Policy Brief

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

OECD

Policy Coherence for Development – Lessons Learned

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Introduction

The prospects for developing countries are shaped by a wide range of issues. Domestic questions of governance and politics are important, but there are also a number of externally-driven issues. Aid is one, but there are many more. As a result of globalisation, "beyond aid" issues such as trade, migration, investment, climate change, security and technology play an increasingly important role in shaping the prospects of developing countries.

Globalisation also creates a demand for harmonisation of standards in areas not directly related to development, such as food safety and banking regulation. These policies can have a profound global impact on the economy and on financial systems, creating a need for policy co-ordination across a broader range of policies and institutions. Global interdependence means that there are hardly any issues that can or should be treated in isolation.

To ensure that "beyond aid" issues deliver for development, progress is needed on two fronts. Firstly, developing countries need to engage more effectively with "beyond aid" issues by putting in place appropriate, country-specific policies and institutions. Secondly, developed countries need to ensure that their "beyond aid" policies support, or at least do not undermine, progress towards internationally-agreed development goals, including the Millennium Development Goals (MDGs). Urging developing country farmers to export to world markets while limiting their access to these markets, for example, clearly makes no sense. This has been the focus of the OECD's agenda on policy coherence for development (PCD). But, what progress has been made and what can be done to accelerate the process?

This *Policy Brief* focuses on the steps needed to make progress in promoting coherence for development in OECD country policies. The Brief is based on a synthesis of OECD/DAC peer reviews 2003-2007, prepared jointly by OECD and the Overseas Development Institute (ODI)/Institute for Public Policy Research (ippr). ∎

Observer

Why is policy coherence for development important?

Governments in the developed world, as elsewhere, pursue many objectives. Elections are won by focusing on issues that appeal to domestic constituencies and interests. As a result, the interests of developing countries are often poorly represented. Defending and promoting national interests and reducing global poverty may, in the short term, appear to be competing or even contradictory aims. But in a world where the impacts of events that take place in developing countries are felt far beyond their borders, neglecting development may undermine the pursuit of other objectives. As the latest OECD Development Co-operation Report puts it, "all countries have a common interest in developing countries achieving sustainable and broad-based development". Progress towards policies that are more coherent and supportive of development is an important part of this process, in addition to being part of the commitment by governments to MDG8 – building a global development partnership.

Governments in the developed world are increasingly aware of the relevance of PCD. Efforts are being made to promote PCD and development-friendly policies on a number of issues with important cross-border dimensions (see Table 1). However, examples of incoherence are also easy to find. Policies on agricultural trade are, perhaps, the most glaring. The fact that OECD countries provide agricultural subsidies to their farmers, while developing countries are encouraged to export agricultural produce to world markets, makes little economic sense. Migration is another case in point. Remittances sent home by migrants are welcomed by developing countries, but at the same time policies promoting the migration of skilled health professionals to the developed world may result in brain drain and reduce the impact of aid spent on health systems in those same developing countries. ∎

What institutional structures are needed?

Progress towards policy coherence can be seen as a three-phase cycle, with each phase supported by a policy "building block" (see Figure 1). All building blocks need to be in place for a country to make good and sustained progress

Table 1.

SOME EXAMPLES OF PCD IN PRACTICE

Cross-border issue	Aim	Challenges	Mechanisms
Trade (including agricultural trade)	Enable developing countries to benefit from trade	Trade-distorting domestic support, trade barriers, market access	WTO "Development Round", aid for trade, trade impact assessment
Migration	Enhance income and employment opportunities	Political sensitivities about immigration; reconciling interests of origin and destination countries, integration *vs.* return	Codes of conduct for the recruitment of health-workers and teachers, partnership agreements, dual citizen ships, portable social rights
Investment	Increase employment, living standards, and national competitiveness	Addressing structural impediments to more private sector investment (*e.g.* inadequate infrastructure)	Policy Framework for Investment; United Nations Global Compact; OECD Guidelines for Multinational Enterprises; International investment agreements; policy tools in support of public-private partnerships

towards policy coherence. At the same time there is no "one size fits all" recipe for promoting PCD. And the three phases do not have to proceed at the same speed; in some countries, for example, co-ordination may well be more advanced than one would expect from the level of political commitment to PCD. Development needs to be given sufficient weight at each phase of the cycle to achieve progress in PCD. Whether or not sufficient weight is given to development at each phase is largely a question of political decisions.

Phase One in the cycle involves setting policy objectives and determining which objective takes priority if there are incompatibilities between policies. The building block is political commitment expressed at the highest levels and backed by policies that translate commitment into action. Commitment to PCD also entails working with civil society to raise public awareness for PCD to sustain broader support.

Phase Two is policy co-ordination. It involves working out how policies, or the way they are implemented, can be modified to maximise synergies and minimise incoherence. These co-ordination mechanisms should enable conflicts or inconsistencies between policies to be resolved, and the complex politics of policy processes to be navigated.

Phase Three is effective systems for monitoring, analysis and reporting. It involves monitoring, to collect evidence about the impact of policies; analysis to make sense of the data collected; and reporting back to parliament and the public. This phase provides the evidence base for accountability and for well-informed policy-making and politics.

Governments in the developed world, particularly in Northern Europe, have made progress in putting in place the building blocks for PCD. For many countries, however, progress on PCD has been mixed. ■

Table 1. (cont.)

SOME EXAMPLES OF PCD IN PRACTICE

Cross-border issue	Aim	Challenges	Mechanisms
Environment, including climate change	Limit, and enable developing countries to adapt to, environmental change	Dependence on fossil fuels; unsustainable consumption practices	international climate change negotiations, environmental impact assessments, regulation of international timber trade
Security	Enable developing countries to avoid conflict and insecurity	Shifting priorities, understanding development – security nexus, regulating international arms trade	OECD Handbook on security system reforms and work on Armed Violence Reduction, EU code of conduct on strategic (arms) exports, International Arms Trade Treaty
Technology	Enable developing countries to make use of appropriate technologies	Lack of incentives for firms to invest in research and development in relation to products destined for developing country markets	Bilateral and international regimes for intellectual property rights, including in relation to generic medicines; regulation of genetically-modified organisms; support for research and development

Is there enough political commitment to PCD?

Progress on PCD starts with political commitment that is translated into clear, prioritised and coherent policies and a whole-of-government approach to development. All members of the OECD Development Assistance Committee (OECD-DAC) are in principle and on paper committed to development, but some members – including Greece, Italy, Japan and Portugal – had not yet made a specific commitment to PCD at the time of their most recent OECD-DAC Peer Review of their development policies.

More promisingly, the European Union (EU), the Netherlands and Sweden have given PCD a central place in a cross-governmental approach to international development. In the Netherlands, a 2003 policy statement on "mutual interests, mutual responsibilities" stressed that effective development co-operation requires an integrated and coherent policy framework covering diplomacy, political dialogue, security, trade, market access and aid.

For the EU – building on the Maastricht Treaty's principles of coherence, complementarity and co-ordination – the 2005 European Consensus on Development makes a specific commitment to PCD, requiring policies in all areas to take account of development objectives.

In 2003, the Swedish Parliament endorsed the Policy for Global Development, making equitable and sustainable development the shared responsibility of all ministries and placing PCD at the centre of Swedish development policy. Under the Policy for Global Development, ministers with responsibility for domestic issues, as well as those covering international issues, must ensure that their policies take account of development. The entry of this policy into law followed extensive public outreach and awareness-raising to generate support. ∎

Are effective policy co-ordination mechanisms in place?

Members of the OECD-DAC have made varying degrees of progress in putting into place the necessary policy co-ordination mechanisms that take account of development interests, with Canada and the US, along with a number of other countries, occupying the middle ground. For some countries, such

Figure 1.

THE POLICY COHERENCE CYCLE
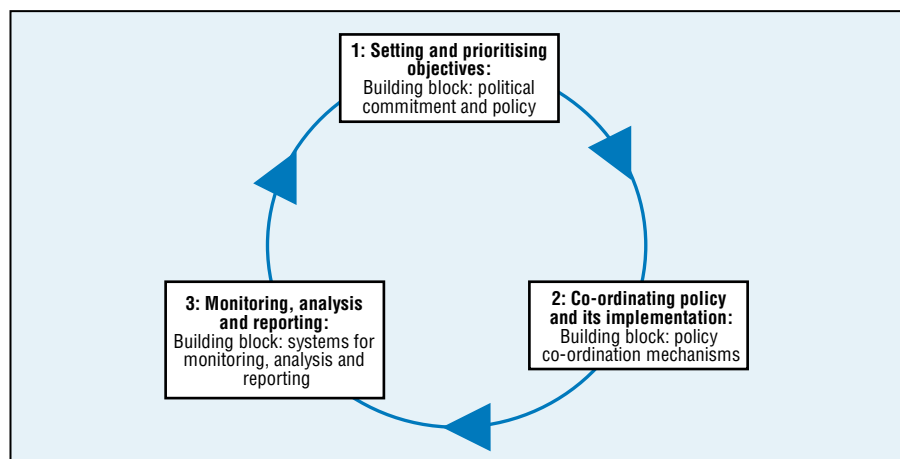
as Ireland and New Zealand, with compact governments and short lines of communication, informal mechanisms have tended to be seen as sufficient. For others, including Denmark and the UK – two countries that have made reasonable progress overall on PCD – policy co-ordination has been dealt with on an issue-by-issue basis, with, for instance, the UK paying particular attention to trade, debt and conflict.

Other countries have created innovative formal mechanisms, in addition to the Cabinet and Inter-Ministerial Committees that are the standard approach to policy co-ordination. Germany requires that legislative proposals are screened for their development implications, and Sweden, Finland and the Netherlands have established clear focal points with lead responsibility for PCD.

In 2002, the Netherlands established a dedicated Policy Coherence Unit, formalising the previously *ad hoc* approach to PCD. The Policy Coherence Unit covers all three phases of the policy coherence cycle. Its work includes co-ordinating the positions of various ministries on PCD-related issues and ensuring that the Netherlands' positions in EU meetings take account of development impacts. The Policy Coherence Unit provides a clear focus for PCD work and policy co-ordination, enabling the Ministry for Foreign Affairs to work proactively and intensively on coherence. ■

Is there enough monitoring, evaluation and reporting?

It is when we come to Phase Three of the policy coherence cycle – monitoring, analysis and reporting – that we find the greatest weakness among OECD-DAC members. Many countries, such as Belgium, Greece, Italy, Japan, Norway and Spain, were found, at the time of their most recent peer review, to lack analytical capacity, or were failing to make good use of their analytical capacity. This applies also to countries that are at the forefront of progress on PCD. For instance, the latest peer review of the UK's development policy notes that more progress is needed in recognising, understanding, specifying and assessing policy coherence issues, while that for Germany reports that monitoring and reporting on policy coherence has yet to become explicit and systematic. However, there are signs of progress. In Sweden, Finland and the UK, there is now a requirement that the Government report annually to parliament on PCD.

The EU is also making progress. In 2007, the European Commission produced its first biennial report on PCD. The report – designed to inform the PCD debate and to serve as a public information tool – assesses the efforts of EU member states to enhance PCD at an EU level, at national level, and in terms of specific issues. The issue-specific element focuses on the policies and policy processes of member states on 12 priority areas: trade; environment; climate change; security; agriculture; fisheries; the social dimension of globalisation, employment and decent work; migration; research and innovation; the information society; transport; and energy. The report is based on data provided by member states themselves and is rather limited in terms of analysis of impacts, but provides a good basis on which the EU can build. ■

Where do we go from here?

Progress on PCD is about the interplay of politics, institutions and evidence. It means that governments should generate the necessary support for sustained political commitment; establish co-ordination mechanisms to co-ordinate progress and ensure that development interests are well-represented; and invest in effective systems for monitoring and analysis, with transparent reporting on results.

The OECD Synthesis Report on PCD identified nine lessons learned based on the DAC peer review recommendations from 2003 to 2007 (see Box 1). These lessons provide an evidence-based approach to dealing with PCD, summarising the common understanding and recommendations of the DAC members on how to promote PCD.

The progress made by OECD-DAC members on PCD has been mixed. This is, in part, because development is not at the top of the agenda for most governments or people in the developed world. But it is also due to the lack of persuasive evidence about the benefits of coherence, the costs of incoherence and the results of putting the various building blocks in place. With better evidence, the balance of political interests and forces could shift to give development and PCD a higher priority.

OECD work on PCD has highlighted the lack of attention given to collecting relevant data. A 2007 progress report on PCD, for example, noted that, "the work done so far suggests that we need to enhance identification of best institutional practices on how to achieve PCD and to assess more systematically the impact of policy coherence for development – and the costs of incoherence – in reducing poverty and supporting sustainable growth".

Generating better evidence to achieve progress in PCD requires that the OECD, its members, and others, focus more on analysing specific issues through a PCD lens. A focus on particular issues might make it possible to

Box 1.

LESSONS LEARNED FROM OECD PEER REVIEWS

Phase One: Setting and prioritising objectives – requires political commitment and policy statements

> **Lesson 1:** Educate and engage the public, working with civil society, research organisations and partner countries, to raise awareness and build support for PCD, on a long-term basis.

> **Lesson 2:** Make public commitments to PCD, endorsed at the highest political level, with clear links to poverty reduction and internationally-agreed development goals.

> **Lesson 3:** Publish clearly prioritised and time-bound action agendas for making progress on PCD.

Phase Two: Co-ordinating policy and its implementation – requires policy co-ordination mechanisms

> **Lesson 4:** Ensure that informal working practices support effective communication between ministries.

> **Lesson 5:** Establish formal mechanisms at sufficiently high levels of government for inter-ministerial co-ordination and policy arbitration, ensuring that mandates and responsibilities are clear and fully involving ministries beyond development and foreign affairs.

specify results chains that set out the links from policy processes, to policy outcomes, to policy impacts. This would provide a basis for establishing benchmarks along the results chain, to better monitor progress and move beyond a focus on policy inputs. Looking at specific issues could allow better analysis of the success of existing institutions in terms of promoting PCD in different sectors. Hence, in the forthcoming DAC peer reviews countries are asked to show examples of PCD success in one of the following areas: climate change/environment, trade or migration.

The PCD agenda would also benefit from a greater focus on field-level perspectives. Indeed, it is not possible to generate the evidence needed to inform policy without such perspectives. But we need to acknowledge that tracing the impacts of one or several policies from a particular developed country or countries to a developing country is extremely challenging. At the same time there is a need for further guidance and assessment tools for policy makers, as expressed in the OECD ministerial Declaration on Policy Coherence for Development in 2008.

An assessment methodology would help to identify the major synergies, conflicts or trade-offs across several domains that contribute to development (economic, environmental and social). It would help compare the positive and negative impacts on the different dimensions and to tease out potential conflicts in order to achieve more coherent policies towards development. Assessing PCD performance is key in increasing accountability to the political commitment towards PCD. Competing policy objectives may make it impossible to achieve fully coherent policies, but evidence-based PCD assessments could greatly increase the promotion of PCD in practice. ■

Box 1. *(cont.)*

LESSONS LEARNED FROM OECD PEER REVIEWS

Lesson 6: Encourage and mandate the development agency to play a pro-active role in discussions about policy co-ordination.

Phase Three: Monitoring, analysis and reporting – requires effective systems

Lesson 7: Make use of field-level resources and international partnerships to monitor the real-world impacts of putting PCD building blocks in place.

Lesson 8: Devote adequate resources to analysing policy coherence issues and progress towards PCD, drawing on the expertise of civil society and research institutes, domestically and internationally.

Lesson 9: Report transparently to parliament and the wider public about progress on PCD as part of reporting on development co-operation activities and progress towards meeting the MDGs.

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For further information

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Alan Hudson, a Research Fellow at the Overseas Development Institute– a leading think tank on international development and humanitarian issues – led the team working on the PCD Synthesis Report. For more information about ODI, please visit: *www.odi.org.uk*.

For further reading

OECD (2007), **Development Co-operation Report**, *OECD Journal on Development*, Volume 9, No. 1.

OECD (2003-07), **Policy Coherence for Development: Synthesis Report on the OECD-DAC Peer Reviews** (ODI with ippr).

For further information visit our Internet sites:
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