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This draft note has been prepared to facilitate the discussions on “PCD in a post-2015 setting; Defining key objectives for PCD” at the Meeting of the National Focal Points for Policy Coherence for Development to be held on 13 June 2013.

**The OECD’s contribution on policy coherence for development to the post-2015 framework:
Shaping coherent and collective action to create enabling environments conducive to development**

[Key points]

- The effective attainment of global development goals in the post-2015 framework, as well as the creation of enabling environments conducive to development, will require greater policy coherence at the national, regional, and global levels.
- An updated and broader approach to PCD, based on collective action, shared responsibilities and mutual benefits, is critical to deal with systemic conditions that constrain development and growth, such as barriers to trade, markets knowledge and technology; capital and brain drain; climate instability; among others. This is also critical to respond to new global realities.
- Greater coherence between different policies in the economic, social, environmental, legal and political domains, will help to provide the framework conditions to ensure transformations that result in development and inclusive sustainable growth.

[Introduction]

This document proposes an updated, broader, and proactive approach to Policy Coherence for Development (PCD), which should be based on collective action, shared responsibilities and mutual benefits, as a means to achieve existing and future global development goals. It provides the rationale and highlights key elements to be considered for fostering PCD in a post-2015 framework, and explains how the OECD can contribute to improving policy coherence for development.

PCD in the post-2015 development agenda could be framed as a global policy tool that facilitates collective action and helps any country, at any level of development, to: 1) address systemic conditions that constrain development; and 2) capitalise on the potential synergies between economic, social and environmental policy areas to foster enabling environments conducive to development.

Box 1. A broader approach to PCD

PCD is a process to integrate the development dimension at all stages of policy making, based on a holistic perspective. Its main objectives are to:

- 1) Increase governments’ capacities to balance divergent policy objectives, and help them to reconcile domestic policy objectives with broader international or global objectives;
- 2) Exploit the potential of positive synergies across different policy areas, such as trade, investment, agriculture, health, education, environment, migration, energy, science and technology, development co-operation, among others, to foster positive effects on development; and
- 3) Avoid or minimise spillover effects and impacts of policies that adversely affect the development prospects of developing countries.

PCD entails concerted efforts to ensure that the interactions between different policies in the economic, social, environmental, legal and political domains, provide the conditions to ensure the transformations that countries require for inclusive sustainable growth.

Why is a broader approach to PCD needed?

The OECD proposes a broader approach to respond to the new global realities. The world has changed profoundly since the early 1990s when the notion of PCD emerged in a context of a growing international concern with aid effectiveness. In 1996 the donor community committed to “achieve coherence between aid policies and other policies which impact on developing countries”. Since then, efforts on PCD have been mainly focused on developing institutional mechanisms at the donor country level as a means to foster "whole of government approaches" to policy-making and integrate the development perspective in designing and implementing national policies. PCD has been considered as a main responsibility for donor countries.

The MDG8 further legitimised this perspective. It defined different areas (e.g. reducing the barriers to trade, easing the debt burden; facilitate access to new technologies, etc.) to foster greater coherence for development within the international co-operation framework where the donor community, rather than both donors and partners collectively, had the primary responsibility. One of the weaknesses of MDG8 therefore, according to the UN System Task Team on the Post-2015 UN Development Agenda, was that it did not foster a true global partnership and did not move away from the traditional “donor-recipient’ paradigm.¹ That is the background to proposing a broader approach to PCD.

Although it is increasingly recognised that institutional practices and mechanisms for promoting PCD are necessary to raise awareness and build efficient decision-making in donor countries, they are not sufficient to deliver more coherent policies in practice. Achieving global development goals requires collective action and a strong partnership involving multiple stakeholders, based on mutual benefits and shared responsibilities among all countries. Some aspects seem to be limiting progress:

- *A strong donor focus.* Dialogue on PCD up until now has been carried out mainly among the donor community. There is a need for a more systematic and inclusive dialogue on PCD among advanced, emerging and developing countries as well as other key stakeholders, including civil society and the private sector. This is essential to better understand the impact of policies and trade-offs; and to generate the evidence-base needed to convince decision makers to reform policies that generate negative spillover effects on development.
- *A strong emphasis on incoherencies.* Efforts have focused on minimising the potential negative impacts of non-aid policies and have adopted a "do no harm" approach. This approach makes an engagement of other policy communities beyond the development community difficult. A more proactive PCD narrative around the idea of shared interests and responsibilities, and with emphasis on synergies and win-win scenarios among different actors and stakeholders, can help build the necessary political commitment to PCD across national governments institutions and other key stakeholders, such as the private sector.
- *A predominant sector-by-sector approach.* PCD analyses have been carried out mainly on a sector by sector basis. Ongoing structural transformations of the global economy, as well as the attainment of global development goals, require cross-sectoral approaches to better inform policy-making and to address the multiple dimensions of development challenges. For example, there may be a need to rethink PCD assumptions about key issues, cause and effect chains and shared responsibilities in a more complex context where multiplying regional and global value chains (GVCs) are changing the patterns of international trade and have effects on a wide range of policy domains, such as competitiveness, skills, access to markets and the role of capital, among others.
- *Unclear objectives and limited monitoring tools.* PCD is not an objective in itself. It is a means to achieve development objectives. To make progress on PCD there is a need for identifying and setting concrete objectives to guide coherent action. Focusing on common challenges would

¹ UN System Task Team on the Post-2015 UN Development Agenda (2013), “Assessment of the MDG8 and lessons learnt. Thematic Think Piece”. New York.

facilitate collective action as well as assessment of progress, such as looking at how coherence can improve framework conditions for achieving food security or reducing illicit financial flows.

What are the components of a broader approach to PCD in a post 2015 framework?

The main components of a broader approach are: *a)* collective action, shared responsibilities and mutual benefits; *b)* multiple levels of coherence (national, regional, global, as well as in advanced, emerging and developing countries); *c)* multi-stakeholder involvement and inclusive policy dialogue; and *d)* a greater focus on fostering positive synergies among policies that help create enabling environments that support the transformations needed for sustainable inclusive growth and development.

Sustainable inclusive growth and development requires fundamental transformations in economy and society. The realisation of such transformations requires both national and global environments conducive to development consisting of policies that foster conditions for, for example, open and fair trade, productive investments, good governance based on the rule of law, effective tax systems, access to quality health and education, inclusive social protection systems, etc. This also requires evidence based analysis, policy dialogue and tools to identify the barriers to, and the catalysts for, change; and to build synergies across key sectors.

The post-2015 development framework, without being prescriptive, could provide the basis to guide a broader approach to policy coherence for development. A broader approach to PCD can play an important role as a means to foster “development enablers” (e.g. open and fair trading system, access to knowledge, innovation and technology; adequate and predictable financing for development). It can also help to identify ways of managing potential “disablers” (e.g. environmental factors, protectionism, conflict and stability, etc.) which might hinder countries’ capacity to achieve their development objectives.² A broader approach to PCD in a post 2015 framework should take into account that:

- *PCD operates in a multi-polar global economy in which all countries are playing a role in driving global growth and development.* Over the last two decades new poles of growth have emerged moving the centre of gravity of global economic activity towards East and South. Since 2003, more than half of the world’s growth has occurred in these areas at rates that surpass the OECD average. Developing countries, particularly emerging economies, play an increasingly important role in international finance, trade, innovation and development co-operation. “South-South” trade has multiplied more than ten times over the last two decades, changing the patterns in global value chains. Developing economies are fast becoming the main drivers of global saving and investment trends, and by 2030, according to some estimates, will account for more than 60 cents of every dollar invested and 62 of every dollar saved.
- *Greater connections call for greater coherence.* In an increasingly interconnected global economy, policies implemented by both advanced and emerging economies can have a global reach and influence the growth and development prospects of lower-income countries. Neglecting the international spill-over effects of domestic policies can undermine the attainment of global development goals and the effectiveness of international co-operation efforts. For example, during the 2007–2008 food price crisis, export restrictions were applied by a range of countries, which exacerbated the crisis and placed a specific burden on some developing countries that could not source imports.
- *Challenges in an interconnected economy are global and require sustained political commitment and coordinated responses.* Crises in the last decade – financial, economic, food, fuel – as well as greater interconnectedness between different economies have further shown that development challenges are

² As highlighted by the report *Realizing the Future We Want For All* prepared by the UN System Task Team on the Post-2015 UN Development Agenda, an effective implementation of the post-2015 development framework will require a high degree of policy coherence at multiple levels (global, regional, national and sub-national). A core set of “development enablers”, such as fair and stable global trading system, stable financial systems, sustainable food and nutrition security, sustainable use of natural resources, coherent global governance mechanism, among others, could be identified as a guide for such policy coherence.

increasing in complexity and have implications for all. Development, mutually beneficial trade policies, food security, fighting corruption, among others are policy coherence issues that have been taken up by the G20. A similar trend is seen in the post-2015 process. This calls for a greater involvement of the Centre of Government – which carries the primary responsibility for overseeing the policy making process and ensuring policy consistency – for mobilising commitment and collective action to support policy reforms and contribute to advance key international agendas.

- *There is a need to address opportunities and challenges emerging from global trends such as shifting wealth.* Opportunities include the potential for new sources of growth, taking into account the expectations of an emerging global middle class which is projected to exceed more than 3 billion in 2030. Challenges include growing inequalities and a new geography of poverty. These trends highlight the important role of domestic institutions and coherent and coordinated policy making in key areas such as fiscal and tax design, employment, social protection, education, gender and migration, among others. A broader approach to PCD is key. It should cut across different policy domains, that connects diverse stakeholders and actors and that monitor changes in policies and effects.
- *Mutually supportive policies are critical to generate greater positive impact on development.* This is key to unleash the development potential of countries and help them transition away from aid dependence. As highlighted in Busan “it is essential to examine the interdependence and coherence of all public policies – not just development policies – to enable countries to make full use of the opportunities presented by international investment and trade”.³
- *Coherence is also relevant for developing countries.* PCD also has a domestic dimension. It can better inform decision-making to avoid contradicting policies and generate greater positive impact on development and growth. OECD simulations show, for example, that if developing countries reduce tariffs on “South-South trade” to the levels applied between advanced economies, they could secure a welfare gain of up to USD 59 billion. Another example is the costs and trade-offs involved in high levels of fossil fuel subsidies. Subsidies in developing countries were nearly six times higher than in OECD countries (amounting to around \$433 billion). OECD analysis concludes that a reform of government support for fossil fuel subsidies could reduce global GHG emissions by 6% by 2050 compared with business as usual.

How can the OECD contribute to the Post-2015 PCD agenda?

The OECD can contribute to the Post-2015 PCD agenda by making best use of its ability to analyse cross-sectoral linkages between policies to address the economic, social and environmental dimensions of development. The Organisation brings together expertise in all these areas of public policy. The OECD’s work draws on the collective wisdom of a growing membership and a wide range of partner countries; the various policy communities represented in its committees; its multidisciplinary and longstanding development expertise; and its extensive collaborative networks with other international and regional organisations. Several areas of work and expertise of OECD can help to shape coherent policy action. These include:

- *Broader approaches to PCD to better inform policy-making in addressing key challenges.* The OECD Strategy on Development is exploring how broader approaches to PCD can better inform policymaking in addressing challenges which need to be addressed in a comprehensive manner, such as global food security and illicit financial flows and identify priority areas for action at national and global levels to create enabling environments conducive to development (Box 2).
- *Policy tools to foster PCD.* The OECD is developing broader tools, such as a self-assessment PCD toolkit with modules on agriculture, environment, fisheries and assessment methodologies. It is currently being piloted by Finland in the area of food security. The Organisation has launched an international

³ Paragraph 9 of the outcome document of the 4th High Level Forum on Aid Effectiveness, Busan, 2011: “Busan Partnership for Effective Development Co-operation”.

web-based PCD Platform to provide a dedicated space to foster open and inclusive dialogue and knowledge sharing with key stakeholders. It is also working with partner institutions to develop a framework to monitor progress on countries' efforts to implement policies that are conducive to development.

- *Ability to apply an economic perspective to the cost of incoherence and the benefits of coherence.* OECD's multidisciplinary expertise can help to adopt a more integrated and coherent approach to interlinked policy challenges. It can help identify the costs and unintended effects of diverse policy choices as well as trade-offs and synergies between them.
- *Enhancing evidence-based policy making and capabilities to deal with global coherence issues.* The global crises in the last decade – financial, economic, food, fuel – have highlighted fundamental weaknesses which require coherence at global level to address inconsistencies between different regimes and international frameworks (world trade, financial, environmental protection, migration), and ensure well-functioning global systems. Policy makers have to address challenges not only at the local or national level, but also at the regional or global level. They have to address global trends such as shifting wealth, population ageing, migration and other demographic changes, growing natural resource scarcity and environmental challenges, among others, and create the conditions to ensure inclusive sustainable growth. The OECD is working to understand better these challenges and new realities. Some areas of OECD work which are relevant for enhancing coherence at the global level and address key emerging issues, include:
 - The New Approaches to Economic Challenges Initiative (NAEC) which aims to develop a strategic policy agenda for inclusive sustainable growth;
 - The OECD initiatives to better respond to interconnected policy challenges, such as the Green Growth, Innovation and Skills strategies as well as the Gender and Better Life initiatives;
 - OECD's work on: Global Value Chains (GVCs) and Trade in Value Added which aims to help policy makers to understand the effects of GVCs on a number of policy domains;
 - OECD's work on Investment for Development, which aims to enhance the contribution of international investment to growth and sustainable development;
 - Work on Tax and Development which helps creating an enhanced enabling environment to assist developing countries collect taxes effectively and fairly.

Box 2. Applying a broader PCD lens to key challenges

PCD and Global food security

Global food security is a key issue where a broader approach to PCD is necessary. It requires action by advanced economies, by emerging and developing countries, and at the global level. The challenges include amongst others: raising the incomes of the poor; improving agriculture productivity as well as research and innovation systems; reducing waste; reconciling increased agricultural productivity with other potentially competing objectives and constraints, such as bioenergy, water scarcity, climate change; facilitating and increasing trade; and creating enabling environments for investment by removing barriers and incoherent policies. PCD can be used to address these interlinked challenges and create key success factors for effective development and food security processes. OECD work on this issue suggests ways in which PCD at different levels (at the level of advanced, emerging and developing economies as well as globally) can contribute to improved global food and nutrition security and ultimately to the transformation process itself. It offers policy recommendations in three areas:

- Specific reforms in advanced economies, in terms of avoiding policies that create negative spillovers (such as trade distortions and biofuel mandates) and adopting beneficial policies, including sharing knowledge (for example, in research and development, or in the design of risk management tools).
- How coherence in developing countries can contribute to food security efforts and allow them to take advantage of the international climate. The aim is not to produce country-specific prescriptions, but to clarify more broadly how the preferred policy mix is likely to vary according to a country's level of economic development and its structural circumstances, including its comparative advantage in agricultural activities.

- where coherent and co-ordinated action at the global level can contribute to create enabling environments that are conducive to food security.

Curbing illicit financial flows

Every year huge sums of money are transferred out of developing countries illegally. Illicit financial flows (IFFs) are often cited as outstripping ODA and inward investments. The most immediate impact of such illicit flows is a reduction in domestic public and private expenditure and investment, which means fewer jobs, hospitals, schools and less infrastructure—and ultimately less development. Since some of these illicit funds find their way into OECD countries, the strength of OECD systems to prevent, detect and return funds is an important element of fighting illicit flows. The issue of illicit flows is on the agenda of the G20 and the G8 and various elements of it are enshrined in UN instruments, such as the United Nations Convention Against Corruption (UNCAC). The particular importance for developing countries was recognized by leaders at the High Level Forum on Aid Effectiveness in Busan.

OECD work on this area provides information on how OECD countries are performing on various elements of the IFF agenda. It focuses on (i) tax evasion (ii) money laundering (iii) trade mispricing (iv) bribery and corruption (v) stolen asset recovery and (vi) how development agencies can support the IFF agenda further.

Combating illicit flows requires concerted action both in developing and OECD countries and a whole of government approach. To promote these objectives the OECD launched the Oslo Dialogue in 2011. This work urges both OECD and developing countries to improve cooperation amongst domestic agencies in the fight against financial crime.

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