

# TOWARDS COMPREHENSIVE DEVELOPMENT POLICIES

The OECD Development Centre's 2005-2006 Programme of Work



June 2005

[www.oecd.org/dev](http://www.oecd.org/dev)

# **TOWARDS COMPREHENSIVE DEVELOPMENT POLICIES**

## **The OECD Development Centre's 2005-2006 Programme of Work**

### **Background**

The international policy debate on achieving the Millennium Development Goals (MDGs) has highlighted the need for OECD and developing countries to together adopt a broader approach to development co-operation. Such an approach requires that new sources of development finance be identified, that aid be made more effective, that the coherence between aid, investment, trade and migration policies be improved, and that governance systems be adapted to the requirements of an increasingly interdependent world economy. These are challenges for policy makers in OECD and their partner countries alike.

The OECD Development Centre's 2005-2006 Programme of Work seeks to underpin this move towards greater coherence in global policy making through undertaking a range of policy analyses, publishing the associated policy conclusions and engaging in dialogue with all stakeholders.

The Programme focuses on four major, interrelated activities:

- Policy Coherence and Productive Capacity Building;
- Development Finance and Public Support;
- Governance Reform and Institutional Development, and
- Contributing to the NEPAD Initiative.

Each of the several projects that comprise these activities is being undertaken in close collaboration with other parts of the OECD Secretariat as well as with experts and institutions in developing and transition countries.

### **ACTIVITY 1: POLICY COHERENCE AND PRODUCTIVE CAPACITY BUILDING**

OECD aid, trade, migration and foreign investment policies form a core of interdependent policies that impact on development outcomes in non-OECD countries. The various combinations of these policies have mutually reinforcing or impedimentary impacts on development.

A large number of country case studies are being undertaken, drawing on all major developing regions, in order to help determine which OECD policy combinations are mutually reinforcing and to point to the corresponding national policy responses that might enhance their poverty-reducing impact. Case studies will be undertaken in Ecuador, Ghana, Guatemala/Honduras, Mali, Moldova, Morocco, Mozambique, Senegal, Uganda and Vietnam, as

well as in nine other countries yet to be determined. Because of the growing importance of migration flows and remittances for the development process of sending countries, an in-depth analysis of the impact of migration on home and host countries is also being undertaken. This will contribute to the debate on how win-win policies for the management of migration flows might be developed.

If developing and transition countries are to exploit fully the emerging trade opportunities then their national policy response will have to include the strengthening of productive and trade capacities. One aspect of the Centre's work therefore relates to export diversification and global value chains (GVCs) with particular attention to SMEs. It seeks to examine the specific features of the GVCs for selected sectors (agro-business, household appliances, tourism) that will then be analysed as country case studies (e.g. in Mozambique, the Philippines, Romania, Turkey and a few additional countries). This work will examine closely the structure of the international production and distribution networks, the characteristics of the participants in the GVCs, the critical factors for their successful participation as well as the governance structures of GVCs and the opportunities for upgrading.

Another aspect of the Centre's work concerns obstacles to export diversification and the ways to surmount them. Building on a recently completed study on industrial competitiveness in developing countries, the analysis seeks to identify the drivers of export diversification from a macro point of view (e.g. trade policies, geographical variables, infrastructure) as well as other national characteristics (such as institutional development). A parallel micro study is taking stock of the progress that has so far been made in donor-supported programmes of trade-related technical assistance and capacity building for export diversification. This study is codifying the nature of the assistance being provided, is assessing, where possible, how effective these programmes are in overcoming major obstacles to export diversification, and is highlighting "good practices" in capacity building. Its initial focus is on the agricultural sector.

The developmental impact of the ascendancy of India and China has become an important issue of debate. Policy research at the Development Centre is seeking to help define strategies that will maximise the benefits and minimise the risks associated with the ascendancy of the two Asian giants for poor countries and poor people. By undertaking case studies in selected countries (Bangladesh, Peru, Ethiopia, South Africa, and a yet to be determined West African country), the project aims to provide answers to three major general sets of challenges posed to low-income economies, and African countries in particular, by the rise of the "Asian drivers": Who are likely to be the African losers and winners? Given these impacts, what are the implications for development strategies in African economies? How should African countries engage with the Asian drivers? What are the opportunities that arise from China and India's ascendancy?

## **ACTIVITY 2: DEVELOPMENT FINANCE AND PUBLIC SUPPORT**

This activity seeks to contribute to the debate on financing for development. It focuses on selected issues of aid architecture, new forms of financing the MDGs and public support for enhanced development co-operation.

In view of the MDGs' underfunding, the donor community and recipient countries are faced with the major challenge of increasing the effectiveness of aid. The Centre is supporting the ongoing discussions on this topic in the OECD Development Assistance Committee by analysing of the sectoral allocation of aid, making an assessment of the optimal mix of grants and loans offered to individual recipient countries, and evaluating alternative models of partnerships between donor and recipient countries. The aid effectiveness agenda is also being linked to the aid architecture debate and more generally to the debate on how to create more effective development co-operation systems: alternative models and patterns of development co-operation (e.g. co-operative vs. competitive, donor vs. recipient-led) require different governance systems to underpin them. A country-led model, for example, assumes that donors harmonise and coordinate their actions not autonomously, but through alignment to national priorities. It allows for greater selectivity, competition and differentiated patterns of engagement between donors and recipients, and between bilaterals and multilaterals. The configurations of actors, functions, co-ordination mechanisms and processes required to underpin such a model is different from the one functioning today. In collaboration with DCD and external think tanks, the Centre is therefore engaged in analytical work on the links between development co-operation and governance, and the establishment of a global policy dialogue network, bringing together experts from developed and developing countries, officials from bi- and multilateral agencies, parliamentarians, and representatives of civil society.

The Meltzer Report's recommendation (March 2000) that multilateral development banks should provide support in the form of grants rather than loans reinvigorated the debate on the optimal composition of ODA. This debate is often cast in terms of 'grants versus loans', though both are in fact to a degree complementary. The juxtaposition is indeed helpful neither to donors nor to aid recipients: both loans and grants have their role in concessional finance. The policy research at the Development Centre aims to inform the efforts that are being made to build an aid architecture that succeeds in endogenising debt sustainability, as opposed to one that would foster the creation of aid schemes that turn their back entirely on soft loans in favour of grants.

The so-called multi-sector public-private funds are among the few new ways of financing international development goals that command wide political support in the donor community. The Centre is investigating the extent to which private-sector resources have been induced by the most prominent of these funds and assesses whether crowding-out effects within donor accounts can be detected. In light of the fact that the multi-sector public-private funds aspire to shorten the lags between initial calls, approvals by their review panels, signature and final disbursement of funds, the Centre is also analysing the extent to which speed of disbursement is faster than that which is customary for the more traditional aid instruments. Finally, the project coverage and regional dispersion of the funds is being examined. Together, the findings will inform the design and operation of similar ad hoc funds directed at supporting specific initiatives to achieve the development goals and will evaluate their potential role in future development co-operation modalities. Capitalising on recent work on financing global and regional public goods through ODA, the analysis will be extended to an evaluation of the impact of aid on health and education. The findings will have straightforward policy implications for the most effective use of ODA.

In spite of the launching of a UN MDG Campaign, and sustained communication efforts by Development Co-operation Ministries as well as by civil society organisations and networks,

the MDGs have yet to translate into significantly higher awareness among the public in DAC Member countries of global poverty and of the actions required for achieving the Goals. With the objective of drawing lessons for how to mobilise public opinion in favour of the Goals, the Centre is synthesising and updating existing data on public awareness and support for attaining the MDGs in order to analyse the factors behind the success of public campaigns such as Jubilee 2000 and the civil society and media campaign against “Blood Diamonds” from Africa.

### **ACTIVITY 3: GOVERNANCE REFORM AND INSTITUTIONAL DEVELOPMENT**

A key challenge for policymakers is to ensure that globalisation becomes more inclusive, so that its benefits are secured and shaped by a growing number of people in both developed and developing countries. This cannot be achieved unless institutions, from global to local, become more democratic, accountable and responsive to local conditions.

Work on this activity is focusing on enhancing pro-poor and pro-development institutions at the regional, national and local levels. It is through effective interaction, both at and between these levels, that participatory governance can best succeed in promoting sustainable and inclusive development. While much research has shown the importance of good governance for development, the “how to” question of getting there remains poorly understood. This project is therefore addressing policy makers’ and other key actors’ needs for a better understanding of the potential obstacles to achieving improved governance and an enhanced range of management tools that can deal with them.

In particular, the Centre is seeking to identify options for governance reforms and the promotion of governance-investment interlinkages. For that purpose, one strand of analysis, rooted in the Centre’s recent work on governance “culture”, is clarifying both the usefulness and widespread misuses, or limits to the usefulness, of national-level governance indicators by corporate and financial investors as well as by the international donor community. Regarding governance-investment interlinkages, the Centre aims to clarify and provide policy recommendations, based on in-depth country studies, on *a)* the various public regulatory and supervisory challenges facing corporate and public governance and the policy measures likely to maximise the positive net impacts of institutional investors and other key local and international actors; and *b)* how improved corporate and political governance institutions can work together not only to induce greater domestic and international investment (direct and portfolio) but also to derive greater benefits from such investment for the host economy in terms of the impact on long-term productivity growth. Brazil, Chile, China, India, Mexico, Peru, Morocco and Turkey are among the countries that have been chosen for in-depth analysis.

Work on institutional change at the local level, also at the heart of the development process, is focussing on two main activities, namely *a)* achieving pro-poor decentralisation in the health sector, and *b)* overcoming the institutional bottlenecks that constrain private sector development.

Achieving the MDGs will require substantial improvement in health outcomes throughout the developing world. Most developing countries' health sectors are engaged in substantial reforms to improve the efficiency and quality of health care provision. The associated transfer of public functions from higher tiers to lower tiers of governance affects the health system by changing its regulatory structures; this change might improve or worsen the efficiency, equity, accessibility and responsiveness of a health system as well as health outcomes, e.g. infant mortality and immunisation rates. By comparing the experience of China with India it is envisaged that policy conclusions will be drawn concerning the "how to" question of making decentralisation processes in the health sector of developing countries more pro-poor.

Overcoming the institutional bottlenecks that constrain entrepreneurial activity and private-sector development is a prerequisite for achieving pro-poor growth; this is particularly important for Africa. One part of the Centre's research focuses on the agricultural sector in Africa in order to analyse the degree to which the lack of agricultural development can be attributed to specifically agricultural institutions (agricultural input and output markets, land tenure, research and extension) or to the general environment outside agriculture (physical, legal and financial infrastructure, political governance). Complementary to this work, a related activity addresses the fundamental question of why there is so little incentive for saving and for investment in productive activities in Africa. An attempt is being made to identify and measure the impact of cultural practices on the saving and investment behaviour of households by comparing African experiences with other regions in the world. The overall objective of both activities is to draw lessons for how the identified institutional constraints can best be remedied.

#### **ACTIVITY 4: CONTRIBUTING TO THE OECD-NEPAD INITIATIVE**

Almost three years after its formal adoption by the Organisation for African Unity as the integrated socio-economic development framework for Africa, NEPAD has yet to deliver on the expectations it created within African countries and among its OECD partners. To support the Partnership between OECD and African countries, the Centre is monitoring the year-on-year evolution of African economies and is providing longer-term analysis on specific structural issues.

One strand of this work is a joint African Development Bank (AfDB) - OECD Development Centre project partly funded by the European Commission, the *African Economic Outlook* (AEO). This is an annual report on 30 African countries and their short-term likely evolutions. The project feeds into the OECD's efforts to support the NEPAD process by raising private-sector awareness, by encouraging social dialogue and by serving as an important potential input to the "African Peer Review Mechanism". It also provides key information on structural issues such as privatisation and energy supply. As much as a product designed to inform decision-making, the *African Economic Outlook* project is also a capacity building process, both within the AfDB and among the network of local correspondents in the countries examined. As a result, the African ownership of the report is steadily increasing.

In addition, the Centre is seeking to assess deeply rooted institutional obstacles to political and economic reform, as well as to identify innovative ways of promoting development-friendly policies in that context. The focus here is on two specific issues: the first concerns the evolution of political systems in sub-Saharan Africa and in particular the question whether there are prospects for African states to become "capable states" or to turn into "developmental states" within the next

decade; the second is related to institutional obstacles to agricultural reform in Africa. A decade of experience of liberalisation in agricultural markets has demonstrated the need to accompany the market liberalisation process with additional policy measures that address the particularly high unit transaction costs in rural and remote areas. The objective of this project is to identify the institutional innovations needed to make policy reforms effective, including problems of input markets (credit, fertilizer, seeds), technology adoption and social protection.

## Co-ordinators

<b>ACTIVITY 1: POLICY COHERENCE AND PRODUCTIVE CAPACITY BUILDING</b>		
Analysis of the coherence of aid, investment, migration and trade policies	Jeff Dayton-Johnson	E-mail: <a href="mailto:Jeff.Dayton-Johnson@oecd.org">Jeff.Dayton-Johnson@oecd.org</a>
Assessment of the impacts of migration on receiving and sending countries	Louka T. Katseli	E-Mail: <a href="mailto:Louka.Katseli@oecd.org">Louka.Katseli@oecd.org</a>
Assessment of measures to promote capacity building and export diversification	Ki Fukasaku	E-mail: <a href="mailto:Kiichiro.Fukasaku@oecd.org">Kiichiro.Fukasaku@oecd.org</a>
Assessment of the developmental impact of China and India's ascendancy	Helmut Reisen	E-mail: <a href="mailto:Helmut.Reisen@oecd.org">Helmut.Reisen@oecd.org</a>
<b>ACTIVITY 2: DEVELOPMENT FINANCE AND PUBLIC SUPPORT</b>		
Assessment of optimal mix of grants and loans	Helmut Reisen	E-mail: <a href="mailto:Helmut.Reisen@oecd.org">Helmut.Reisen@oecd.org</a>
Appraisal of innovative sources of development financing	Helmut Reisen	E-mail: <a href="mailto:Helmut.Reisen@oecd.org">Helmut.Reisen@oecd.org</a>
Policy dialogue on development finance architecture and effectiveness	Henri-Bernard Solignac Lecomte	E-mail: <a href="mailto:HBSL@oecd.org">HBSL@oecd.org</a>
Assessment of public awareness in OECD countries of development issues	Ida McDonnell	E-mail: <a href="mailto:Ida.McDonnell@oecd.org">Ida.McDonnell@oecd.org</a>
<b>ACTIVITY 3: GOVERNANCE REFORM AND INSTITUTIONAL DEVELOPMENT</b>		
Identification of governance-investment interlinkages and options for governance reform	Charles Oman	E-mail: <a href="mailto:Charles.Oman@oecd.org">Charles.Oman@oecd.org</a>
Assessment of the role of local institutions and the bases of pro-poor decentralisation	Johannes Jütting	E-mail: <a href="mailto:Johannes.Jutting@oecd.org">Johannes.Jutting@oecd.org</a>
<b>ACTIVITY 4: CONTRIBUTING TO THE OECD NEPAD INITIATIVE</b>		
<i>African Economic Outlook</i> report	Céline Kauffmann	E-mail: <a href="mailto:Céline.Kauffmann@oecd.org">Céline.Kauffmann@oecd.org</a>
Assessment of political governance systems in sub-Saharan Africa	Henri-Bernard Solignac Lecomte	E-mail: <a href="mailto:HBSL@oecd.org">HBSL@oecd.org</a>