agricultural infrastructure, rural credit, research, extension and even marketing services, in exceptional cases. In addition, Governments and the international community must support research and development in agriculture and extension services.

32. Private investment in agriculture requires accompanying public investment. For example, by integrating a fertile region, a public road makes private investments in that region more profitable. However, the growing level of private sector involvement in agricultural research and development in developed nations and the increasingly proprietary and competitive research environment have been driven by

the introduction of intellectual property rights protection for plant varieties and biotechnology products. Further, public-sector research expenditure has dropped considerably in both developed and developing countries, as has external assistance to agriculture, including official development assistance. In addition, a substantial amount of agricultural research and development may become less relevant to the requirements of developing countries and more geared towards the concerns of consumers in developed countries, such as food safety and environmental issues.

33. International research priorities need to be revisited, and participatory approaches to research, involving national, regional and international research institutions, as well as the private sector and farmers themselves, should be implemented. The rules that govern intellectual property may also need to be revised to improve equity, benefit the primary conservators of genetic resources and holders of traditional knowledge and encourage scientists to share their inventions for the public good. Differentiated rules for intellectual property rights may be needed within the World Trade Organization, at least in the short to medium term, to allow developing countries to establish the legal infrastructure needed to implement well-functioning intellectual property rights systems, and to ensure that developing countries have affordable access to new technology.

34. Despite the significant scientific and technological progress made in the ability to increase agricultural productivity, less attention has been paid to some of the unintended social and environmental consequences of the achievements. Successfully meeting development and sustainability goals will require a fundamental shift in science, technology, policies, institutions, capacity development and investment relating to agriculture. Increased attention should be directed to approaches for maintaining and restoring soil fertility and ensuring sustainable production through practices such as low-input, resource-conserving technologies. These technologies minimize the need for high levels of inputs and are socially appropriate approaches to small-scale agriculture. Organic agricultural systems, for example, are making a significant contribution to the reduction of food insecurity and poverty in some areas of Africa, and to improvements in rural livelihoods.<sup>5</sup> There is the potential to accomplish more in this area with enabling policy and institutional support, which calls for a shift of emphasis in research and science budgets, and for the creation of better linkages among scientists, farmers and agricultural training and extension providers.

#### **IV. Sustainable development in the context of crises**

35. The interrelated challenges presented by the food, fuel and economic crises are further complicated by the vagaries of climate change. Climate change is expected to exacerbate food insecurity and the fuel crisis, and will most adversely affect the poor. Even as global demand for natural resources continues to rise, climate change will impose new constraints on the availability of water and land, affecting agricultural productivity, fisheries and forestry, as well as the livelihoods of those dependent on them, while adding to upward pressure on food and natural resource prices.

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<sup>5</sup> United Nations Environment Programme-United Nations Conference on Trade and Development Capacity-building Task Force on Trade, Environment and Development, *Organic Agriculture and Food Security in Africa*, 2008.

36. Simultaneously, rapid urbanization has resulted in unplanned and unsustainable human settlements with changing lifestyles. Moreover, the global economy has adopted growth patterns that are driving our consumption of materials and energy beyond the limits of what is available on this planet. Many enterprises use more materials and energy than their production processes require. They continue to use obsolete, inefficient technologies and fail to adopt proper environmental management systems. This is especially true of small and medium-sized enterprises and industry in developing countries. These challenges will compromise the ability of developing countries to achieve the Millennium Development Goals.

## **A. Climate Change**

37. Addressing the climate change crisis while being mindful of the need for sustainable development and poverty eradication is crucial. This can be accomplished through the long-term management of economic and natural resources in a more inclusive and sustainable manner. Moreover, large and long-term investments will play a pivotal role in enabling economies at all levels of development to switch to low-emission, high-growth pathways. The current financial crisis provides an opportunity to fundamentally change patterns of economic development, investment and production, and international cooperation. Efforts should be made to identify new, sustainable development trajectories based on low-carbon, clean technologies with a large component of renewable energy sources. A shared vision, based on one of the essential principles of the United Nations Framework Convention on Climate Change — common but differentiated responsibilities and respective capabilities — must be the basis of any outcome reached at the United Nations Climate Change Conference in Copenhagen. Negotiating parties must show a clear and strong commitment to the overall objective of sustainable development and also address equity considerations, such as poverty reduction, and reach convergence in terms of income distribution and per capita emissions. Reaching a deal in Copenhagen will require not only political engagement at the highest level, but also public involvement from around the globe. Public support must be galvanized to ensure effective implementation of the agreed outcomes at all levels. To this end, the Secretary-General has demonstrated strong leadership by mobilizing the United Nations system to create a new global climate change advocacy and communications campaign in the run-up to Copenhagen. Having identified climate change as a defining issue of our time and recognizing the importance of political leadership at the highest level to ensure a fair, balanced and effective climate change agreement in Copenhagen, the Secretary-General has decided to host a Summit on Climate Change for Heads of State and Government on 22 September 2009. By convening this Summit, the Secretary-General expects that world leaders will seek to give political impetus and direction to the climate change negotiations by urging Heads of States and Government to commit to sealing a deal in Copenhagen.

38. Mitigating greenhouse gas emissions will require large and interconnected investments across several sectors, with the aim of halting deforestation and land degradation, retrofitting buildings to make them more energy efficient and redesigning transportation systems; but an alternative integrated strategy for meeting climate change and development goals will require an energy transition.

The ultimate goal of such a transition must be to improve energy efficiency and reduce reliance on fossil fuels, especially oil and coal, and to increase reliance on renewable sources of energy, especially wind and solar power, and advanced (non-food) biofuels.

39. Developed countries have mature economies in which there is adequate (and even excessive) availability of modern energy services. They do not need to a massively expand their energy infrastructure. However, lifestyle changes and sizeable investments will still be needed to turn their energy system away from its current dependence on fossil fuels and towards a complete decarbonization by the end of the century or earlier. Conversely, developing countries, are severely handicapped in terms of their insufficiently modern energy infrastructures and will require sustained large-scale investments in this sector to meet existing demand and promote economic development. Meeting these needs will require a major transformation in their economies and massive technology and financial transfers from developed countries.

40. Progress towards emission reductions has been disappointing, as developed countries have not complied with their mitigation targets, as agreed in the Kyoto Protocol. Developing countries will also need to limit the growth of their emissions in the future. The fact that many developing countries have already started doing so is encouraging. An investment “push” is needed to foster economic growth and obtain domestic resources in developing countries. In order to enhance predictability, funding must not be voluntary but be tied to agreed long-term commitments based on, for example, pro rata mechanisms (such as levied percentages of financial flows and mandatory contributions in relation to GDP). Wider-ranging options, which include taxes on capital flows, international transport, energy use or emissions, or on volumes of transactions in carbon markets, as well as permit-auctioning and other measures can generate considerable additional annual flows in the tens of billions of dollars.

41. Even if policymakers can quickly effect the transition to a low-emissions growth path, the unavoidable consequences of climate change, such as rising global temperatures, will generate serious environmental shocks and stresses through spreading drought conditions, rising sea levels, melting ice sheets and snow cover, and the occurrence of extreme weather events. In the coming decades, these phenomena will threaten and destroy livelihoods around the globe, in particular those of already vulnerable populations, including in developed countries. Adapting to climate change must be the central component of any comprehensive policy response to climate change.

42. The threats posed by climate change are particularly common in rural communities, where more than one third of the world’s households will be forced to confront the precariousness of their livelihoods. In this context, it is critical to enable vulnerable people to protect existing livelihood systems, diversify their sources of income, change their livelihood strategies or migrate, if this is the best option. Policies that can support vulnerable populations include: changing consumption patterns and food preparation practices; improving agricultural water management; promoting sustainable livestock management; practising conservation agriculture, applying new technologies and changing planting or sowing schedules; extending support services, particularly to smallholders; improving infrastructure

(such as roads, storage facilities and irrigation networks); and promoting agro-biodiversity.

43. Forests are a source of livelihood for close to 25 per cent of the world population, many of whom are threatened by climate change. Measures to help forests adapt to climate change include facilitating the adaptive capacity of tree species, mainly by maximizing silvicultural genetic variation, and adopting management approaches such as reduced-impact logging. More generally, investments in economic diversification and job creation, as well as improvements to land, soil and water management, will be part of a more integrated strategy.

44. A new, scientifically credible and forward-looking climate agreement would provide certainty and continuity to the carbon markets and send a clear signal that renewable energy will become an increasingly important component of the overall energy mix and a major contributor to the sustainable development agenda, including achieving the poverty-related Millennium Development Goals.

45. Some developing countries have begun to develop alternative policy frameworks through, for example, national adaptation plans. These have focused on climate-proofing infrastructure projects, such as transport and irrigation systems, enhancing disaster monitoring and management and improving land-use planning. However, difficulties in scaling up projects owing to funding and institutional shortcomings, as well as the failure to adopt a broader developmental approach, still need to be overcome. Moreover, achieving lasting success will be contingent on adopting effective development policies that more closely link adaptation to ongoing efforts to remove the existing vulnerabilities and constraints on growth and development.

46. For many developing countries, however, the core of adaptation is still closely tied to the need to diversify their economies and move beyond their reliance on a small number of activities, specifically those in the primary sector, which are sensitive to climatic shocks and changes. The Government of Mozambique, for example, has drawn up ambitious plans for the sustainable development of the coastal region, including infrastructure (transportation, drainage and water supply), land use changes and soft options to manage beach erosion. Such plans, which present unique opportunities for an infusion of massive development projects, need to address climate risks in an integrated manner, across seasonal, inter-annual and multi-decadal time scales.

47. The development of new low-emissions technologies will respond to supply-push (such as targeted cheap credit) and demand-pull (such as a policy-induced price of carbon) factors. The import of such technologies holds out the possibility of more vigorous improvements in energy efficiency, expanded shares of renewable energies, more natural gas and less coal and early deployment of carbon capture and storage. Investment in the sustainable energy market has in some ways defied the global recession, growing by around 5 per cent, from \$148 billion in 2007 to around \$155 billion globally in 2008. In particular, investment in new energy generation projects (wind, solar, biofuels, etc.) grew by 13 per cent during 2008, to \$117 billion. While this increase is welcome, a further scale-up of societal commitments to a more sustainable, low-carbon energy paradigm is essential. Moreover, redirecting fossil fuel subsidies to clean energy sources would boost the transition to low-emissions high growth.

48. Such transformational changes in the energy system require support from research and development, the removal of trade barriers and effective capacity-building. Centres for low-emissions technology innovation could play an important role. The combination of basic research, field trials, business incubator services, venture capital funding, technical advice and support, and policy and market analysis adopted will also be contingent on local conditions and challenges. In some cases, regional initiatives may be the best way to benefit from economies of scale and scope.

49. In the short and medium term, however, mitigating and adapting to climate change increase the cost of development. Perhaps as much as \$40 billion may be needed to make existing investments climate-proof, and the figure for ensuring resilience in the face of future developments will be much larger. United Nations Development Programme estimates suggest that this would require \$86 billion annually (by 2016) and failure to act quickly on mitigation will only add to that figure. Investment in mitigation to meet stabilization targets will be of a much higher order.

50. Financing these investments will be among the big constraints on the shift to low-emissions economies in most developing countries, particularly where domestic markets for low-emissions technologies are small. Developed countries must provide sufficient, predictable, secure and accessible financing, share technology and build capacity to support and enable the mitigation and adaptation efforts of developing countries.

## **B. A Global Sustainable New Deal**

51. While most attention is focused on climate change, the sustainability of economic growth and development is also threatened by the loss of forests and biodiversity, air and water pollution and degradation. A Global Sustainable New Deal could seek to establish a new public policy agenda aimed at placing countries on a different developmental pathway — one that protects the natural resource base in an equitable manner without compromising job creation and catch-up growth. Such a goal can be achieved only if Governments of rich and poor countries alike come together in collaborative initiatives. Such initiatives could be pursued, in part, by using the resources mobilized through the stimulus packages of developed countries. A reform of the multilateral financial and trading systems will also be needed over the medium term to support a more stable global economy and promote investment-led growth in a low-emissions economy. Over the longer term, that growth will be sustainable only if developing countries are able to mobilize sufficient domestic resources. Developing countries must also be able to acquire new technologies at an affordable price.

52. An investment of 1 per cent of global GDP (approximately \$750 billion, or one fourth of the total size of proposed fiscal stimulus packages) over the next two years could provide the critical mass of infrastructure needed to seed a significant greening of the global economy.<sup>6</sup> In major economies, fiscal stimulus packages should give priority to investments in sustainable transport, efficient energy,

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<sup>6</sup> United Nations Environment Programme, *Global Green New Deal — A Policy Brief*, March 2009.

renewable energy, afforestation and reforestation, sustainable agriculture and biodiversity protection. It is critical for developing countries to prepare fiscal stimulus packages as well. Investments in basic infrastructure can pave the way for sustainable growth and must be targeted at poor and vulnerable groups and regions. Many less developed countries will have to rely on foreign aid and support, both financial and non-financial (access to technology, for example), to set the stage for the development of sustainable economies.

53. The Green Economy Initiative launched by the United Nations responds to the prevailing development challenges and imbalances in growth strategies by motivating policymakers in all countries to give green investments sufficient space in their countercyclical policies. The three main objectives of the Initiative are to:

- (a) Make a major contribution to reviving the world economy, saving and creating jobs and protecting vulnerable groups;
- (b) Promote sustainable and inclusive growth and the achievement of the Millennium Development Goals, especially ending extreme poverty by 2015;
- (c) Reduce carbon dependency and ecosystem degradation.

54. The Green Economy Initiative will identify the trade-offs between green investments and business-as-usual scenarios, and suggest policy changes to support green investments. In the case of very poor economies, the Initiative will provide the means of understanding how green investments at the lowest economic scale can contribute to poverty reduction and identifying policy changes that can maximize both sustainability and poverty-reduction impacts. A sustainable economy should be accompanied by new skills training targeted at the poor as a means of further stimulating the economic, social and environmental dimensions.

55. In order for the combined challenges of development and climate change to be met, nothing less than a fundamental transformation as regards financial and technological support to developing countries is needed. Such a transformation would involve moving beyond the long-standing promises of such support from developed countries to a full-fledged strategy detailing how they will support the investments that developing countries would have to make to shift quickly to a low-emissions, high-growth path. A new focus on development is needed and the regime and governance mechanisms need to build appropriate linkages and processes around sustainable development at the international level, forged on inherent trust among developed and developing countries to ensure sustainable development.

## **1. New funding mechanisms**

56. The current investments in the global energy system are estimated at some \$500 billion per year. The sustainable scenario would require at least double this amount during the coming decades — about \$1 trillion per year or \$20 trillion by 2030. Financing the various challenges may therefore warrant making more radical changes in the existing international architecture. Some possible measures include:

- (a) *A global feed-in tariff regime.* Such a regime could provide guaranteed purchase prices to producers of renewable energy in developing countries over the next two decades;

(b) *A reformed Clean Development Mechanism.* Much attention has focused on reforming the Mechanism in such a way as to replace its project focus with a programmatic and/or policy focus, in the expectation of larger impacts, shorter funding cycles and lower transaction costs;

(c) *Forest-related financing mechanisms.* Several new financing initiatives have been launched to help reduce emissions from deforestation and forest degradation, including the World Bank Forest Carbon Partnership Facility and the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD Programme).

## 2. Technology transfer

57. Developing countries will need support in building their own technological capacity so as to ensure that they undergo a smooth transition to a low-emissions economy and maintain competitiveness in an open global economy. The supporting architecture could focus on:

(a) *A climate technology programme.* An operational programme, supported by a Secretariat and various panels of experts, needs to be established, possibly under the auspices of the Conference of the Parties to the United Nations Framework Convention on Climate Change to examine the various dimensions of the technology challenge in developing countries and, where appropriate, to provide technical assistance with respect to, inter alia, energy efficiency in buildings; greening industrial supply chains; deployment and maintenance of renewable energy infrastructure; integrated waste management; water and sanitation; and extension services to promote sustainable agriculture;

(b) *A global research, development and deployment fund.* In the world today, barely \$2 per person per year is invested in energy-related research, development and deployment activities. This amount needs to increase substantially to enable the transition towards new and advanced technologies in energy systems;

(c) *A balanced intellectual property regime for technology transfer.* The parties to the United Nations Framework Convention on Climate Change need to agree on the role of intellectual property in technology transfer. The flexibilities available within the framework of the Agreement on Trade-related Aspects of Intellectual Property Rights, such as compulsory licences, exceptions to patent rights, regulating voluntary licences and strict application of patentability criteria, are limited to specific circumstances and are usually more difficult to operationalize in developing countries. Options such as allowing developing countries to exclude critical sectors from patenting, as well as a global technology pool for climate change, merit serious consideration. In addition, modalities for access to publicly funded technologies by developing-country firms need to be explored.

## 3. Trade

58. As Governments are becoming serious about addressing climate change, the old trade and environment debates on how to distinguish between legitimate environmental and health protection measures as allowed under the rules of the World Trade Organization and disguised trade protectionism measures need to be revived. Because subsidies are and will continue to be used to support the

development of alternative energies, the issue of determining how to handle those subsidies and which ones are non-actionable under the rules of the World Trade Organization will also have to be addressed.

## **V. Recommendations**

59. **The current crisis is affecting all countries, both developed and developing, and has a serious and disproportionate impact on the poorest and most vulnerable. The very drivers of globalization, trade and capital flows, as well as knowledge and technology, have enabled the high rates of growth and development witnessed in many developing countries. For most of them, however, the global economic crisis threatens this progress.**

60. **Globalization must not be rejected, but rather better understood and managed for the benefit of developing countries. Evidence suggests that crises can also provide opportunities to ensure more equitable and sustainable development. This requires (a) global solutions that include developing countries in global decision-making processes, and (b) integrating the social and environmental dimensions into the economic and financial system. These challenges need to be addressed through a more inclusive multilateralism that delivers for developing and developed countries alike, while recognizing the special vulnerability of the poor.**

61. **The United Nations plays an essential role in helping to manage the various ramifications of the crises. It can ensure dialogue and enable a coordinated response based on an inclusive decision-making process. It also has the capacity to provide impartial analysis and pragmatic policy recommendations in this area.**

62. **In its responses to the crisis, the developed world must consider the impact of these responses on developing countries. Developing countries, for their part, need to implement policies that enable them to make their economies more robust. More importantly, countries are the main actors and the international community must offer its unwavering support through:**

(a) **Productive and timely decisions to reduce the asymmetries between developed and developing countries in undertaking necessary countercyclical policies and providing additional social protection;**

(b) **Improved policy coherence at global, regional and national levels is crucial. Stakeholders need to build on the current momentum of intensified multilateral cooperation to promote a fully inclusive framework of global governance;**

(c) **Strengthened capacity of Governments to design, finance and implement the right policies, while coordinating them with international partners. The multilateral system plays a central role in articulating and delivering a global and coherent response to the crisis, and in translating it into action at the country level. At the country level, international organizations should work together to take a joint and complementary approach to the crisis;**

(d) **Strengthened political commitment towards the timely achievement of the Millennium Development Goals through the implementation of the**

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**proposed joint initiatives by the United Nations system in response to the multiple, interrelated crises;**

**(e) A global consensus on the need to guard against protectionism and promote trade. A welcome sign of this would be a successful and balanced conclusion to the Doha Round of multilateral trade negotiations that places the needs of developing countries at its centre, and provides for complementary ongoing aid for trade measures;**

**(f) A successful outcome to the United Nations Climate Change Conference in December 2009 which also promotes the development aspirations of poorer countries;**

**(g) Enhanced cooperation at all levels to tackle issues surrounding food security, climate change and energy, including access to energy, energy diversification (including the development of renewables) and technology transfers.**

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