

Policy coherence for development

The world beyond aid

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Summary

Policy coherence for development (PCD) has been a regular part of discussions on development policies since around 1990. Potentially, it is one of the most powerful instruments in the fight against poverty, but making sure it is effective is an enormous challenge, in which transparency and political commitment are decisive factors. The Netherlands has done pioneering work in setting up an explicit institutional framework for coherence. Many important lessons have been learnt from this in the last five years. Within the broader donor community, PCD is still in an early and experimental phase. It is therefore essential to make the concept more operational in the EU and other international fora, mobilise a more broad-based political constituency at home, and build coalitions with developing countries. The future agenda of policy coherence for development will have to be based on broadening the political constituency, shared global interests and better poverty impact assessments.

Introduction

It is widely accepted that achieving the Millennium Development Goals requires much more than just providing developing countries with aid, and that policies in areas such as trade, agriculture, fisheries, migration, security, climate change and environment are crucial. Coherent and comprehensive policies are essential in reducing poverty and fulfilling international development commitments. While coherence as a concept has gained wide international recognition, only a few donor countries have taken concrete steps to implement it.

What is policy coherence for development?

While the term coherence may be relatively new, the notion that development has to be seen in the context of world markets and a global environment has always been part of the development discourse. Although financial transfers dominated early development theories it soon became apparent that relationships with developing countries are complex and that aid is not necessarily the most important factor determining our impact on poverty in these countries. From the 1970s,

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this was reflected in the development debate by a variety of concepts: trade not aid, self-reliance, interdependence, integrated foreign policy, security and development, sustainable development, global public goods, etc. The phenomenon of globalisation has further contributed to a rebalancing of the aid-centred development paradigm and stimulated global policy reform. The Monterrey consensus on development financing led to the introduction of the concept of a global development partnership, which implies reciprocal obligations between rich and poor countries aiming at a more equal distribution of the benefits of globalisation.

As a result of this broadening of the development paradigm, policy coherence for development has been a regular theme in discussions on development policy since around 1990. Coherence can be promoted at different levels: within development cooperation, between aid and non-aid policies of one donor country, between donors, and between donors and recipients. In the context of this article, the concept refers only to intra-donor coherence. The term ‘policy coherence for development’ was first coined by the OECD/DAC, which did pioneering work on translating the concept into policy recommendations in the late 1990s. According to the OECD definition policy coherence for development means working to ensure that the objectives and results of a government’s development policies are not undermined by other policies of that government which impact on developing countries, and that these other policies support development objectives, where feasible.

Of course, as national or international interests compete, fully coherent policies are often not feasible. Development is not the only goal of government policy and competing interests like employment, safety standards for consumers, environmental quality and moral convictions, carry a lot of weight. In a democracy, these competing interests will lead to compromises, within which the extent to which some interests override others is a matter of stakeholder power and political positions. Even where win-win situations are possible in theory, a lack of information and communication between different policy areas often results in incoherence. In the literature, a distinction is sometimes made between intended and unintended policy coherence, with the latter being caused by a lack of transparency and information. In practice coherence within a specialised group of subjects (like international property rights) is often secured at the expense of incoherence across groups. To overcome this problem, policy coherence is often equated with a ‘whole of government’ approach, which aims to involve all relevant government policies in the pursuit of a specific political goal.

In this general sense policy coherence is part of effective governance and can be relevant to any goal of government policy. To make the general concept operational it needs to be combined with a clearly defined goal, such as development, sustainability or security. In the case of development the MDGs offer an internationally agreed context for coherence. MDG 8 in particular spells out the international community’s commitment to deploy all policy tools to achieving the other seven goals. MDG 8 entails developing a global partnership for development, in particular through policies in the areas of trade, finance, debt, decent work, essential drugs and technology.

Why is policy coherence for development important?

Coherence is already relatively well embedded in the organisation of the Ministry of Foreign Affairs in The Hague and even more so at the embassies. One of the ministry’s core tasks is to coordinate European policies in different sectors. Various divisions deal with issues like migration, environment, health, energy, climate and security in close collaboration with the relevant sector

ministries. Within this structure the drive for policy coherence for development underlines the importance of development or poverty goals in the context of the different themes.

Policy coherence for development aims to create a global environment that enables developing countries to integrate and thereby accelerate their internal development processes. The potential benefits in terms of poverty reduction are enormous: increased export revenues and remittances, the peace dividend, reduced environmental costs, cheap medicines. All these benefits can easily dwarf the impact of aid flows. The costs of incoherent policies, on the other hand, can seriously obstruct development.

How coherent policies can contribute to development - three examples

Halting the spread of HIV/AIDS in Africa is a top priority for development cooperation. Due to the WTO Agreement on Trade Related Intellectual Property Rights (TRIPs), however, most African countries had no access to expensive patented anti-retroviral medicines. After much international debate, the WTO addressed this potentially dangerous lack of policy coherence in a new decision on TRIPs and Public Health, enlarging the flexibility for poorer countries to acquire cheaper medicines by issuing licenses to producers.

Huge trade-distorting cotton subsidies provided by the US, EU and China are a key issue in policy incoherence as they undermine development efforts, in particular in West Africa. The Netherlands led the call for reform of the EU Cotton Regime, in particular making the remaining European subsidies fully independent of production (decoupling). The 65% decoupling achieved is an important step towards market-based prices for cotton. Within the WTO, the Netherlands supported four African cotton producing countries in pushing the issue of cotton subsidies by the rich countries (in particular the US) to the centre of the agenda of the Doha round.

The recent surge of interest in biofuels in the context of energy and climate policies has drawn attention to the special position of developing countries in this sector. Their comparative advantage in producing bio-ethanol can be thwarted by high tariffs, subsidies and unilateral rules on sustainable biomass in developed countries, while mandatory blending requirements for transport fuels can have unintended negative consequences for food prices, local food production and food security. Opening markets, disciplining subsidies and multilateral agreements on sustainability criteria could produce win-win situations for development, environment, energy and climate goals.

Ultimately, developing countries seek a structural solution to their poverty problems in which they no longer need aid, special protected status or privileges. This process takes time, however, and in the meantime the vulnerability of the poorest countries warrants giving them a special status within global rulemaking. This status will be more effective if there is a willingness to differentiate between developing countries on the basis of objective criteria. Brazil, for example, is not the same as Mozambique and does not need the same privileges. The poorest countries do not, however, possess the negotiating power to claim a special status within global rulemaking themselves. This will therefore not happen without the explicit support of more coherent pro-development policies in developed countries.

Approaches to promote policy coherence

General principles for policy coherence for development have been formulated in the context of the EU and the DAC. Individual donor countries have, however, chosen different approaches to promote PCD, based on the different traditions and specific characteristics of their bureaucracies and political decision-making processes. The DAC guidelines on poverty reduction provide a checklist of priority policy areas for coherence, which some countries have translated into national coherence mechanisms, such as inter-agency working groups, task forces and contact points. In most cases these mechanisms are not clearly embedded in an overall analytical policy framework. One possible exception is Sweden, which introduced a whole of government approach for global development in 2003. This does not replace the objectives formulated in other policy areas but challenges these areas to formulate policy in a way that utilises every opportunity to contribute simultaneously to equitable and sustainable global development.

Since 2002, PCD has been identified as a priority in Dutch development policy statements. The Netherlands was one of the first countries to introduce an explicit institutional PCD framework and has set up a special Coherence Unit within the Ministry of Foreign Affairs. This unit acts as a catalyst in key coherence dossiers and screens new policy proposals for their impact on developing countries. The activities of the Coherence Unit during its first four years have been evaluated positively and its mandate has been extended to 2010.

The work of the Coherence Unit tends to concentrate on EU policies. Competences and decisions in key areas like agriculture and trade have been transferred to EU level, where the Netherlands is only one of 27 players involved in decision-making and the impact of our own PCD policies depends on the commitment of others to the same goal.

Within the EU, coherence was one of the three Cs – coherence, coordination and complementarity – incorporated in article 178 of the Treaty of Maastricht in 1992, when European development cooperation was given a legal basis for the first time. A recent evaluation of these principles by the European Centre for Development Policy Management (ECDPM) concluded that the promotion of PCD in the EU is still in a largely experimental stage. Mandates often lack clarity, goals are not very precise, modalities are still being refined and the need for a PCD system is seldom recognised. This led the evaluation to conclude that it is still unclear how politically committed EU governments and institutions really are to PCD. It underlines the need for strategies to maintain political support for PCD over the longer term. The study presents a set of possible guidelines for setting up a comprehensive PCD system in EU member states. This amounts to an institutional structure that should include at least three types of approach: a policy statement, an institutional and administrative mechanism, and a knowledge and assessment system. The latter in particular is lacking almost everywhere.

Important steps in setting up formal institutional mechanisms for PCD have been taken within the EU system itself in recent years, with Council conclusions formalising the commitment of member states and the Commission. A rolling PCD work programme and a bi-annual PCD report should guarantee some form of continuity in these activities. The first EU PCD report, published in September 2007, confirms however the conclusions of the ECDPM study: ‘The mechanisms examined were relatively effective, but constraints on effectiveness were identified in all cases. The most common obstacles included lack of adequate political support, unclear mandates and insufficient resources.’²

2 ECDPM et al, Evaluation Study on the EU Institutions’ and Member States’ Mechanisms for Promoting Policy Coherence for Development, 2007, p. 6.

A case of coherence in Brussels: reform of the EU sugar market

In February 2006, the EU adopted a regulation on reform of the EU sugar regime. Key features were a reduction in the guaranteed price of sugar in the EU market over four years, a reduction in production quotas and the abolition of export subsidies. Although the reforms rationalised the highly subsidised EU sugar market, they threatened the position of sugar exporting countries in the African, Caribbean and Pacific (ACP) regions which are heavily dependent on preferences and high prices.

The new institutional coherence mechanisms within the European Commission and the results of impact assessments were crucial in securing the involvement of DG Development in the discussion on the reform. The DG's intervention led to a more balanced and development-friendly regulation and the adoption of accompanying measures in support of the developing countries affected. These measures were not foreseen in the original Commission proposal, but were the result of a process which allowed DG Development to pinpoint the difficulties for ACP countries and share its concerns with other Commission services.

The main issues pointed out by DG Development and taken on board included the following: the initially planned midterm review of the reform was abandoned, as it would have created uncertainty and affected investments; the price cut was limited to 36% rather than 39% as proposed earlier; the ACP countries were treated on a more equal basis with EU producers in terms of the price cuts.

This case is presented by the EU Commission as a successful PCD intervention but can also be seen as illustrating the small margins in international decision-making, where a concentrated coherence effort could only, in the end, make a few percentage points difference.

Source: EU Report on Policy Coherence for Development, September 2007

Lessons learnt

The Netherlands' experience of working with a PCD Unit for five years identifies a number of practical elements that are crucial for the success of PCD activities:

- Commitment at the highest political level. People working on PCD should preferably be able to count on the backing of a minister with full cabinet status responsible for development. Explicit government-wide policy statements on coherence can provide formal justification for intervention in specific dossiers. These statements can be linked to the MDG commitments. In some countries, a formal legal framework has proven helpful: in Sweden, for example, all areas of policy are responsible for achieving sustainable development. The danger of these kinds of legal requirements is, however, that they result in abstract reporting.
- Acknowledgement of the 'two-way street' nature of coherence. Development policy-makers should be flexible enough to learn from the experience of other policy communities. Cooperation can be promoted by the strategic use of development cooperation funds, but financing projects suggested by other ministries is only acceptable if they are part of broader programmes and policies based on the ownership of the recipient countries.
- Leaving competences and responsibilities where they belong. All activities with non-aid ministries, through both informal exchanges and formal interministerial structures, should be closely coordinated and a common commitment to pro-poor outcomes created.
- Focusing operational activities on specific targets and dossiers. Without this focus, PCD risks

- becoming another highly abstract theme without much relevance to actual policies.
- Coalitions are crucial. Depending on the topic, these should involve other ministries, likeminded donor countries, NGOs and, where possible, the developing countries concerned. NGOs play a crucial role in rallying political support. Active involvement of negotiators from leading developing countries is often key. A structured system of consultations with embassies helps to identify coherence issues at country-level.
 - Transparency is the first step towards coherent policies. Not only can it prevent unintended incoherence but it is also effective where there are clashes of interest. Making the interests of developing countries explicit in the decision-making process can be an eye-opener. Interests can only be weighed up if people are aware of them. The media play a central role here in informing public opinion.
 - Adequate staff capacity to analyse and act on complex non-aid policy issues. This must be supported by a network of academic contacts to provide background studies.
 - Assessing impact. The impact of PCD policies on poverty is not easy to quantify but will have to be made plausible. More evaluation of PCD-type policies is needed on the basis of the pioneering work by the OECD, which has developed a methodology for assessment (Picciotto, 2005).

Some practical examples in Dutch policies

- *Strategic use of development funds: aid has been used to support policy goals in areas such as fisheries agreements with African countries (stock research in Mauritania), building trade negotiation capacity (for instance in the West African cotton initiative) and improving trade and institutional capacity for dealing with agricultural products affected by sanitary and phytosanitary measures.*
- *Focus: whereas the EU has a broad PCD work programme covering twelve policy themes, the Dutch Coherence Unit concentrates its activities on a more limited number of concrete proposals within four or five general themes, such as trade, agriculture, migration and environment.*
- *Building coalitions: the Netherlands was instrumental in initiating the informal EU PCD Network and was active in such ad hoc networks as the Cotton Club, the Sugar Club, the Fish Club, and the Agriculture, Trade and Development (ATD) Network.*
- *Transparency and impact assessment: on many specific European PCD matters, such as the reform of the sugar and cotton policies, the Netherlands has circulated discussion papers within the EU to facilitate information exchange and joint strategies with colleagues. These short papers can complement the formal EU system of impact assessments which often fails to highlight the developmental effects of policy proposals. Occasionally, more in-depth analyses are commissioned from experts, such as a recent study on the issue of non-trade concerns.*

The issue of using aid money to foster coherence is of course part of the broader and still underexposed topic of the relationship between policy coherence and aid policy. It is interesting to ask whether PCD can be valuable as an independent instrument of development policy or only as an integral part of a broader policy package. To give an example: it has been suggested that a PCD policy aiming at opening markets for certain export products from developing countries can only be effective within a general aid policy for private sector development in partner countries. It can be argued that aid policy is not the relevant coordination mechanism here. Linking the promotion of international market access to investment in export activities only makes sense if the policy of the developing countries concerned is taken as the starting point. There is no compelling reason why, for instance, the promotion of cotton production in West Africa should be financed by the same donor that is active in advocating the case for opening the international markets for cotton.

In practice however, there is every reason for bringing up the non-aid aspects of a development relationship in the context of donors' country strategies, like the EU country strategy papers. PCD and the aid process are complementary strategies that can reinforce each other. Policy coherence has a broad reach but will in most cases only indirectly benefit the poor, while aid policy is more limited but has the advantage that it can be directly linked to the pro-poor policies of the receiving country. Moreover, aid can help meet underlying infrastructure and capacity needs. This complementarity is a strong argument for broad partnership strategies between donors and receiving countries combining aid and non-aid policies. The EU-Africa Strategy is a good example of a coherent policy package where aid, trade and security policies are seen as instruments towards a common goal.

Incentives

Mobilising political support for PCD is not an easy task. Unlike the interests they have to compete with, the ultimate beneficiaries - the poor - have no direct voice in the local politics of developed countries. The development community will have to inject incentives for more coherent policy-making into the national political economy. Within the EU only a few countries have a tradition of development policies that go further than merely financing projects and organisations. Incentives for developing a broader PCD approach mainly result from peer pressure in the EU and the OECD/DAC, and sometimes from public opinion.

Civil society organisations have been campaigning for concrete action in implementing PCD in Europe. Well researched campaigns against cases of incoherence, such as EU-subsidised meat exports being dumped in West Africa, have attracted the attention of the media. The subsidies were clearly shown to undermine European aid projects in the Sahel to encourage meat production. Other cases of incoherence raised more recently relate to intellectual property rights, migration, the untying of aid, and arms exports. Cases are published regularly in the context of the European Coherence programme of the Evert Vermeer Foundation, a Dutch NGO for international solidarity, and Concord, the European NGO federation for relief and development.

Peer pressure at the level of international organisations operates mainly through the OECD and the EU. In the DAC, this resulted in PCD being placed on the agenda of the Committee's Peer Review system. Within the EU the recent PCD report describes activities in member states and provides suggestions for broadening the base for PCD.

One important publicity tool has been the yearly publication of the Commitment to Development Index by the independent Centre for Global Development in Washington. This index ranks 21 OECD countries every year on how well their policies support development. It includes seven policy areas: aid, trade, investment, environment, migration, security and technology. As there is little independent evaluation of coherence policies available, the index offers a rare opportunity to compare and assess the policies of different high-income countries. It shifts attention from policies in the South to policies in the North and provides incentives for countries lagging behind. Measuring the effect of policies is a complex task and a relatively simple index can only provide an approximation. In terms of transparency and raising awareness, however, the index has proven an indispensable tool.

Assessment

Policy coherence for development is potentially one of the most powerful instruments of development policy. In practice, however, it is not yet as effective as it should be. Even though progress has been made in the last ten years, a number of structural impediments continue to limit the impact of development policy beyond aid. The relative low weight that international development goals carry in national politics as well as the competing claims from other international issues (climate, terrorism, human rights) sometimes contribute to a lack of priority for PCD among decision-makers. The capacity to present the options clearly is strained by the sheer number of policy fields involved and the diverse - and hence diverging - interests among developing countries. Setting up institutional mechanisms within a consistent PCD framework is at best in an experimental phase in most donor countries.

The real litmus test of course lies in the results of political decision-making, especially where interests diverge in the short term. Further progress is certainly possible and would make a substantial contribution to the achievement of development goals. This drive could benefit from the existing trend towards more holistic development strategies, at the level of both national poverty programmes and donor-recipient partnerships. The Netherlands has introduced a fairly elaborate PCD framework within its own decision-making process but this can only be effective if it is supported by similar mechanisms in other donor countries and organisations. Operationalising the concept in the EU and in organisations like the OECD and UN remains a top priority. Such a framework should rest on better analyses and poverty impact studies and close cooperation with stakeholders. Priorities should be based on the poverty impact of particular policies in developed countries and alignment with the policies of the developing countries involved.

In the longer term the position of policy coherence for development should be assessed in the context of its role in the general framework of international policy-making. Since the introduction of the concept in the 1990s, the international discussion has had a strongly procedural and institutional bias. Keywords have been 'effectiveness', 'systems' and 'mechanisms'. This focus on practical institutional arrangements is understandable where the lack of mechanisms was clearly an obstacle to progress. But PCD is more than just another instrument of development policy; it is supposed to be part of a broader framework of international cooperation in which mutual interests provide the political base. It is about the positioning of developing countries in the process of globalisation and global governance, and the role of differentiation, level playing fields and policy space. Their special position will have to be reconciled with the competing claims of other global interests, such as the environment and human rights. Topical global issues like migration, energy and climate change will have to be analysed in a development context. Introducing these concepts not just in multilateral policy-making but also in bilateral relations on a country-specific basis will help to shape the future agenda of policy coherence for development.

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