

## Policy coherence: Vital for global development

### Introduction

Trade and investment, coupled with transfers of knowledge and technology and an appropriate institutional framework, have been major engines of global economic growth in developed and developing countries over the past 50 years. From the mid-1980s, the pace of global economic integration and growth accelerated significantly. Sustaining global economic growth and achieving a better sharing of its benefits will further the interests of all countries, developing and developed alike. Recognising this, the international community has committed itself to specific Millennium Development Goals and to ways of achieving them.

To meet these goals, and in particular to create a global partnership based on mutual accountability between the developed and developing worlds, OECD countries have renewed their resolve to achieve policy coherence for development. This entails ensuring that each OECD country pursues policies that support, and do not undermine, specific efforts it is making to help and sustain the development process. There is little point, for example, in providing development aid to improve a country's ability to engage in trade if the donor countries then maintain trade barriers that keep the developing country's goods out. Greater development coherence in OECD governments' policy stances will allow the benefits of globalisation to be more equitably distributed and shared. Building political agreement among stakeholders with diverse interests is the key to progress in this respect.

The OECD, together with other international organisations, can deliver the analytical underpinning that its members need to take informed policy decisions, provide a forum for dialogue on key policy issues, and monitor performance under agreed international commitments. These include the *Doha Development Agenda* for trade (November 2001), the *Monterrey Consensus* on development financing (March 2002) and the *World Summit on Sustainable Development* (August 2002). To address policy coherence issues from a whole-of-government perspective, the annual OECD ministerial meeting in 2002 called on the OECD to “*enhance understanding of the development dimensions of member country policies and their impacts on developing countries. Analysis should consider trade-offs and potential synergies across such areas as trade, investment, agriculture, health, education, the environment and development co-operation, to encourage greater policy coherence in support of the internationally agreed development goals*”.

**What is policy coherence for development?**

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This *policy brief* signals a renewed effort to improve policy coherence for development in OECD member countries. It is designed to engage stakeholders on the main issues, goals and challenges of this effort and to invite feedback from all interested parties. ■

## What is policy coherence for development?

Policy coherence for development means taking account of the needs and interests of developing countries in the evolution of the global economy. It involves the systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the agreed objectives, such as promoting knowledge-based economies in poor countries through the appropriate use of information and communication technology. The converse, policy *incoherence*, would be actions that reduce current income and growth prospects in developing countries and thus run counter to aid policies that work to develop their competitiveness, i.e. their capacity to capture the benefits of globalisation.

The OECD's Development Assistance Committee (DAC), grouping the world's major aid donor countries and providing 95% of official development

assistance, coined the term "policy coherence for development" around 1991 and has worked to promote coherence by its members ever since. More recently, the United Nations *Millennium Declaration* of September 2000 called upon developed countries to ensure adequate resources and policy coherence, and to balance the responsibilities of developing and developed countries when reporting on development progress. The eight Millennium Development Goals which followed include one that calls for building a global partnership for development. The indicators to be used for monitoring progress towards this goal include effective development assistance, easing the debt burden and reducing barriers to trade.

This renewed impetus to achieve policy coherence was strengthened by the *Monterrey Consensus* on financing for development of March 2002. This relies on the concept of development as a shared responsibility, with commitments on all sides that should be monitored and subject to ongoing dialogue. It commits developing countries to good governance, good policies and conflict resolution. The developed countries' side of the global partnership bargain commits them to increased and more effective aid, along with policy coherence.

One in five of the world's population live in abject poverty, with a per capita income of less than one dollar a day. Nearly three billion people live on less than two dollars a day. Globalisation is bypassing certain societal groups and, indeed, entire countries. Global security, prosperity and political stability depend on sharing the benefits of economic growth more widely and equitably. Official development assistance (ODA) has been an important source of expertise and resources to reduce poverty, but other government policies can have potentially far more powerful impacts. For example, Sub-Saharan Africa's share of world trade diminished from 4% in 1987 to less than 2% in 2001. Part of the problem lies in OECD member policies that have impacts outside the OECD zone.

## The Millennium Development Goals (MDGs)

The Millennium Development Goals commit the international community to achieving the following by 2015:

- 1 Eradicate extreme poverty and hunger
- 2 Achieve universal primary education
- 3 Promote gender equality and empower women
- 4 Reduce child mortality
- 5 Improve maternal health
- 6 Combat HIV/AIDS, malaria, and other diseases
- 7 Ensure environmental sustainability
- 8 Develop a global partnership for development.

Within national governments, policy coherence issues arise between different types of public policies, between different levels of government, and between different stakeholders. And the challenge goes beyond individual national governments. The interplay of developmental with other policies also occurs at regional and international level. The understanding of policy coherence needs to evolve to keep pace with increasing institutional and economic complexities.

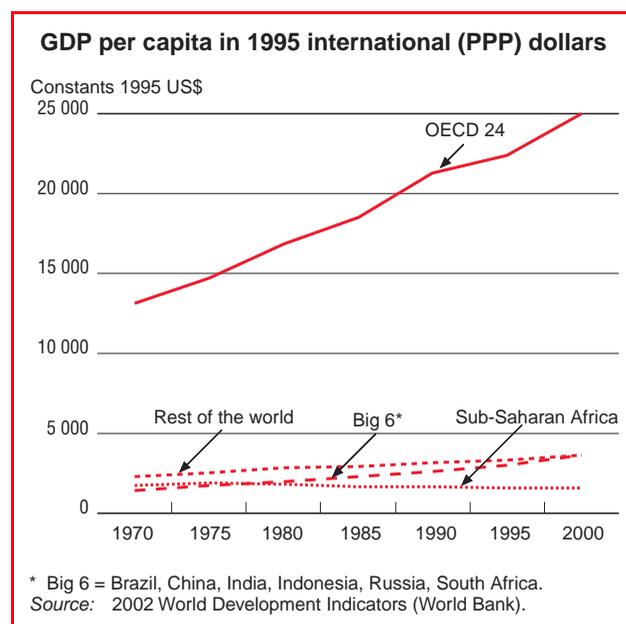
Not only must coherence be embedded in the objectives and work of policy communities outside development agencies, but also the integration should be “two-way”. Reduction in developed countries’ tariff escalation for value-added products, for example, is a necessary complement to development assistance policies that promote diversification by developing countries into processed products and supporting infrastructure. Today’s more dynamic view of coherence seeks to integrate the findings and best practices of other policy communities into development co-operation policies aligned with recipient countries’ development strategies to create the desired synergies and complementarities between them. ■

### Why is policy coherence important, yet difficult to achieve?

Coherence has always been and will continue to be a function of competing and conflicting interests and values. The extent to which certain interests override others is a matter of stakeholder power and political will. As political sensitivity to certain issues rises in OECD countries, the degree of policy coherence tends to diminish. OECD taxpayers and consumers, as well as the people in developing countries, bear the costs of policy incoherence, whereas the benefits may flow to special interest groups. And vested interests in certain areas have been shown to be considerably more powerful than developmental interests.

Yet, the need for action on development coherence may currently be more urgent than before, as policies and institutions have not necessarily kept up with the effects of globalisation. The gap between rich and poor appears to be widening at a politically unacceptable pace, albeit with significant differences between regions. We must urgently create the global partnership for development called for in MDG8, or developing countries will not be

able to reach the objectives in the other seven. Without immediate action, the MDGs to be attained by 2015 may be out of reach already for certain parts of the developing world.



One common misconception is that responsibility for policy coherence falls only on developing countries. Undeniably, complementary efforts by developing countries are called for and the OECD actively supports such efforts through its co-operation with non-OECD partners. Yet this does not free OECD countries from their responsibility for action to achieve coherence in their own policies and in the rules of the game at international level. A second misconception that has hindered progress is the view that the drive for policy coherence stems exclusively from altruistic or moral imperatives.

In fact, beyond fairness and equity in the international economy, achieving policy coherence is in the developed countries’ own best interests, and increasingly so, given the evolving economic, socio-political and environmental realities of the planet. As an illustration, the figure on page 4 compares OECD and partner (non-OECD) economies’ relative shares of population, GDP, trade, water and grain consumption. Of the anticipated increase of two million people less than a generation away, 95% will be added to the populations of the developing countries. ■

### How do developed countries benefit?

In the increasingly global economy, countries are mutually dependent and derive mutual benefits from pro-poor growth in developing countries. This is the underlying rationale for supportive policies in OECD countries to create the conditions required for growth and poverty reduction. It is also a necessary part of the OECD countries' contribution to the new partnership agreed in the Millennium Declaration and the Monterrey Consensus. Countries where development progress is faltering can generate highly negative economic, humanitarian and security impacts on global economic welfare, whereas greater development progress creates wide-ranging opportunities and benefits.

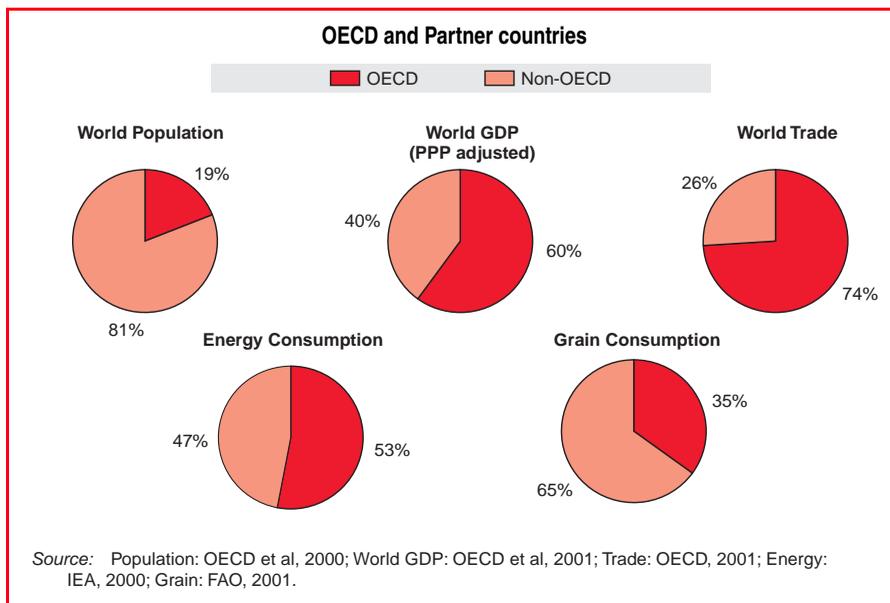
By the end of the 20th century, OECD countries depended on developing countries for a third of their export sales, a fifth of their primary commodity imports, and almost half of their petroleum consumption. Developing countries rely on OECD countries for more than 60% of their trade and 47% of their primary commodity imports. Rising prosperity in OECD countries depends increasingly on economic growth in the developing world. As cheaper exports from developing countries flow into OECD markets, consumers benefit and resources can be channelled into higher productive uses. As developing economies grow and advance, demand for higher value exports of goods and services from OECD countries will

increase, providing necessary stimulus to OECD economies.

Protectionist measures in developed and developing countries hinder dynamic economic development. They delay and raise the costs of necessary change and modernisation. By distorting economic incentives, they postpone adjustment and investment in new products and processes. By keeping domestic firms less competitive, protection raises the costs of both imports and domestic products. By imposing costs on taxpayers and consumers in various ways, protection most negatively affects the most vulnerable members of society. Through the recognition and integration of these economic factors into policy making considerations, the case for policy coherence for development is significantly strengthened. ■

### What are the key areas for making progress?

A coherent approach to policies for development results in more efficient governance and can help foster necessary structural adjustment. In the process, rents and privileges accruing to a few, at the expense of many, may well be challenged. In some cases, short-term compensatory measures may be needed in order to increase competitiveness and improve economic performance over the longer term. Addressing the following priority areas can benefit developed, as well as developing countries.



At the aggregate level much is known about the benefits of trade and investment liberalisation and the welfare gains from market access for both developing and developed countries. However, reviewing the policy coherence track record to date, this appears insufficient to muster the necessary political will for change. A few examples help illustrate the types of issues at stake and identify the potential for seeking more coherent policies:

**Agriculture:** For developing countries, agriculture is a major source of income and potential poverty alleviation. OECD analysis of trade-distorting domestic support and protection of agriculture has made such support more transparent and raised international awareness of its damaging effects. That work must continue.

- It is important for the OECD to examine policy alternatives that minimise losers and maximise winners from trade liberalisation, to broaden work to cover the barriers that the entire food chain faces, and to go beyond anecdotal evidence of policy impacts, especially for products in which developing countries have a comparative advantage, like cotton, rice and sugar, and which are among the most protected products in developed markets.
- Deeper understanding is required of the implications of policy reforms on different groups of countries, be it through preferential trading arrangements or multilateral liberalisation efforts. Food aid, export support, and anti-dumping actions require empirical research. Solid and meaningful proposals for flexibility and transitional periods, including through special and differential treatment, are in need of thorough analysis of their implications and consequences for all.

**Trade policy:** In the realm of trade policy much has been achieved in reducing tariffs, particularly on manufactured goods, yet high tariffs and tariff escalation persist for goods like textiles, clothing, footwear, and some processed products, which are deemed sensitive in OECD countries and in which developing countries have a comparative advantage.

- A better understanding of the effects of such policies on specific countries or groups of countries is needed. Non-tariff barriers impose significant costs on developing countries, yet factual information about their magnitude and economic

costs is scarce, preventing pro-active multilateral rule setting and remedial action by developing countries and donors. More needs to be known about the effects of anti-dumping provisions applied as a protective measure for domestic industries.

**Investment:** A recent report by the OECD investment committee on foreign direct investment for development shows that international investment in developing countries is a powerful catalyst for poverty reduction. The report identifies actions which developed countries can take to assist developing countries in attracting investment and reaping its benefits. Improving policy coherence is one such action.

- It could involve removing those trade barriers in developed countries that effectively discourage foreign companies from establishing production sites in developing countries; minimising recourse to special tax and other incentives which could unduly distort location decisions to the detriment of less developed countries; and promoting the positive development contribution of multinational enterprises by encouraging them not to lower their corporate responsibility standards as they invest in developing countries. Momentum is also building for exploiting the synergies between ODA policies and measures to improve host countries' enabling environment for investment.

**Knowledge and technology transfer:** Access to products of the knowledge-based economy, as well as effective transfer of technologies and information, are key determinants for growth in developing as well as developed countries. The role of policy and practice in delivering effective access, particularly as this relates to the protection and exercise of intellectual property rights (IPR) has been given increasing attention in the international debate.

- A deeper understanding is required of the impact of such policies and practices, including those related to intellectual property rights and the TRIPS Agreement on development of and access by developing countries to various high technologies.
- There needs to be a rapid resolution of widespread concerns about how policy coherence can be delivered between a system that aims to

encourage dissemination of new knowledge and provide incentives for innovation into new medicines and vaccines that may save lives both in developing and developed countries, and difficulties over affordable access by developing countries to the medicines and vaccines they require.

- More broadly, international standards should be promoted that encourage the entry of poor countries to the global information economy. Biodiversity and traditional knowledge require protection and proper remuneration. Ways must be found to encourage research that delivers global public goods that help facilitate access by partner countries to products and services that improve their health, education, science and technology bases.

**Migration:** The OECD's policy and analytical work on employment and social cohesion helps member countries to design and implement policies to create more and better jobs for all and to ensure that migration promotes economic growth and development in both sending and receiving countries. The work aims to make the most out of migration for both groups of countries through improved analysis of the interactions between migration, economic, social and development policies.

- Yet, too little is known about patterns of migration, skilled versus unskilled migration, the links between temporary migration and various modes of delivery of trade in services, and about the economic effects of unskilled labour migration. There is also considerable room for better understanding of the scope, destination, delivery mechanisms and impacts of financial remittances on return migration and more productive investment.

**Global resources:** Stimulated by the Johannesburg *World Summit on Sustainable Development*, the impacts of OECD policies on sustainable development are being better researched and indicators are being developed. Guidance has been developed for achieving improved economic, environmental and social policy coherence and integration. For developing countries issues of coherence in OECD policies that affect sectors of traditional livelihood and significant economic potential are critical. Taking the fisheries sector as one important case in point, there is a need for greater coherence at the domestic and international levels.

- Domestically, there is a need to investigate policy coherence arising in the management of fisheries capacity, as well as marine resource management, investment rules for harvesting and processing fish catches, and the use of subsidies. Internationally, fisheries access agreements, tariffs and tariff escalation, and preferential market access agreements raise specific coherence issues that may impact developing countries' ability to develop their comparative advantage and economic potential in this sector.

Not all coherence issues can be addressed at once. The *Doha Development Agenda* for negotiations at the WTO makes agricultural and trade policy issues, including services, the most time sensitive. Pressure needs to be put on securing market access for those goods and services in which developing countries have a comparative advantage and where the greatest gains can be realised. But opportunities to influence and improve policies impacting developing countries through all channels of global integration must be seized. ■

### Room for policy action

- OECD support to agriculture in 2002 amounted to USD 318.3 billion or 1.21% of GDP.
- DAC aid to developing countries in 2002 amounted to USD 57 billion or 0.23% of GDP.
- At least 20 % of aid remains tied to donor exports, reducing its value by as much as 30%, and technical assistance is exempt from untying.
- 35 % of aid goes to middle and higher income countries.
- Tariff peaks continue to affect a number of sectors of importance to developing countries, like textiles, clothing, footwear and agriculture.

## What is the role of the OECD?

Aid is only a small part of our efforts to create growth for all countries, making it important for the OECD to define the concept of development much more broadly. The promotion of sustainable economic growth, financial stability and structural adjustment by OECD countries is vital for the global economy. OECD surveillance of developments and trends in monetary, financial and fiscal policies, together with its assessment of the international impacts of national policies, contribute directly to the aims of the policy coherence project.

Due to the importance of quality investments for development, OECD efforts to tackle developed country bribery, corporate responsibility, corporate governance, and tax evasion issues through conventions, instruments and guidelines contribute to policy coherence for development. The contribution of the Guidelines for Multinational Investment to policy coherence could be further explored. The OECD standards and guidelines for international taxation and the guiding principles and checklist for assessing FDI incentives offer other examples. All of these tools can be sharpened as implementation experience accumulates.

The OECD is well placed to integrate developmental with other policy considerations due to its analytical capacity and the horizontal nature of its work. A combination of concrete *analysis* of the impacts of OECD country policies in priority areas on developing countries, policy *recommendations* – including identification of policy alternatives – and building the *will* for reform are needed. The peer review mechanism, supported by an analytical framework, can be instrumental to this end, not only through the DAC, but also through all other relevant policy committees. And OECD's analytical work will seek measures by which progress can be monitored on a regular basis.

There is also a need for a more coherent approach to the participation of partner countries in OECD activities. Joint projects offer regular channels for policy exchanges. Such exchanges can shed light on specific areas in which developing countries need more equitable opportunities and conditions to benefit fully from globalisation and where OECD countries could

have an impact. Opportunities to create synergies, especially through the OECD's nine Global Fora, and the policy coherence efforts will be maximised. The Global Fora should be used to draw into their discussions elements of policy coherence and best practices in that sphere. Organising special policy consultations on specific issues could be another useful means of broadening the debate.

### For Policy Dialogue – Nine Global Fora

Alongside OECD policy Committees, nine Global Fora bring together OECD and Partner Countries, as well as other organisations, in a systematic policy dialogue. Senior policymakers from developing and developed countries meet to discuss global issues and identify policy options based on emerging analytical work, as well as best practices and mutual experience, in these main areas:

- Agriculture
- Competition
- Development Partnership
- Governance
- International Investment
- Knowledge Economy
- Sustainable Development
- Taxation
- Trade

Global Fora can be a particularly valuable vehicle to discuss areas where greater OECD policy coherence can contribute to better shared benefits from the global economy.

International commitments have been taken to ensure that all countries are able to reap the benefits from globalisation. Building political will is the key to progress. ■

### For further information

More information about this *Policy Brief* and the OECD project on policy coherence for development can be obtained from Alexandra Trzeciak-Duval (Email: [alexandra.trzeciak-duval@oecd.org](mailto:alexandra.trzeciak-duval@oecd.org)) tel. [33-1] 45.24.95.09) Website: [www.oecd.org/development/policycoherence](http://www.oecd.org/development/policycoherence). ■

## For further reading

- **Agricultural Policies in OECD Countries: A Positive Reform Agenda**, 2002  
ISBN: 92-64-19967-5, 40p.
- **Biotechnology and Sustainability: The Fight against Infectious Disease** - available at: [www.oecd.org/pdf/M00040000/M00040737.pdf](http://www.oecd.org/pdf/M00040000/M00040737.pdf)
- **Building Policy Coherence, Tools and Tensions, Public Management, Occasional Papers No. 12**, 1996  
ISBN: 92-64-15335-7, €6.00, 44p.
- **DAC Guidelines on Poverty Reduction (including a checklist for policy coherence)**, 2001, ISBN: 92-64-19506-8, €20.00, 125p.
- **Foreign Direct Investment for Development – Maximising benefits, minimising costs**  
ISBN: 92-64-19927-6, €50.00, 232p.
- **Improving Policy Coherence for Sustainable Development: A Checklist**, available at: [www.oecd.org/publications/Pol\\_brief](http://www.oecd.org/publications/Pol_brief)
- **OECD Guidelines for Multinational Enterprises: Focus on Responsible Supply Chain Management, Annual Report, 2002**  
ISBN: 92-64-19895-4, €38, 152p
- **The Development Dimensions of Trade**, 2001  
ISBN: 92-64-19675-7, €30, 154p.
- **Untying Aid to the Least Developed Countries**, available at: [www.oecd.org/publications/Pol\\_brief](http://www.oecd.org/publications/Pol_brief)

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