



## **ADAPTIVE CAPACITY AND INCLUSIVE DEVELOPMENT**

**The OECD Development Centre's Programme of Work 2003-2004**

March 2003

## I. Overview

1. The Doha and Monterrey processes, as well as regional initiatives such as NEPAD, bear witness to the emerging global partnership between OECD and developing countries. The hallmarks of this partnership are a more intense co-operation based on national development strategies, an increased effort by OECD countries to facilitate the achievement of the Millennium Development Goals and greater involvement of developing countries in international rule-making. Progress has been made in all of these areas, indicating that the goal of all stakeholders is to make globalisation more inclusive – both among and within countries. However, the new responsibilities assumed by developing countries to spearhead their national development and to contribute to shaping the global economy are – especially in poor countries – not matched by adequate public and private capacities to meet them. These capacities are further stretched by growing risks associated with climatic irregularities (El Niño, flooding) and new violent conflicts in virtually all developing regions of the world as well as the threats of international terrorism. The emerging global partnership between OECD and developing countries will thus have to focus on supporting these countries in overcoming the challenges of globalisation while strengthening their adaptive capacity – an example of positive interaction between globalisation and governance (G&G). Having made G&G the overarching theme for the 2001-2002 Programme of Work, the OECD Development Centre is therefore focusing its programme of work in 2003/04 on the general theme of “Adaptive Capacity and Inclusive Development”.

### *Objectives*

2. The overarching objective is to inform the policy debate, suggest ways to overcome capacity constraints in developing countries and support the efforts of OECD countries to achieve greater coherence of their own policies. Thus, the Centre’s programme comprises outreach and inreach components. It consists of three activities: (1) Trade, Competitiveness and Adaptive Capacity; (2) Finance for Development; and (3) Social Institutions and Dialogue. The choice of these activities has been guided by potential synergies that can be derived from close co-operation with other OECD Directorates and the Centre’s accumulated expertise in such areas as trade, finance and relations with non-governmental actors.

3. The Centre’s proposed programme of work falls – in its entirety – under the OECD’s Strategic Objective No. 5, “Contribute to the Development of Non-Member Economies”. In the course of its elaboration, close co-ordination took place with regard to activities in the work programmes of the OECD’s Development Co-operation Directorate (DCD) and its Centre for Co-operation with Non-Members (CCNM), which also form part of the Organisation’s so-called “development cluster”. In addition to units within the cluster, Directorates listed in the proposed collaboration matrix (attached) provided comments on earlier drafts.

4. The proposed activities will be undertaken in close co-operation with OECD Directorates and will seek to:

- Assess emerging trade opportunities for specific groups of developing countries and identify domestic bottlenecks impeding their international competitiveness.
- Strengthen the adaptive capacity of developing countries in the face of exogenous shocks.
- Identify innovative sources of funding for the Millennium Development Goals and related “Global Public Goods”.

- Review regional integration agreements between developed and developing countries and assess their impact on investment flows.
- Examine the need for adapting traditional social institutions (e.g. property rights, family structures) to facilitate inclusive development.
- Promote the participation of civil society organisations in order to encourage broad-based decision making in developed and developing countries.
- Provide inputs to the OECD work on development through participation in an envisaged horizontal project on “Policy Coherence for Development” and prepare contributions to committee work.
- Organise Informal Seminars with guest speakers.
- Disseminate the Centre’s work by publishing Development Centre Studies, Policy Briefs, Seminar Proceedings and Technical Papers, organising regional Forums jointly with the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank (AfDB) and other policy dialogue meetings and conferences as well as by strengthening co-operation with the university community, notably *l’Institut d’Etudes Politiques de Paris*.
- Monitor, through public-private dialogue initiatives and in the framework of the *African Economic Outlook* (AEO), economic and social progress achieved in selected African countries as a contribution to OECD’s response to NEPAD (financed through voluntary contributions).

### ***Results in 2003 and 2004***

5. The Centre will seek to accomplish the following major output results during 2003/04:

- A report on best practices for the promotion of trade capacity building as well as related policy dialogue (Q4 2003) and report on improving the international competitiveness of developing countries (Q4 2004).
- A report on strengthening the resilience of developing countries in the face of exogenous shocks (Q2 2004).
- Proposals for new sources of domestic and international financing for development (throughout 2003/04).
- A report on policies to promote investment through regional agreements (Q4 2004).
- Based on country studies, policy options for adapting traditional social institutions to the needs of inclusive development (throughout 2003/04).
- Policy dialogue meetings between governmental and non-governmental actors in order to strengthen participatory decision making (throughout 2003/04).

- The organisation of the annual forums in collaboration with the three regional development banks (in 2003 and 2004).
- A second and third edition of the AEO in co-operation with the AfDB and a network of local African researchers (Q1 2003 and Q1 2004). (This output result will be achieved only through voluntary contributions.)

### *Contributions to OECD Horizontal Programmes*

6. The output results proposed for 2003/04 will contribute to Organisation-wide projects including “Policy Coherence for Development”, “Contribution to NEPAD” and “Support for the Doha Development Agenda”.

## **II. Activities**

### **Activity 1: Trade, Competitiveness and Adaptive Capacity**

*Duration: New, end of 2004; Link to OECD Strategic Objectives 3 (Contribute to shaping globalisation through the expansion of trade and investment) and 5 (Contribute to the development of non-member economies).*

#### **Objectives**

7. To extend the capacity of developing countries, in particular the least developed, to trade in overseas markets is at the forefront of the post-Doha development agenda. Notwithstanding the efforts made by the international community since the 1996 WTO Ministerial Conference in Singapore to strengthen these countries’ capacity to negotiate and implement multilateral trade rules, notably through the provision of trade-related technical assistance, more analytical work is needed to address the question of how developing countries can best meet their longer-term needs to overcome domestic supply constraints and improve their capacity to trade in an increasingly competitive world economy.

8. The Centre’s contributions to the work on trade and development have been made in collaboration with both DCD and the OECD Trade Directorate (ECH) as well as with the GATT/WTO Secretariat and the World Bank. In 2003/04 the Centre will seek to deepen and widen its analytical work by taking into account the emerging and specific needs of different groups of developing economies, developing countries’ vulnerability to exogenous shocks and the shallow extent of integration of their own domestic markets.

9. Viewed from this angle and in the context of the ongoing OECD work on trade-related capacity building, the proposed results will, in addition to contributing directly to improving the monitoring ability of the international aid community, focus on the following four issues:

- Making an assessment, using the OECD Foreign Trade Database, of the possible trade opportunities for different groups of developing countries (small, vulnerable, net food importing, land-locked, least developed, etc.).
- Evaluating the contribution that regional integration agreements might make to attracting foreign direct investment and the potential of such agreements for forging closer and sustainable economic partnerships between developed and developing countries. Gauging *ex*

*ante* the sign and the extent of the net effect of regional integration agreements between developed and developing countries on foreign direct investment flows is particularly difficult as they depend on a variety of factors, including rules of origin, technical standards and other institutional arrangements.

- Exploring the ways and the means by which developing countries might better cope with exogenous shocks (such as natural disasters and terms-of-trade shocks). In addition to building on the conclusions drawn from the International Futures Programme on Emerging Systemic Risks, this work will involve a detailed examination of “adaptive capacity” in a selection of developing countries and an assessment of the scope for employing alternative risk-management options (see also Activity 2).
- Constructing “competitiveness” indicators for individual countries. This work, based on insights obtained from the review of recent developments in trade, growth and industrial organisation theories, will draw on the results of one of the elements of the Centre’s 2001-2002 Programme of Work which has sought to develop a measure of human capital that takes into account not only education levels but also work experience, life expectancy and state of health. These indices, which enable the computation of risk-adjusted rates of return on capital in developing countries, form the basis for strategic decisions by domestic and foreign investors. The competitiveness indicators will be used to analyse patterns of trade and growth as well as the geographical distribution of foreign direct investment (see above and Activity 2).

### ***Results in 2003 and 2004***

10. The following output is expected during the course of 2003 and 2004:

- A realistic assessment of the emerging trade opportunities for different groups of developing countries based on past trade performance is directly relevant and complementary to the ongoing international support for trade-related capacity building. The production, by the end of 2003, of an analytical report on “Emerging Trade Opportunities in OECD Markets” (working title). This will be a significant contribution to proposed DCD and ECH work on trade-related capacity development for 2003/04; it will also build on collaboration with CCNM and the OECD Economics Department (ECO). The report will be a good basis on which to organise in 2004 policy dialogue meetings with different groups of developing countries.
- In 2004, the results will be reported of the comparative analysis undertaken in 2003 of FDI-related issues in economic partnership agreements involving developing countries both in the Mediterranean region and in the Americas. The analysis will be complementary to the work of the OECD Directorate for Financial, Fiscal and Enterprise Affairs (DAF) on policy competition for FDI.
- Research on the ways and the means by which developing countries might better cope with exogenous shocks will be expected to result in the publication, by the first half of 2004, of a draft report provisionally entitled “Weathering Shocks: Key Elements of Adaptive Capacity”. This draft report will set out an analytical framework by which to classify the various types of shock and the determinants of “adaptive capacity” to them and will include a collection of case studies as well as a concluding section on lessons learned. A policy dialogue meeting

bringing together OECD Member and non-member countries will be organised in the second half of 2004; a final version of the report will be completed by the end of 2004.

- In 2003/04, competitiveness indicators will be produced for individual countries which will weight human capital, policy variables, trade constraints and prospects for industrial development in such a manner as to best characterise the growth potential of a country over coming decades. The associated report will include detailed comments on how different components of this indicator might be enhanced to influence the country's performance.

### ***Supplementary Results to be Financed by Voluntary Contributions***

11. Policy dialogue meetings envisaged in this Activity will depend largely on voluntary contributions and will take place in co-operation with the CCNM as well as with external partners.

### ***Outreach Component***

12. Policy dialogue meetings with developing countries will be held on the topics of: (i) emerging trade opportunities in OECD markets; and (ii) on the ways and means by which developing countries might better cope with exogenous shocks.

### ***Contribution to Horizontal Programmes***

13. Results are intended to make a contribution to horizontal projects concerning "Policy Coherence for Development" and "Support for the Doha Development Agenda".

### ***Co-ordination***

14. The four sub-themes outlined above are all cross-cutting issues at the organisational level. Close in-house co-ordination will therefore be required in order both to avoid duplication and to obtain the greatest synergies.

- Regular internal co-ordination is envisaged with DCD/RMPS (Resource Mobilisation and Private Sector Development Division) and ECH/TPD (Trade Policy Division) and the OECD Environment Directorate (ENV). Issues related to FDI will be pursued in regular internal co-ordination with DAF/CMIS (Capital Movements, International Investment and Services Division), and taking into account DAF's ongoing work on policy-based competition for investment. The advice of the OECD Directorate for Food, Agriculture and Fisheries (AGR), ECO, ENV and the OECD Directorate for Science, Technology and Industry (STI) will be sought where appropriate. In organising policy dialogue meetings, CCNM and DCD/POVNET will be consulted.
- In carrying out the work for 2003/04, external collaboration will be sought with the WTO (Development and Economic Research Division), the World Bank (the Trade Group), the United Nations University (Comparative Regional Integration Studies Programme) and several national organisations, such as the Asian Disaster Preparedness Centre of Thailand (the Extreme Climate Events Programme).

## **Activity 2: Finance for Development**

*Duration: New, completion by end of 2004; Link to OECD Strategic Objectives 3 (Contribute to shaping globalisation through the expansion of trade and investment), 4 (Enhance public and private sector governance) and 5 (Contribute to the development of non-member economies).*

### **Objectives**

15. Building on contributions to the UN Conference on Financing for Development held in Monterrey in March 2002 (reflected in the Monterrey declaration) and on recent work on Corporate Governance, Policy Competition, and FDI, Human Capital and Education, the Centre proposes to continue to work on selected issues related to the evolving global financial architecture and to local governance. The Monterrey Consensus provides both the opportunity and the challenge to put in place the means and the structures required to mobilise the finance needed to support the Millennium Development Goals. The opportunity arises from the multi-sectoral process launched by the Conference, the challenge from the mismatch between the Development Goals and their means, not just in terms of the quantity of concessional and private finance, but also in terms of developing countries' capacity to attract and to intermediate the required finance efficiently.

16. Recent work has shown that good corporate governance is dependent upon good political governance, and vice-versa: that major potential investors increasingly see sound institutions of governance as a condition for successful long-term investment and that a country's capacity to benefit significantly from investment inflows and enhance domestic competitiveness varies according to the quality of local institutions of governance. More needs to be known about what constitutes sound governance in developing countries, and which policies should be put in place to achieve it.

17. The proposed results have two related objectives:

- To identify and evaluate innovative proposals aimed at finding funding to reach the Millennium Development Goals and related "Global Public Goods", especially poverty reduction. Research will cover a selection of suggestions that are prominent among those being considered by governments, academics and civil society. These may include: the balance between loans and grants; the introduction of taxes, fees and levies; tax incentives to stimulate philanthropy; and innovative sources of finance for development, including those intermediated through regional development banks. The policies, tools and institutional arrangements that could ensure a more effective use of existing resources will also be examined.
- To clarify how sound financial policies could enhance the pattern of growth and attractiveness to foreign capital, in particular in very poor countries. The project will draw up standards of financial behaviour, in particular identify debt levels and spreads above which a country should not borrow, that poor-country borrowers could adopt in order to raise their credibility and thereby attract foreign capital on a sustainable basis. It will also explore the creation of innovative financial instruments to help poor countries to cope with their idiosyncratic risks, for example by hedging against terms of trade shocks. This work will be co-ordinated with the Activity 1 project on "Adaptive Capacity".

### ***Results in 2003 and 2004***

18. The following output is expected during the course of 2003 and 2004:

- Policy evaluations of proposals floated by the international community for innovative sources of finance to help attain Millennium Development Goals. The evaluation criteria to be used are economic desirability, revenue potential, revenue sustainability, fairness and equity, administrative complexity and flexibility, technical feasibility, as well as political support and perceived legitimacy. Published output in the form of policy briefs and a contribution to the *OECD Observer* will become available successively starting in late 2003 (the precise timing being partly determined by the agenda of the donor community); a summary publication will be published in the 3<sup>rd</sup> quarter of 2004.
- Critically review the arguments that have been put forward to explain why poor countries have little access to the financial markets and why there is insufficient hedging against terms of trade shocks, and suggest ways to improve the situation (end of 3<sup>rd</sup> quarter of 2003). Regarding the countries that do have access to international financial markets, the project will quantify the levels above which spreads and debt levels become dangerous for the financial stability of the country. It will review the proposals that have been put forward to reduce the risk of financial crisis and analyse the extent to which stronger financial rules accepted *ex-ante* by the countries could improve their welfare. The output will complement the evaluation of innovative sources of development finance by identifying innovative financial instruments geared towards the least developed countries (report prepared for the 4<sup>th</sup> quarter of 2004) and thus contribute to the OECD follow-up to the Monterrey Consensus”.

### ***Supplementary Results to be Financed by Voluntary Contributions***

19. Policy dialogue activities will depend largely on voluntary contributions and will take place in co-operation with CCNM and external partners.

### ***Outreach Component***

20. The output of Activity 2 will provide substance for OECD outreach activities in the area of development finance and contribute to the priority project “Follow-up to the Monterrey Consensus”. Policy dialogue activities in this area can usefully be carried out in the DAC Working Party on Financial Aspects of Development Assistance.

### ***Contribution to Horizontal Programmes***

21. Activity 2 is intended to make a direct contribution to horizontal projects on “Policy Coherence for Development”.

### ***Co-ordination***

22. Work will build on ongoing ECO work and be carried out in close collaboration with DCD/RMPS (Resource Mobilisation and Private Sector Development Division) which will help prioritise the proposals to be examined while the Centre will provide sound and accessible analysis of these and

DCD/POL/CPDC work on the political economy of conflict, i.e. the role of business in conflict. Output produced by this activity may also provide an input to the “Global Forums” organised by the CCNM.

23. In addition to the on-going collaboration with the French Ministry of Foreign Affairs and the Council for Economic Analysis, external collaboration with the IMF’s Research Department is envisaged for the study on stability-consistent spreads and debt levels that avoid time-inconsistent borrowing policies. The other elements of this activity will also involve external collaboration, such as UN CEPAL for Latin America, and whenever possible by strengthening developing-country research capacity.

### **Activity 3: Social Institutions and Dialogue**

*Duration: New, completion by end of 2004; Link to OECD Strategic Objectives 2 (Improve human capital and social cohesion and promote a sustainable environment) and 5 (Contribute to the development of non-member economies).*

#### **Objectives**

24. Social exclusion and the accompanying lack of prospects characterises the plight of most of the world’s poor people, but is also a feature of the lives of other disadvantaged groups at higher income levels, e.g. women in some societies. This can create social tensions and become the breeding ground for violence and even terrorism. Social exclusion, or inclusion, is, to a large extent determined by traditional social institutions such as family and kinship structures, property rights or civil law. Against the background of a changing international environment, increasing competition and more frequent inter-cultural exchanges, these traditional social institutions can help or hinder the emergence of new economic and social opportunities. In many cases, traditional institutions may turn out to be rigid and prevent a realisation by under-privileged groups, such as women or the poor, of potential benefits from new development opportunities; such circumstances point to a need to adapt those institutions to make development inclusive. Achieving greater societal flexibility is an important prerequisite for achieving pro-poor growth and ultimately the attainment of the Millennium Development Goals.

25. The analysis of patterns of adaptation of social institutions, combined with promoting a structured dialogue among all stakeholders, is expected to help governments in developing countries cope better with the challenge of creating a business-friendly environment and provide an input into the comprehensive development framework and poverty reduction strategy paper processes in which all donors are becoming increasingly involved. This activity represents a deepening both of the Centre’s previous work on governance and of its interactions with the private sector bodies and NGOs which have contributed to the governance and NGO outreach activities of the OECD.

26. The proposed results have three interrelated objectives:

- To review experiences with the adaptation of traditional social institutions in selected African, Middle Eastern, Latin American and Asian countries in order to identify policies to facilitate this process, and to assess the potential social and economic benefits of adapted institutions. A comparison of countries with similar traditional institutions, but very different development paths is expected to produce important indications as to where adaptation is most urgently required and how the required changes can best be achieved. The analysis will focus on household savings and investment, the professional training of women, fertility rates, and education and health.

- To provide a set of comparable information, analysis and forecasts on macroeconomic and structural issues, including poverty developments, for a cross section of African countries representative of the whole continent as an eventual input for peer review exercises in the context of the NEPAD initiative.
- To facilitate the participation of civil society more generally in policy making, both in OECD and developing countries by providing solid analyses and seeking to establish common ground among dialogue partners.

### ***Results in 2003 and 2004***

27. The following outputs are expected in 2003/04:

- Throughout 2003 and 2004 a sequence of comparative analyses of selected African, Middle Eastern, Latin American and Asian countries will focus on changing social institutions and their impact on development. These comparative studies will feed into the public/private dialogue and provide an input to the establishment of best practices in the DAC/POVNET as well as the DAC/GOVNET and DAC/CPDC.
- A similar dialogue process will be engaged with NGOs and other civil society actors, both from developing countries and OECD countries. Based on the Centre's existing work, two main issues will be tackled: (i) a re-assessment of the role of civil society organisations in the policy process in selected developing countries; and (ii) how public managers and non-governmental actors can better mobilise public opinion in favour of international development co-operation. The process will involve a sequence of analysis and dialogue.

### ***Supplementary Results to be Financed by Voluntary Contributions***

28. The number of countries covered in the 3rd and 4th editions of the AEO, as well as the scale of dissemination efforts will be determined by the availability of supplementary financing. Two major outputs are envisaged:

- The most tangible outcome of the project, the publication of the second and third editions of the AEO, will take place during the 1<sup>st</sup> quarter of 2003 and 2004 respectively. In addition to the country notes and a statistical appendix, the report will contain an assessment of Africa's position in the world economy and will contain a special section on a topic of high relevance for policy makers in African countries. In 2003, the focus will be on "Privatisation", reflecting on-going work at the AfDB. The combined efforts of the Economic Commission for Africa (in the context of NEPAD), the Centre and the AfDB will ensure the effective dissemination of the findings of the reports. This will be accomplished not only by press conferences and interviews but also through the organisation of workshops and forums. As was the case for the first edition, the AEO will be presented at the International Forum on African Perspectives (1<sup>st</sup> quarter 2004 for 3<sup>rd</sup> edition).
- By steadily increasing the involvement of African experts and institutions in the production of the AEO, the project aims not only to strengthen the local partners' sense of ownership of the project but also to create the network of local expertise necessary to enable them to take it over. This goal will be reached through providing assistance and training to African economists in charge of contributing to the country notes as well as to AfDB economists and

statisticians (training on the forecasting model used to produce projections; methodological assistance for the statistical annex; advice on how to improve country notes and the synthesis section of the report). As a means of facilitating local capacity building, the accomplishment of field missions will be another important outcome of the project (3<sup>rd</sup> quarter of 2003 and 2004, for the 3<sup>rd</sup> and 4<sup>th</sup> editions of the AEO respectively). The members of the AEO team, accompanied by local consultants, will engage local authorities and representatives of the private sector and civil society in discussions on the latest macroeconomic, financial and structural developments in each country.

29. Based on its experience with public/private dialogues in the previous Programme of Work, the Centre will also seek to suggest ways of overcoming the challenges of establishing a structured dialogue in the presence of weak government institutions on the one hand and underdeveloped private sector organisations (e.g. business associations) on the other. This project will specify conditions under which Public-Private Partnerships (PPPs) supporting policy formulation on a sound scientific basis and OECD methods can be applied to developing countries and emerging markets and promote the common good. Synergies between PPPs and multilateral, entrepreneurial and technological/institutional co-operation could broaden the knowledge base and build adaptive capacity. The complementarity between global and regional surveillance, which is at the origin of OECD method or peer pressure, is consistent with the New Partnership for African Development (NEPAD) and other regional schemas, including MERCOSUL, but none has yet been implemented. The project would have a Southern African focus and would ascertain whether and how the pilot project for public-private dialogue in Mozambique might be replicated in Angola. But the project could also involve designing a multilateral surveillance framework in MERCOSUL as part of a Latin America wide effort.

### ***Outreach Component***

30. The analytical output of Activity 3 on changing social institutions and the impact on development, the contribution of the private sector to economic and social development, and a reassessment of the role of civil society in the policy process will contribute to the dialogue process with NGOs and the private sector in developing countries. In addition, the contents of the AEO report will contribute to the annual forum on African Development Perspectives and will be disseminated in African countries. The report will also provide background information for the envisaged “Governance and Economic Policy Reviews of African countries” in the context of NEPAD and in co-operation with the Economic Commission for Africa (ECA).

### ***Contribution to Horizontal Programmes***

31. Like Activities 1 and 2, results under this activity will contribute to the proposed horizontal project on “Policy Coherence for Development” as well as feed into the “OECD Contribution to NEPAD”.

### ***Co-ordination***

32. The first part of this activity will provide an input for OECD’s contribution to fighting international terrorism in as much as terrorism results from social exclusion. Dialogue activities will be planned in close co-operation with DAC working groups, in particular CPDC and POVNET.

33. Public/private dialogue activities and outputs will be designed and implemented in close collaboration with CCNM.

34. Dialogue between government and other non-governmental actors will call for collaboration with GOV (which could contribute its expertise on public governance and the participation of citizens), CCNM (as a complement to its governance dialogues), and DCD (by providing input to the informal group of DAC heads of information and possibly helping strengthen the element of the DAC peer review that deals with public opinion/development information and education). Collaboration with civil society umbrella organisations such as EUFORIC, including the elaboration and marketing of a web-based directory of non-governmental organisations, will be continued.

35. The analysis and recommendations emerging from this activity could also become part of an OECD-wide effort to support the NEPAD process.

### III. Collaboration Matrix

**Proposed Collaboration Matrix (in addition to co-operation within the cluster)  
The Development Centre's Programme of Work 2003/04**

	Economics Department (ECO)	Directorate for Financial, Fiscal and Enterprise Affairs (DAF)	Trade Directorate (ECH)	Directorate for Science, Technology and Industry (STI)	Public Governance and Territorial Development Directorate (GOV)	Directorate for Food, Agriculture and Fisheries (AGR)	Environment Directorate (ENV)
Activity 1: Trade, Competitiveness and Adaptive Capacity	✓	✓	✓	✓		✓	✓
Activity 2: Finance for Development		✓			✓		
Activity 3: Social Institutions and Dialogue	✓				✓		

