Better Policies for Development 2015

POLICY COHERENCE AND GREEN GROWTH

OECD

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BETTER POLICIES FOR BETTER LIVES

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Foreword

by

Angel Gurría, OECD Secretary-General

The 2015 edition of Better Policies for Development *comes at a critical time. In 2015 – the target year of the Millennium Development Goals (MDG) – the international community is forging a new global framework for sustainable development. The post-2015 development agenda offers an unprecedented opportunity to make extreme poverty history; to place the world on a sustainable development path; and to ensure well-being and prosperity for all while protecting the planet.*

The universal, transformative and integrated nature of the new agenda has wide-ranging implications. The international community, including the OECD and its members, will need to adapt approaches, policy instruments and working methods to achieve the new Sustainable Development Goals (SDGs) by 2030. This report introduces the concept of Policy Coherence for Sustainable Development (PCSD) and shows how it can support the achievement of the new Goals.

PCSD is a policy tool to systematically integrate the economic, social, environmental, and governance dimensions of sustainable development into policymaking, and ensuring that they are mutually supportive. This year's edition is focused on green growth strategies. Central to achieving the SDGs, realising green growth calls for the application of PCSD to key policy areas, such as water, climate, energy, infrastructure, economic growth and development. Better Policies for Development 2015 *highlights the actions involved in aligning separate – and sometimes opposing – policy objectives.*

The post-2015 agenda, which encompasses the new SDGs, is the result of a vast public consultation. In this spirit of inclusiveness, this year's edition of Better Policies for Development *includes contributions from key thinkers, academics, and representatives from civil society who have helped to sharpen our understanding of this new agenda and its implications for our work.*

The OECD's work on policy coherence for sustainable development is one important element within a wide-ranging OECD effort to help implement the SDGs globally. I hope readers in all countries find our Better Policies for Development *series to be useful as they design and implement policies that advance sustainable development.*

Angel Gurría,
OECD Secretary-General

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Executive summary

The implementation of the Post-2015 Development Agenda demands policy coherence at multiple levels. This edition of Better Policies for Development puts the spotlight on the Post-2015 Development Agenda and shows that countries need to be able to work across policy domains to respond to the more complex and interrelated challenges addressed by the SDGs. As UN Members have identified an integrated set of Sustainable Development Goals (SDGs), the importance of policy coherence for the collective achievement of these goals cannot be emphasised enough. A key lesson from the MDGs was that sustained change cannot be achieved through one-dimensional or single sector goals. A coherent strategy must ensure that the implementation of one goal reinforces (or at least does not undermine) the achievement of other goals.

The scope of the policy coherence agenda has expanded in many ways and concerns all countries regardless of their development level. Chapter 1 considers the ways in which the concept has evolved in light of the post-2015 Development Agenda by tapping into the collective knowledge pool of a number of distinguished thinkers, including Catherine Mann, OECD Chief Economist; Amina Mohammed, UN Special Advisor on Post-2015 Development Planning; Erik Solheim, Chair of OECD's Development Assistant Committee (DAC); Jiang Ye, Shanghai Institutes for International Studies; former DAC Chairs James Michel and J. Brian Atwood; and Richard Carey, former Director of OECD's Development Co-operation Directorate.

New policy coherence tools are needed to take into account today's more complex policy inter-linkages (e.g. the water-energy-food nexus). The implementation of the SDGs will require whole-of-government approaches and strengthened institutional coordination and coherence at all levels of policy-making. This will contribute to ensuring more integrated policy frameworks for sustainable development; promote synergies between economic, social and environmental policies; identify trade-offs; and consider transboundary and inter-generational impacts. Chapter 2 illustrates how a new analytical framework for Policy Coherence for Sustainable Development (PCSD) can help inform policy making in this new context.

The report applies a policy coherence lens to the issue of green growth and sustainable development. Green growth can be defined as 'growth that fosters economic growth while ensuring that natural assets continue to provide the resources and environmental services on which our wellbeing relies'. To do so sustainably, Chapter 3 shows that green growth strategies need to pursue not only the opportunities for growth and development, but also the management of environmental and economic risks. Notably, green growth can enable economic growth and development through expanding markets for green technologies and services, improving market confidence with greater clarity regarding environmental policy, and incentives for innovation and efficiency improvements. Environmental damage and resource scarcity, on the other hand, can be considered disablers of growth and development. Developing countries are particularly vulnerable to environmental risks, with natural assets representing over one quarter of wealth. For these countries, green growth policies also support better management of natural assets (land, forests, water resource) which is an important driver of growth. Policy coherence for sustainable development can support local, national and global efforts to pursue green growth objectives, and help achieve the SDGs.

The post-2015 framework and the Sustainable Development Goals have also brought measurements of sustainability to the forefront, requiring countries to identify synergies and trade-offs between economic, social and environmental objectives and to monitor the coherence of their policies. Up until now, OECD countries' efforts to monitor policy coherence have concentrated mainly on institutional mechanisms, as conceptualised by the three "building blocks" for PCD: political commitment; coordination mechanisms; and monitoring systems, analysis and reporting. Implementing the post-2015 agenda, however, will require a broader approach for tracking coherence domestically. Our work on monitoring PCSD is presented in Chapter 4, which illustrates how OECD indicators, policy instruments and dialogue tools can contribute to an enhanced understanding of policy interactions and potential effects on human wellbeing 'here and now', 'elsewhere', and 'later'. The purpose of this long-term exercise is to incentivise more effective dialogue among stakeholders and to inform coherent policy-making. The initial focus for monitoring is on the three priority areas identified in the Strategy on Development: global food security; illicit financial flows; and green growth.

Policy coherence for sustainable development aims to strengthen governments' capacities to address more complex challenges. The new agenda offers opportunities for countries to adjust their domestic policies, institutions and mechanisms to promote PCSD in a post-2015 context. Chapter 5 provides an overview of recent or ongoing national efforts to this end. Some countries showcase the institutional mechanisms they have in place (or are developing) in order to implement the new agenda, while others highlight specific sectors in which coherent policy making has contributed to improved development outcomes. It shows that progress is being made, with countries embedding their coherence mechanisms into the machinery of government. An encouraging trend, evident also in last year's report, is the deeper engagement, understanding, and relationships between the development sphere and different line ministries. This chapter also highlights a number of recent or ongoing civil society initiatives for promoting policy coherence.

Acronyms and Abbreviations

AEOI	Automatic Exchange of Information
AMIS	Agricultural Market Information System
BEPS	Base Erosion and Profit Shifting
BERD	Business Enterprise Research and Development
BRICS	Brazil, the Russian Federation, India, China and South Africa
CBDR	Common But Differentiated Responsibilities
CCS	Carbon Capture and Storage
CEPAL	Economic Commission for Latin America and the Caribbean
CGE	Computable General Equilibrium
CHP	Combined Heat and Power
CILSS	Permanent Interstates Committee for Drought Control in the Sahel
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
CO2	Carbon Dioxide
COP	UN Convention on Climate Change Conference of the Partners
DAC	OECD Development Assistance Committee
DRM	Domestic Resource Mobilisation
ECDPM	European Center for development Policy Management
ECOWAS	Economic Community Of West African States
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EPAs	Economic Partnership Agreements
EPRs	Environmental Performance Reviews
EUR	Euro (currency)
EYD	European Year for Development
FAC	Food Assistance Convention
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FfD	Financing for Development
FiT	Feed-in Tariff
FODEP	Pollution Cleanup Fund (Fonds de depollution)
GDP	Gross Domestic Product

GEF	Global Environment Fund
GFI	Global Financial Integrity
GFMD	Global Forum on Migration and Development
GHG	Greenhouse gas
GPEDC	Global Partnership for Effective Development Co-operation
GVCs	Global Value Chains
ICTs	Information and Communication Technologies
IDR	Indonesian Rupiah (currency)
IEA	International Energy Agency
IFFs	Illicit Financial Flows
ILO	International Labour Organization
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IO	Input-Output
IOTA	Intra-European Organisation of Tax Administrations
IUU	Illegal, unreported or unregulated (fishing)
LCRs	Local Content Requirements
MAPS	Methodology for Assessing Procurement Systems
MDGs	Millennium Development Goals
MDRCs	Multi-Dimensional Country Reviews
(MED EUWI)	Mediterranean Component of the EU Water Initiative
MFA	Ministry of Foreign Affairs
MoI	Means of Implementation
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OWG	Open Working Group
PCD	Policy Coherence for Development
PCSD	Policy Coherence for Sustainable Development
PFI	Policy Framework for Investment
PFIA	Policy Framework for Investment in Agriculture
PPPs	Public-Private Partnerships
PSE	Producer Support Estimate
R&D	Research and Development
REDD+	Reduction in Emissions from Deforestation and forest Degradation
RPCA	Food Crisis Prevention Network (Le Réseau de Prevention des Crises Alimentaires)
SAIs	Supreme Audit Institutions
SDGs	Sustainable Development Goals

SEEA	System of Environmental-Economic Accounting
SMEs	**S**mall and Medium-sized Enterprises
StAR	Stolen Asset Recovery Initiative
STRI	Services Trade Restrictiveness Index
SWAC	Sahel and West Africa Club
TiVA	Trade in Value-Added
UEMOA	West African Economic and Monetary Union
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
USD	United States dollar (currency)
WTO	World Trade Organization

Better Policies for Development 2015
Policy Coherence and Green Growth

Chapter 1

Insights on the transition to a universal development agenda

The scope of the policy coherence agenda has expanded in many ways and concerns all countries regardless of their level of income and development. This chapter considers the ways in which the concept has evolved in light of the post-2015 Development Agenda by tapping into the collective knowledge pool of a number of distinguished thinkers, including Catherine Mann, OECD Chief Economist; Amina Mohammed, UN Special Advisor on Post-2015 Development Planning; Erik Solheim, Chair of OECD's Development Assistant Committee (DAC); Jiang Ye of the Shanghai Institutes for International Studies; former DAC Chairs James Michel and J. Brian Atwood; and Richard Carey, former Director of OECD's Development Co-operation Directorate.

Transitioning to a universal development agenda beyond 2015

The year 2015 is a turning point for development, and for policy coherence, with a stronger emphasis throughout the Sustainable Development Goals (SDGs) on the need for mutually supportive policies and enabling environments for development. This means 2015 is also a time to reflect on the changing role of policy coherence for development: how the concept and the mechanisms we use to apply it have developed since their inception in the 1990s; how we will need to adapt them to the new Post-2015 Development Agenda, including by putting sustainability at the core; and how governments can work more effectively with other partners in order to promote better policy coherence.

This chapter begins with reflections from **Catherine Mann**, OECD Chief Economist, who elaborates on the need for policy coherence to make the most of globalisation. She distinguishes between three key dimensions of coherence: internal policy coherence to increase resilience; international policy coherence to support collective actions; and international policy coherence to deal with possible negative spillovers.

Assistant Secretary-General and Special Advisor of the UN Secretary-General, **Amina J. Mohammed**, puts policy coherence at the heart of universality, noting that it will be at the core of the transformations. All countries, developed and developing alike, have now the challenge and opportunity of building a whole-of-government approach for sustainable development.

Erik Solheim, the Chairman of the Development Assistance Committee (DAC), underscores the need for coherence between the development and environment agendas, noting that one of the biggest challenges going forward will be to completely disconnect global economic growth from increasing greenhouse gas emissions.

Jiang Ye, Director of the Institute for Global Governance at the Shanghai Institutes for International Studies, considers how policy coherence is linked to the differentiated responsibilities of countries in the post-2015 framework;

Former DAC Chairs **James Michel** and **J. Brian Atwood** reflect on the need to transition from a development assistance agenda to a universal, integrated and transformational global partnership, and how policy coherence interacts with political processes and priorities. **Richard Carey**, former Director of OECD's Development Co-operation Directorate, concludes with a discussion on how to address 'mega-issues' in global development, using the examples of urbanisation and financial integrity.

Policy coherence for a stronger world economy, by Catherine Mann, OECD Chief Economist

The global economy has become ever more interconnected and complex. Does this mean closer co-operation between countries and greater policy coherence is also needed?

Globalisation implies increased trade and financial integration, which may exacerbate the propagation of shocks via trade and financial flows make investment decisions more complex. International production, trade and investments have been increasingly organised within so-called global value chains (GVCs) with the different stages of the production process located across different countries. As a result, the goods and services we buy now are made of inputs from around the world. New OECD analysis illustrates how investment decisions have become more deeply global and increasingly complex. Complementary OECD work on GVCs and Trade in Value-Added (TiVA) shows that this requires a radical change in the way we look at trade and investment policies and, more broadly, at structural policies.

Multinationals are a key player in both the real and financial spheres. As producers of goods and services, they allocate investment on a global scale, and with domestic investment and foreign investment sometimes as complements and sometime as substitutes. Domestic investment decisions are driven not just by local demand, but also by global and regional demand. As a result, many domestic policies (towards openness, domestic knowledge base, labour costs, infrastructure and taxes) directly influence the location of mobile investments. By the same token, policy decisions in other countries may strongly affect local investment.

International financial integration accelerated in the decade prior to the financial crisis, making the international transmission of financial shocks extremely fast and complex, as illustrated by the global financial crisis. Despite a pause in global financial integration and progress on financial regulation, the global economy remains vulnerable to capital flow volatility. The current conjuncture of abnormally low inflation and interest rates, where risk taking and leverage seem again driven by liquidity rather than fundamentals, makes this vulnerability even more acute.

Against this background, policy coherence is essential to make the most of globalisation. Three key dimensions are especially important in the current context with still sub-par economic growth, the risk of persistent stagnation in which weak demand and weak potential output growth feed each other in a vicious circle, and with potentially increasing financial vulnerability:

- First, there is a need for internal policy coherence: countries need to combine structural, fiscal, and monetary policies in a balanced and mutually reinforcing manner; excessive reliance on one or the other is a potential source of vulnerability.
- Second, there is a need for policy coherence among national policymakers to engage in coordinated collective policy actions that maximise the returns to growth, and inclusive and sustainable well-being.
- Third, domestic policy actions need to bear in mind international spillovers and possible return effects on their own economy.

Internal policy coherence to increase resilience

Policy coherence calls for the combination of mutually reinforcing policies to sustain economic growth and make it more inclusive. Despite a soft patch in some regions in early 2015 the global outlook has improved somewhat in recent months thanks to lower oil prices, less drag from fiscal consolidation and monetary easing by many central banks around the world. The ECB's bold and open-ended action was particularly welcome and is supporting euro area growth via its impact on asset prices, exchange rate, and lending rates. However, the quasi-exclusive reliance on monetary policy to support demand creates financial instability risks, while its ability to revive investment, which is key in breaking the vicious cycle between low demand and weak potential output, has been limited so far.[1]

Instead, as stressed in the OECD Economic Outlook from June 2015, fiscal and structural policies have to be engaged as well to support investment and productivity growth and put domestic economies and the world economy on a stronger pace. In particular, establishing credible medium-term fiscal plans and long-term structural reform strategies would reduce policy uncertainty that weighs on investment spending in Europe and Japan.

International policy coherence to support collective actions

Policy coherence also builds on the fact that coordinated actions tend to have significantly greater benefits than the sum of uncoordinated individual measures. In particular, globalisation of investment decisions means that the outcome of coordinated efforts to boost investment will be higher than the sum of individual national efforts.

The EU investment "Juncker plan" is an example of maximising the gains from policy coherence between countries and policy areas. The plan aims to mobilise at least EUR 315 billion of investments over 2015-2017 through three main levers: (i) efficiently mobilising public and private investment finance; (ii) supporting projects and investments in key areas such as infrastructure, education, research and innovation; and (iii) removing sector specific and financial regulatory barriers to investment. Overall this plan is beneficial in several respects:

- First, it provides an important opportunity to catalyse private investment using public support by effective and targeted relaxing of the fiscal constraints. It offers a rallying point for European policymakers to speak with one voice in support for a Europe-wide policy to promote growth. This could play a major role in reducing policy uncertainty regarding the future of Europe.
- Second, it focuses on infrastructure and networks industries sectors (telecoms, electricity, transport) as well as innovation, which have strong positive externalities and hence high potential to spawn private sector investment. This includes investment in cross-border infrastructure in network industries such as electricity, gas, and air and rail transport.
- Third, and more importantly, the plan combines investment spending with structural policies to complete the single market. The plan foresees (and critically depends on) the harmonisation of significant regulatory and non-regulatory barriers across sectors such as energy, telecoms, digital and transport, as well as of barriers in services and product markets.[2] OECD analysis suggests that European cross-border foreign direct investment (FDI) are constrained by unnecessary regulatory burdens as well as deep differences in rules across countries. According to our estimates, a broad reform package that reduces differences across countries by one fifth could increase cross-border FDI by between 7% and 25% in the EU.

Of course, the implementation of the Juncker plan is not without challenges, in particular related to the selection of project as well as the capacity to ensure that infrastructure projects are well managed over their full life-cycle, from design and development (including choice of instrument such as concessions, public-private partnerships (PPPs), contracting out etc. and choice of financing instrument) to maintenance and renewal.

International policy coherence to deal with possible negative spillovers

The third important dimension of policy coherence is related to international spillover effects of policy decisions. The challenge is that when countries focus on domestic policies and objectives, these might yield negative spillovers on other countries with possible negative return effects (spillbacks) on their own domestic economy. An illustration of one such policy coherence challenge is the diverging monetary policy between the United States, which is set up for higher rates in the coming year as appropriate for the U.S. economy, and the Euro Area and Japan, which continue to pursue further quantitative easing.

Not only are these policy divergences affecting the countries in question (particularly through their bilateral exchange rates), but their monetary policy divergence is a major source of potential financial turbulences and sharp exchange rate movements that could be disruptive, for some emerging economies as well as for small advanced countries (Switzerland, Denmark, Sweden have already felt some strains in late 2014/early 2015). Careful communication by the Federal Reserve System has helped smooth expectations, and helped avoid a repetition of the "taper tantrum" observed in the spring 2013 (when 'the Fed' first announced its intention to progressively remove exceptional monetary easing as the recovery strengthens). However, even with clear forward guidance to anchor financial markets' expectations, countries and especially emerging market economies should continue to prepare for the eventuality of renewed financial tensions and exchange rate volatility and reduce vulnerability further through macro-prudential and financial regulation and supervision including ensuring sufficient capital and liquidity buffers and reducing currency mismatches.

Focusing on the monetary and financial sphere is not sufficient preparation, however. This brings us back to the issue of coherence between the different policy tools. Just as there cannot be a reliance on monetary policy alone to revive growth, to prepare for volatile times, countries also need to address other sources of vulnerability. First they need to reinforce the credibility of their fiscal announcement and fiscal sustainability though a strong fiscal policy framework. Second, they need to revive growth-enhancing structural reforms which have slowed the past decade with the view of alleviating physical and social infrastructure bottlenecks and improving the business environment and the functioning of the labour market.

The new development agenda demands policy coherence, by Amina J. Mohammed, Assistant Secretary-General, Special Advisor of the UN Secretary-General on Post-2015

2015 offers a unique opportunity for global leaders and people to set the world on the path to poverty eradication and sustainable development. Member States will adopt the new sustainable development agenda, a universal and meaningful climate agreement, and a financing for development framework. Never before has the world had to face such a complex agenda in a single year.

The Secretary-General has presented his vision for the next development agenda in his Synthesis Report: "*The Road to Dignity by 2030: Ending Poverty, Transforming All Lives and Protecting the Planet*". Its overarching message is that we need a new universal compact. One that is people-centered and planet sensitive. Sustainable development is at its core, and poverty eradication is its highest priority.

The post-2015 Sustainable Development agenda is a bold, ambitious and truly transformative agenda that is both universal and adaptable to the conditions of each country. It places people at the center, integrates the economic, social and environmental dimensions of sustainable development. It recognises the nexus to peace, is rights-based, and leaves no one behind, addressing all forms of inequality, insecurity, and injustice, wherever they occur. It envisages major transformations on our patterns of economic growth to make them inclusive and sustainable.

The sustainable development goals have broken new ground with goals on inequalities, economic growth, decent jobs, energy, climate change, sustainable consumption and production, as well as peace, justice and institutions. These are all essential issues that speak to the priorities of citizens around the world. Universality lies at the core of this paradigm shift. It implies that all countries will need to change their development path, each with its own approach and according to their circumstances. The new agenda compels us to think in terms of shared responsibilities for a shared future.

Implementation will be the litmus test of this agenda and will require a strengthened global partnership for the implementation of the new development agenda; a partnership that should be equitable, inclusive, with mutual accountability and a fair sharing of responsibilities.

Implementation will also require serious financial commitment and other means of implementation.

Official Development Assistance (ODA) commitments represent the foundation of the multilateral system and delivering on them is a moral responsibility long overdue. Mobilising domestic resources to fund the agenda is most important, not only in terms of volumes required, but also to ensure country ownership. Building countries' capacities, effectively addressing illicit flows and strengthening tax co-operation is a priority. Urgent action is needed to mobilise, redirect, and unlock the transformative power of trillions of dollars of private resources for sustainable development and channel them to investments with long-term returns.

For implementation and monitoring that includes all stakeholders, a data revolution for the sustainable development agenda will be critical to support accountability and will be the lifeblood of participatory decision making.

Policy coherence for sustainable development will be imperative. All our policies and actions, domestic and international, impact on sustainable development. The new agenda demands coherence across the whole range of policies that shape sustainable development. This is at the heart of universality and will be at the core of the transformations. All countries, developed and developing alike, have now the challenge and the opportunity of building a whole-of-government approach for sustainable development. Mutual accountability will also apply to policy coherence.

As noted in the Synthesis Report, the OECD experience on peer review among its members may provide an excellent example of good practices for mutual accountability and integrating the economic, social and environmental dimensions of sustainable development in a coherent way. I encourage you to share the experience of the OECD on promoting policy coherence for development and to intensify your efforts.

What is good for the environment is good for development, by Erik Solheim, Chair of the OECD Development Assistance Committee (DAC)

The human development progress over the past 20 years has been greater than in any other period of human history. Extreme poverty, child mortality and the number of people dying from malaria have all been halved in two decades. People have never been so rich, healthy and well educated.

But too many people still live in poverty and hunger. Global growth has taken a heavy toll on the planet. The next challenge will be to eradicate extreme poverty by 2030 and promote global development while protecting the planet all at the same time. An enormous task for sure. But humanity now has the knowledge and all the resources we need to accomplish this historical task. The task will be easier if governments pull in the same direction instead of implementing incoherent polices. That is why we need policy coherence for sustainable development.

Firstly, policy coherence means that the entire government is going in the same direction. It would be more effective to support rainforest protection abroad while at home cracking down on the sale of illegally logged timber or products containing palm oil produced on deforested land. It would be much more effective to provide aid and promote investments to developing countries while fighting bribery, tax evasion and money laundering of illicit financial flows from developing countries. Africa is estimated to lose more in illicit capital flows than they receive in aid and investments combined. And most of these illicit flows go through international banks and end up in OECD countries.

It is very ineffective to promote solar or wind power while subsidising coal mining or cheap petroleum at the same time. Yearly tax breaks for fossil fuel companies in OECD countries are equivalent to 50% of all green energy investments in all OECD countries. Developing countries spend five times as much on subsidies on cheap petroleum than all private and public green energy investments combined. A global green energy revolution would happen overnight if governments shifted support from fossil to renewable energy.

Secondly, policy coherence means that the economy and the environment are going in the same direction. For too long we have had a system where what was good for the economy was bad for the environment. Too often profit has been private while the cost of pollution or destruction of forests and water resources is borne by the public. Someone is always getting rich from overfishing, unsustainable logging and factories dumping their waste in a river. For too long economic growth and development have been synonymous with increased greenhouse gas emissions. Economic growth must be disconnected from greenhouse gas emissions and environmental destruction.

There are many success stories to learn from. OECD countries have almost completely disconnected economic growth from the air pollution that causes health-hazardous smog and forest-killing acid rain. Ethiopia is on a mission to become a middle income country without increasing greenhouse gas emissions. Nicaragua has made an almost complete switch from fossil fuels to green energy. Brazil was able to reduce poverty and inequality, attract large amounts of foreign investments and reduce deforestation by 80% at the same time. Sustainable fisheries would increase the annual value derived from fisheries by more than USD 60 billion. We know that what is good for the planet can be good for the economy.

The big challenge will be to completely disconnect global economic growth from increasing greenhouse gas emissions. There was a glimmer of hope when global emissions stalled in 2014 for the first time in 40 years without the presence of an economic crisis. But we need to green our entire economies so it is possible to eradicate poverty and grow rapidly in a way that also benefits the planet. To do so we need policy coherence so that international agreements, national polices, public spending and private investments are pulling in the same green direction. The time has come for a total integration of environment and development policies!

Policy coherence for development in the post-2015 Sustainable Development Goals and its relationship with common but differentiated responsibilities, by Jiang Ye, Director, Institute for Global Governance, Shanghai Institutes for International Studies

At the time of writing, the intergovernmental negotiations on the United Nations (UN) post-2015 global development agenda are actively underway in the UN General Assembly. It is very likely that a formal post-2015 agenda, including SDGs, will be endorsed at the 70th UN General Assembly. This will replace the previous Millennium Development Goals (MDGs), which will meet their deadline at the end of 2015. However, it is really important for the theorists and practitioners in the international development circle to already now anticipate and consider the implementation of the new global development agenda. Policy Coherence for Development (PCD) will have a very strong impact on the implementation of the post-2015 SDGs, because the SDGs will require a more integrated approach to policy making, with more emphasis on coherence.

PCD is an approach and policy tool for integrating the economic, social, environmental and governance dimensions of sustainable development at all stages of domestic and international policy making (Soria Morales, 2014). The origins of the concept go back to successful European Non-Governmental Organisation (NGO) campaigns of early 1990s that required EU policy makers to take account of developing countries' interests when drawing up new policies which should be coherent or consistent with those development policies. In the late 1990s, the OECD formally adopted the special term – "Policy coherence for development" so as to clarify that "PCD" was about ensuring that policies first do not harm, and where possible contribute to international development objectives.

It is clear that the PCD concept initially emphasised the responsibility of developed countries to take into account the impact on developing countries when formulating domestic policies across different sectors (such as trade, finance, migration, security, technology, science). It thus originates from a North-South paradigm, with responsibilities for better policy coherence placed on developed countries, for the benefit of developing countries.

As the concept of PCD has evolved, it has gone beyond a 'do no harm' approach, with a requirement to seek synergies between development cooperation and other policies, as well as to correct existing incoherencies. The EU and the OECD have recently promoted PCD to apply to both developed and developing countries, to ensure that PCD is enhanced at different levels, for example, in developing countries, to seek better coherence between different areas of domestic policy, and thereby remove obstacles to development. These were commonly referred to as internal, intra-governmental, inter-governmental, multilateral, multi stakeholder and developing country coherence. (Knoll, 2014) The result of the promotion of PCD is that "policy coherence" has been accepted in the Outcome Document: "*Transforming our world: The 2030 Agenda for Sustainable Development*". In goal 17 in the document, there are two targets focusing on policy coherence (OWG, 2014):

17.13 enhance global macroeconomic stability including through policy coordination and policy coherence; and

17.14 enhance policy coherence for sustainable development

Given the universal characteristics of the agenda, the PCD concept will go beyond 'responsibility of developed countries' and a 'do no harm' approach. This means it will be a responsibility for both developed and developing countries (including emerging powers like Brazil, the Russian Federation, India, China and South Africa, i.e. the BRICS) to enhance policy coherence for sustainable development to implement post-2015 SDGs.

However the responsibilities for enhancing PCD in developed and developing countries will be different, because of vastly different capacities and stages of development of each country. With the universalisation of PCD to all countries, no matter what stage of development they are at, it is really important to apply the principle of Common but Differentiated Responsibilities (CBDR). This means enhancing policy coherence for sustainable development globally, by both developed and developing countries, while also recognising that each country is responsible for the coherence of its own policies and their impacts on development.

Interestingly the concepts of CBDR and PCD were created almost at the same time in the early 1990s. What is more, neither of these two concepts was in the MDGs. This does not, however, explain why applying CBDR in the process of universality of PCD should be emphasised in the post-2015 SDGs. The main reasons for stressing the principle of CBDR in enhancing policy coherence for sustainable development in implementing post-2015 agenda are that developed countries have greater responsibility in:

- providing advice and capacity building to developing countries based on greater experience and know-how
- setting up international mechanisms to promote PCD, such as addressing illicit financial flows. OECD has already contributed to this for a long time
- implementing PCSD targets in the post 2015 SDGs based on greater financing capacity and more experiences.

Developing countries have the same responsibilities as their developed counterparts in enhancing PCSD, as a tool to support their own national objectives and development strategies, but also with a view to avoiding any unintended consequences of domestic policies on other developing countries. However it is understandable for developing countries to take more time to digest certain policies in Policy Coherence for Sustainable Development (PCSD) and adjust their development policies to suit PCD.

Illicit financial flows (IFFs) and measures to combat them have been identified as a priority area of policy coherence for sustainable development and can help explain the linkage between CBDR and PCSD in the post 2015 SDGs.

IFFs include all cross-border financial transfers which contravene national or international laws.[3] IFFs are a very significant disabler of sustainable development because they hamper governments' efforts to effectively use and mobilise their own revenues and resources. The framework of post-2015 SDGs in the Outcome Document includes IFFs as an element of Target 16.4: "by 2030 significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets, and combat all forms of organised crime." (UN, 2015).

Because IFFs are international, it is a common responsibility for all countries in the world - developed and developing - to combat them. A broad set of international conventions, standards, and bodies has been developed in order to combat illicit financial flows, including UN conventions which establish minimum standards that all countries are expected to meet in order to avoid providing a safe haven for various kinds of illicit finance. However the responsibilities of developed and developing countries for dealing with IFFs are quite different, because of different capabilities among them. In fact OECD, the organisation of developed countries, has already taken responsibilities and actions in restraining IFFs. For example the Tax Inspectors Without Borders initiative launched by the OECD facilitates the deployment of experienced tax auditors, mainly from developed countries, to work alongside local tax audit teams in developing countries. These tax inspectors work on a demand-led basis, to transfer tax audit knowledge and skills through a real-time, practical approach aiming to build capacity to tackle complex tax audits in developing country tax administrations (OECD, 2015). Through this example we can clearly see that CBDR plays a very important role in combating IFFs.

The OECD has set, and will continue to set the main international standards and create standard-setting bodies which are responsible for international soft law dealing with IFFs. In addition, there are a range of initiatives and dialogues which aim to improve the capacity of governments and the functioning of international systems to combat illicit financial flows, many of them led by the OECD. All of these have demonstrated clearly that developed countries have more responsibilities: for providing advice, setting up international mechanisms, and helping developing countries in implementing the task of combating IFFs. This logically shows how CBDR can play its role in PCSD in the process of implementing post 2015 SDGs.

China, as the biggest developing country in the world, will accept the concept of PCSD as part of post-2015 SDGs, but will also emphasise that the principle of "common but differentiated responsibilities» has to be applied, because "this is the important consensus of the international community on development and the foundation for international development co-operation" (Ministry of Foreign Affairs, People's Republic of China, 2013). It is reasonable to predict that China's position in terms of PCD in post-2015 agenda will be very positive, because China has translated the MDGs into its national development policy so well that it will also do so for SDGs in the future.

The imperative of policy coherence for successful implementation of the post-2015 development agenda, by James Michel, former DAC Chair

The emerging post-2015 development agenda is breath-taking in its aspirations. The ambitious sustainable development goals call for a universal, integrated, and transformational effort to attain unprecedented economic, environmental, and social progress.[4] "The United Nations General Assembly has described this extraordinary effort as including five "areas of critical importance for humanity and the planet":

- **People:** to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.
- **Planet:** to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.
- **Prosperity:** to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.
- **Peace:** to foster peaceful, just and inclusive societies which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development.

- **Partnership:** to mobilize the means required to implement this Agenda through a revitalized Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focused in particular on the needs of the poorest and most vulnerable and with the participation of all countries, all stakeholders and all people.

This bold proposal is nothing less than a call for a new paradigm for international co-operation in support of sustainable development. The traditional aid-centred relationships of donors and recipients are clearly inadequate to meet the demands of the new agenda. The goals are too comprehensive, the resource needs too great, the sources of financing too varied, the interrelated policy issues too complex, the range of actors too diverse, and the need for universal commitment too strong for outmoded ways of thinking about development. New thinking and, equally important, new behaviour are needed.

New thinking is evident in the broad agreement on the principles and vision expressed in the Busan Partnership Declaration. Busan calls for broadening the focus "*from aid effectiveness to the challenges of effective development*." This broadened focus is to be based on agreed principles of local ownership, a focus on results, inclusive partnerships, and mutual accountability. And it is to be directed toward a vision of inclusive growth, greater reliance on domestic resources, governments accountable to their citizens, effective state and non-state institutions, and increased economic integration.[5]

New thinking is also evident in a growing volume of research that demonstrates the non-linear, complex nature of the development process, the multiplicity of factors that influence development in different ways in different contexts, and the resulting importance of iterative approaches that emphasise local knowledge, increased reliance on local systems, and adaptation to evolving local circumstances. Valuable research has also demonstrated the need for more comprehensive financing for development that utilises official development assistance, other official flows, increasing commercial and private flows, and domestic resources along with measures to increase efficiency, combat illicit transfers, and prevent the corrupt diversion of resources from their intended development purposes (OECD, 2014a).

This new thinking is affecting the behaviour of development partners in promising ways. There is evidence of progress through effective partnerships that are responsive to local political, economic, and social contexts and that support local capabilities to address real problems in ways that are politically and operationally sustainable. However, case studies and evaluations also reveal that the transition to more coherent development partnerships is far from complete.

A global partnership focused on universal goals will need to take into account the full range of policies that are among the determinants of progress toward the SDGs. Such a comprehensive integration of relevant policies in development co-operation necessarily implies the need for an effort to enhance policy coherence. This need is explicitly recognised in the SDGs. Goal 17 on strengthening the means of implementation and revitalising the global partnership for sustainable development includes a target to "enhance policy coherence for sustainable development."

Policy coherence for development was once thought of primarily in terms of donor policies that might conflict with development objectives. That focus remains important; it is reflected in the Lisbon Treaty and in the related national policies of many countries. However, in recent years the international community has acknowledged the need to look beyond donor policies and to give attention to the entire universe of incoherencies that impede sustainable development (OECD, 2011; UN, 2014).

The OECD has rendered an important service in developing a typology that distinguishes five levels of coherence that need to be addressed in implementing the post-2015 development agenda:

- coherence between national goals and national contexts
- coherence among international agendas and processes
- coherence between economic, social, and environmental policies
- coherence between sources of finance
- coherence between diverse actions of multiple actors and stakeholders.

It has built on this framework to formulate recommendations for integrating policy coherence into all aspects of implementing and revitalizing the global partnership for sustainable development (OECD, 2014b).

The enormously complex process of implementing the post-2015 agenda will necessarily involve an examination of the linkages among economic, environmental, and social considerations and the pursuit of opportunities for achieving a better balance and greater harmony between development and other policies at both international and national levels. In this context, achieving greater policy coherence at all levels will be imperative for success.

The difficult transition from a development assistance agenda to a universal, integrated, and transformational global partnership will require committed leadership from the international community. The United Nations, the Global Partnership for Effective Development Co-operation, the G20, and global and regional organisations all have important roles in this effort. The transition will also require more comprehensive locally owned regional, national, and subnational development strategies that integrate the principles and vision of the Busan Declaration and the aspirations of the post-2015 agenda. And it will require the development of broad public understanding that sustainable development is essential for the preservation and well-being of our planet and its inhabitants.

Domestic politics and policy coherence for development, by J. Brian Atwood, former DAC Chair

The goal of creating policy coherence for development has been endorsed in the *United Nations Millennium Declaration*, the *Lisbon Treaty*, the *Busan Forum on Aid Effectiveness*, the *OECD Strategy on Development*, and statements issued by the G8 and G20. Aligning a government's national policies with its international development objectives is an almost universally accepted principle. Yet, we have made very little progress in causing this to happen.

Why is this, and how can we do better?

As one pundit put it: "*politics matters more than policy*." The growth of the global economy over several decades demonstrates the advantages of policies that encourage development. Yet, there is so much more to be done. Unfortunately, short-term political interests too often trump longer-term interests. Time and again, domestic special interest lobbies take precedence over development objectives.

The OECD has made an admirable effort to require its domestically-oriented committees to consider the impact of national policies on development. It was revealing to watch how some key committees initially reacted in the early days of policy coherence. The first instinct was to turn the question around to ask how developing countries themselves could adopt more enlightened policies that would enhance prospects for development. That is a worthy question asked on a daily basis by ministries in developing governments and by donor partners. But it doesn't get us very far in examining the national policies of OECD members. When the OECD Secretariat working with the Directorate for Development Co-operation made further efforts to force the issue, one major power expressed the worry that the exercise was designed to embarrass it! There are indeed embarrassing examples of policy incoherence throughout the membership of the OECD, but I will focus on my own country.

Food and Agriculture

For years the United States Congress insisted that US food aid be in the form of commodities shipped on American vessels, thereby increasing the costs, decreasing the amount of food, and denying United States Agency for International Development (USAID) the option of purchasing food locally or monetizing the program. The amount of food that got to the hungry in crisis situations was thereby reduced significantly. Recent modest reforms allow a percentage of the food aid budget to be delivered in the most cost-effective way possible, and even this is under attack by agriculture and marine lobbies, and would have been overturned this year had the Senate not blocked the amendment.

During the 1990s, while USAID was struggling to convince the Yeltsin government in Russia to privatise and disperse its food distribution system, the Agriculture Department gained an agreement to give a large part of the US wheat surplus to Russia - to be distributed by the central government's mechanism. The Secretary of Agriculture was unaware of the impact this give-away had on our development strategy and seemed genuinely sorry when he found out. But it was too late.

The African Growth and Opportunity Act was an exception, in that it opened US markets to African products in exchange for important reforms in African countries. Yet getting to a coherent conclusion was not easy. The author of the legislation originally intended this trade arrangement to *substitute* for aid to Africa, and had to be convinced that if we could not help these countries create the local production and distribution systems, they would have little to export. To convince policymakers, I would often cite the amount we were investing in official development assistance for agriculture and contrast that with the much larger subsidies we were providing to help our own farmers, the effect of which was to undercut the capacity of developing nations to compete. But special interest politics would win out in the end.

Tax policy and illicit flows

The OECD has contributed new knowledge to issues related to tax policies. It has encouraged developing countries to mobilise resources by providing technical assistance to create fair and efficient tax systems. It has also promoted concerted international action to prevent multinational companies from avoiding tax obligations. OECD hosts a "Global Forum on Transparency and Exchange of Information on Tax Matters" in which some 130 nations commit to share information. In this area, transparency is the key to uncovering and measuring the extent of a problem that is debilitating to both developed and developing economies.

Developing countries that have undergone transitions from dictatorship to democracy have long been trying to track down and recover resources that have illicitly flowed into Western banks, which may be as much as one trillion USD a year. But efforts to find these illicit outflows are met with "bank secrecy, opaque corporate and trust vehicles, and time-consuming procedures"(World Bank, 2012). Some of these funds have been recovered but the vast bulk is still beyond reach, protected by banking laws that favour the corrupt rather than the citizens from whom the money was stolen. Few would argue that it is in the interest of the global economy that these funds be employed in the service of sustainable development. Yet, despite the good efforts of OECD and the World Bank to better track resources in these banks, the deposit boxes of corrupt dictators and international criminals mostly remain closed.

Climate

These past examples of incoherence have still not been resolved. But there are even bigger obstacles to policy coherence ahead. The international community has been wrestling with the climate change issue for many years now. To gain the support of developing countries, the UN Convention on Climate Change Conference of the Partners (COP) process initially created two categories, one for the industrial economies and one for developing nations. The idea was that the world's more sophisticated economies had produced more greenhouse gases and should undertake more rigorous action to curb emissions. But this distinction did not meet with approval in the US Senate. As time has gone on, China and India have moved into the top five emitters and successful efforts have recently have been made to gain their participation in a new regime based on voluntary national commitments to reduce emission levels over time.

A few years ago, the OECD released a report showing that some USD 20 billion of Official Development Assistance had been used for climate adaptation and mitigation projects in developing countries. This information may have been welcome in some quarters, but most developing countries saw these expenditures as reducing the availability of ODA for more mainstream development sectors. Their appeal in climate negotiations had been for "new and additional" funding to implement national strategies to adapt to and mitigate the effects of climate change. Further, they argued that the rich countries had achieved developmental success by exploiting energy resources without regard for the impact on climate. Now it was their chance to grow and if they were not allowed to use gas-emitting resources like coal, they would need compensation and technology that would enable growth while controlling emissions. The announcement at the 2012 Rio conference (COP-19) of new monetary commitment to the Green Climate Fund was a small step toward providing the needed resources (the US committed USD 9 billion). There is now high expectation that an agreement can be reached at COP-21 in Paris at the end of the year.

The climate-related agenda may be the most important area for policy coherence for development the world faces. It will require an understanding of developing country needs and a transfer of resources and technology from North to South if we are to tackle this globe-threatening phenomenon. Unfortunately, Western countries operate in bureaucratic compartments that tend to separate development from climate. Policy coherence will require the professionals of two cultures to learn the techniques and language employed by the other. If climate and environmental specialists fail to understand the compelling requirements of development, they will continue to misunderstand the needs and the understandable concerns of developing nations. It is inconceivable that taking climate action in a developing country would not be in itself developmental. It is time to put the artificial distinction between climate and development aside, and to examine climate needs in a developmental context, and development needs in a climate context.

Sustainable Development Goals and PCD

From time to time policy coherence captures the world's attention. The debate over the UN Sustainable Development Goals no doubt will highlight the lack of progress made on the PCD front. Developing nations will want to be heard on this issue. And perhaps this time their appeals for fairness and coherence will connect with the political interests of the world's developed countries.

The UN debate takes place at a time in history when Western governments and global corporations are beginning to understand that the potential for growth is no longer exclusively in the so-called "rich" countries. The "emerging economies" are persistently pursuing growth strategies to keep up with increased demand and growing populations. These countries are still home to large numbers of people living in poverty, but they are attractive new markets. Western economies are suffering, at best growing modestly with long-term prospects dimmed by demographic realities. The developed world is becoming more dependent on the developing world.

The message is simple: we are in this together. If we continue to pursue national policies that contradict international development goals, we will fail to create opportunity while exacerbating the many threats that poverty poses. Policy coherence for development needs effective advocacy if it is to find its place in the political discourse. The way to align politics with PCD will not be found in touting the concept of policy coherence for development in general terms. The answer will be found in examining and challenging incoherent policies in specific sectors. Food and agriculture, trade, illicit flows, and climate policies are good places to start.

From reduced form Millennium Development Goals to comprehensive Sustainable Development Goals: getting to the mega issues of global development, by Richard Carey, former Director, Development Co-operation Directorate, OECD and Chair, International Advisory Committee, China International Development Research Network

It is clear to all that the transition from the MDGs to the SDGs is a seismic shift in the nature of the global effort to tackle key development challenges. The MDGs were precise human capital targets focused on the poorest of the poor, framed with poverty reduction and environmental goals. They were a proxy for critical policy and institutional developments in many domains in developing countries, which stayed behind the scenes. The SDGs are in a sense the reverse. They spell out many more of the policy and institutional changes needed across a wide range of policy areas and they apply universally. That means human wellbeing in all countries is now to be mapped and tracked.

But additionally, it means that the processes of global development are now integrated into the SDGs in a way that was entirely absent from the MDGs. With the functioning of the development process and the global economy and financial system now inside the SDG framework and not outside, it becomes possible and essential to connect up issues and processes that can drive inclusive growth or impede it. Policy coherence, now explicitly incorporated into the SDGs, runs through the entire set of 17 SDGs, as an essential policy concern and challenge.

But generating the narratives on how a dynamic inclusive and sustainable growth process might be generated and sustained is not simple, just because it demands linking up different areas of the SDGs. This note proposes one such chain of connections – between urbanization, human capital development, agriculture and tackling corruption – a chain which links some of the most powerful forces in the development equation.

In 1988 and 1990, the University of Chicago economist Robert Lucas, best known for his Nobel-prize winning work on rational expectations, published two seminal articles on development. Organised around simple but fundamental questions, they come up with responses that remain highly relevant to the development agenda today.

In the first of these articles, «On the Mechanics of Economic Growth» (Lucas, 1988), Lucas came to the conclusion that economic growth is generated not by the accumulation of human or physical capital, necessary though they be, but by something more essential - 'learning by doing' - generated by the application of human capital to particular tasks. He noted that the issues involved in this process lie essentially outside of the scope of the neoclassical growth models based on factor accumulation and technology, as they were then specified. And he pointed to cities ("cities are like great universities") and the urbanisation process as the crucial generator of learning by doing. The SDGs bring urbanisation into the global agenda.

In the second article «Why Doesn't Capital Flow from Rich to Poor Countries» (Lucas, 1990) (known as the Lucas Paradox), Lucas searched for the answer as to why the standard economic case, that capital will flow from capital-abundant (rich) countries to capital-scarce (poor) countries until wage rates and returns on capital are equalised across all countries, was not working out in the real world. Rather than capital flowing to engage abundant labour supplies, labour was flowing to capital rich countries. He reached the conclusion that just as colonial powers adjusted investment flows to keep wages at levels which generated significant economic rents for themselves, local elites in developing countries now effectively restrict capital inflows, keeping wages low and capturing economic rents which they then recycle to rich countries. His policy agenda involved providing aid for human capital development, and breaking up local monopolies by conditioning aid on opening up to foreign investment on competitive terms.

A more contemporary reading of the phenomenon of capital flowing from poorer countries to richer countries would build on the persisting incentives and opportunities for elites in developing countries to capture and export economic rents via outright corruption as well as the criminal trade and invoicing practices that collectively make up the vast illicit financial flows in the global economy (Bates, 2008; Acemoglu and Robinson, 2012; OECD, 2014c). It would include profit shifting by multinationals and tax evasion and avoidance. It would include the criminal behaviour of professionals in rich countries who facilitate illicit flows. These financial integrity issues are now a major part of the international economic agenda led by the G20 and incorporated into the SDGs.

These two fundamental issues in development identified in the two Lucas articles – urbanisation and financial integrity - are brought on to the table in the SDGs.

It is possible to see development progress as an outcome of the widespread adoption of 'learning by doing' cultures and practices in a nation (as in successful developmental states), via the strong dynamic of urbanisation playing out in developing countries. At the same time, a significant reduction in rent seeking behaviour by elites is essential to generate local capital formation and net inflows rather than net outflows of capital. These two vectors will not play out overnight – success comes from extending learning by doing cultures while restricting rent–seeking behaviour by elites – but they can soon change the main development narrative in a country and are key to treating fundamentally the problem of state fragility.

Perfection is not attainable on either front, as we see corruption persisting in dynamic states. But it is the direction of progress that matters and the dedication to promoting the learning by doing culture while fighting the corruption culture. China's current policy priorities in these two areas are an example. A new market-driven and innovation-based development strategy has just been launched, with a wide range of supporting policies[6], while the fight against corruption is being waged intensively. As seen by Yang Yao at Peking University, the battle is to preserve and enhance the dominance of the 'selectocracy', with the performance-based official incentives and behaviour which has generated China's remarkable success despite widespread corruption (Yang Yao, 2015).

These two agendas – urbanisation and financial integrity – involve a range of other agendas that are critical to the development process. Urbanisation demands a performing agriculture with food chains that help small farmers to escape from the poverty of subsistence agriculture as they meet the demands of rapidly growing numbers of urban consumers. It generates the need for functional infrastructure – transport systems, energy, water and sanitation – and for the replacement of slums with affordable low-cost housing. These are all employment generating investments that create a new economic landscape with huge learning by doing opportunities in construction industries and all the spinoff industries and occupations that emerge. They are also areas where new green technologies and safe environments can be built into the fabric of the cities. Mass transit systems can be introduced to make mega cities work. Managing mega cities creatively is a development frontier, with learning processes across the world already flourishing. But the growth of mega cities in poorer countries can also be highly dysfunctional and associated with local agricultural failure and urban poverty. Turning such situations around requires massive public investment in order for the learning by doing dynamic to get underway. Huge assistance to urban development in poorer countries must therefore be a key priority, one that is not currently served on the scale required. Functional cities in rich countries are founded on massive ongoing public investment, so the need is hardly surprising (McKinsey Global Institute, 2012; Glaeser 2013; Kioleoglou, 2015).

Technical education and vocational training is another agenda that is highly implicated in the urbanization process. The 2012 Shanghai Summit meeting on this agenda spelt out the way forward here in a world of digitalisation and sharp changes in industrial structures and business models where people everywhere have to be learning to learn and to be increasingly in personally demanding service sector jobs (UNESCO, 2012).

The financial integrity agenda implies working on both local and global financial system issues; on the quality of decision-making and implementation processes and all the accountability issues associated with that; on the tax transparency and information exchange processes now being spread via the G20 Agenda and associated Global Forums; and on the broader illicit flows agenda. It also involves working to integrate financial reform with sustainable development (UNEP, 2015).

The potential for constructing narratives that link across the SDGs and can be captured in the follow-up monitoring and peer review processes of the SDGs is a highly positive feature of a complex set of goals and targets that can seem dauntingly in disarray. Hence we can look forward to a new phase in the global discussion which is very different from the MDG discussion, though leaving no one behind remains a fundamental goal, and very different from the classic UN standoffs of recent decades, as multidirectional learning replaces the North-South paradigm in a polycentric global economy.

Notes

1. In OECD countries, the volume of fixed investment is still well below its pre-crisis peak especially in Euro area and Japan (where the volume of investment is respectively 16.6% and 8.6% below its early 2008 level). In the United States, investment is just caching up with early 2008 level.
2. Electricity prices alone vary widely across the EU.
3. IFFs can include: Funds with criminal origin; Funds with a criminal destination; Funds associated with tax evasion; Transfers to, by, or for, entities subject to financial sanctions; and Transfers which seek to evade anti-money laundering /counter-terrorist financing measures or other legal requirements.
4. These ideas are set out in more detail in: Shaping the New Development Agenda, Creative Associates, September 2014, *http://www.creativeassociatesinternational.com/wp-content/uploads/2003/01/Shaping_the_New_Development_Agenda.pdf*.
5. Busan Partnership for Effective Development Cooperation, December 1, 2011.
6. From a State Council Policy Briefing on Accelerating Implementation of Innovation-driven Development Strategy through Strengthening Institutional Reforms. Beijing March 27, 2015.

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Better Policies for Development 2015
Policy Coherence and Green Growth

Chapter 2

Implementing policy coherence for sustainable development beyond 2015

by
Ernesto Soria Morales, OECD

The Sustainable Development Goals (SDGs) go beyond the Millennium Development Goals (MDGs) in fundamental ways: they apply to all countries – including OECD members – not only to developing countries, and affect practically all aspects of public policy. Updated tools and approaches to policy coherence will be required to take into account complex cross-sectoral inter-linkages (e.g. water-energy-food nexus); as well as the role of key actors; the enabling conditions; and the effects of policies in achieving the SDGs. The implementation of the post-2015 Development Agenda call for whole-of-government approaches and strengthened institutional coordination and coherence at all levels of policy-making to ensure more integrated policy frameworks for sustainable development. Policy coherence is fundamental to foster synergies between economic, social and environmental policies; deal with trade-offs; and consider trans-boundary and inter-generational impacts on sustainable development. This chapter illustrates how a new analytical framework for Policy Coherence for Sustainable Development (PCSD) can help inform coherent policy-making in the context of the new global development agenda.

Introduction

2015 marks a turning point in development. As the Millennium Development Goals (MDGs) come to an end, the international community is committed to complete the unfinished business, eradicate poverty, steer a transformational shift towards sustainable development, and preserve the planet. The Sustainable Development Goals (SDGs) put forward by the international community represent a broader and more ambitious agenda with policy implications for all countries. Policy coherence, as a vital part of the means of implementation for the new agenda, entails:

- Addressing in a balanced manner the economic, social and environmental dimensions of sustainable development in policy-making;
- Considering more systematically what matters for well-being in any one country (here and now), for people living elsewhere; and
- Adopting a long-term perspective to take into account what matters for the sustainable development and well-being of future generations.

The challenge that all countries face is to translate the global aspiration in the SDGs to enhance policy coherence for sustainable development into concrete and operational policy measures, guidelines, and actions.

The focus of this chapter is on how a broader approach to policy coherence can strengthen the implementation of the SDGs by incorporating key elements, such as new actors, institutional settings, cross-sectoral interactions, contextual factors; enabling conditions, and policy effects. The chapter starts by considering the global context as well as lessons learned from OECD work on policy coherence. These provide the basis for the new approach to Policy Coherence for Sustainable Development (PCSD). It then illustrates how PCSD can be applied to the SDG framework when addressing specific policy challenges such as the fight against illicit financial flows. The aim of this work is to provide useful elements, guidance and tools for policy makers and other stakeholders to draw on as they develop their own programmes for policy coherence at national level. These elements can then be used and adapted depending on the particular institutional settings, practical capacities and needs of each country.

This chapter also includes two think pieces, one by Niels Keijzer and Sebastian Paulo, from the German Development Institute on “Integrating PCD in a post-2015 ‘beyond-aid’ framework”; and the other by Tom Cardamone, Managing Director of Global Financial Integrity, on “The imperative of addressing illicit financial flows in the Financing for Development (FfD) and SDG processes”.

Adapting policy coherence approaches to the evolving global landscape

The global context has changed significantly since the year 2000 when the international community adopted the MDGs. The world’s centre of economic gravity is shifting rapidly. Developing economies are becoming relevant actors in international finance, trade, investment, innovation and development co-operation. They have increased their share of world Gross Domestic Product (GDP) since the 2000s. More than 50% of world growth has been derived from developing countries, and it is estimated that this trend will continue (OECD, 2010). Trade among developing countries has risen more than ten times over the last two decades, and more than half of global foreign direct investment inflows in 2010 went to emerging markets compared to less than 20% in 2000 (OECD, 2013). A new middle class is emerging in developing economies – expected to increase from 1.8 billion in 2009 to 4.9 billion by 2030 (OECD, 2011) – with rising expectations and demands for quality services, opportunities and resources such as food, energy, and water. Simultaneously, a "new bottom billion" of extremely poor people is now living in middle-income countries (Sumner, 2013). This changing reality raises important questions for traditional approaches based on a North-South/donor-recipient dynamic that have defined development policies and practices for decades.

At the same time, the global economy is becoming highly interconnected. World trade, investment and production are increasingly organised around multi-country global value chains (GVCs) where economic activities are dispersed across countries, and where networks of firms, industries and economies are increasingly interdependent. The degree of international financial integration has also increased significantly over the last decades, augmenting the potential transmission of crisis across national borders. Similarly the nexus between macroeconomic, financial and monetary policies and associated spill-overs generates a complex environment for growth, investment and competitiveness, regionally and globally. In this more interconnected world economy, global shocks can reverberate quickly, and externalities such as macro-economic instability, social and economic inequalities, and conflict can have large and wide-ranging spill-over effects (OECD, 2012a). The multiple crises in the last decade – financial, economic, food, fuel – are a reminder that interconnectedness can be a source of systemic risk. This increasing interconnectedness of economies and people is changing the landscape in which countries operate, calling for rethinking policies as well as approaches to policy-making.

In this rapidly changing context, the world is also facing unprecedented and interrelated economic, social and environmental challenges with implications for all countries. Among these challenges are: a growing population coupled with increases in urbanisation and migration pressures. More than half of the world's population now lives in urban areas and a growing number of people are moving to cities in search of better opportunities and jobs. By 2050, nearly 70% of the world population is projected to be living in urban areas (OECD, 2012b). There are persistent inequalities of income and opportunity within countries widening the gap between rich and poor, which risk undermining social cohesion and economic growth. Unsustainable production and consumption patterns are increasing water and air pollution, land and forest degradation, waste generation, and biodiversity loss. There is stronger evidence that climate change has caused impacts on natural and human systems on all continents (IPCC, 2014). This may point to failures and inefficiencies in the way economies are managed and policies designed.

The cross-cutting and systemic nature of these challenges call for breaking out of policy silos and strengthening policy integration and co-ordination. There is a need for adapting institutions, enhancing participatory processes with key stakeholders, and adopting a long-term perspective to cope with them. By 2050, for example, the world's population is expected to reach 9 billion. A growing population is likely to increase pressures on the natural resources that supply energy and food (OECD, 2012b). By then, the demand for water and food is expected to increase by 55% and 60% respectively. And on top of this situation, a world economy that is four times larger than today could be using up to 80% more energy predominantly from fossil fuels, thereby increasing greenhouse gas emissions and exacerbating climate change. In such a scenario, policies that leave out sustainability dimensions, that neglect critical inter-linkages, and that ignore transboundary impacts risk creating more problems than they solve.

Drawing lessons from the OECD Strategy on Development

The *OECD Strategy on Development* (OECD, 2012) launched by OECD Ministers in 2012 has emphasised the critical function that policy coherence for development (PCD) can play as a whole-of-government tool to consider increasingly complex challenges and to address their interconnectedness. PCD can be an instrumental policy tool for creating the enabling environments and policy processes required by the post-2015 framework. Key questions, however, are whether the approaches applied so far are “fit for purpose” to implement a new generation of universal SDGs, and how current PCD tools can be adapted to better integrate sustainability criteria and align policies with sustainable development outcomes.

Current approaches are founded upon the notion that PCD is an obligation and responsibility mainly for donor countries. The concept of PCD emerged from the OECD’s Development Assistance Committee (DAC) discussions in early 1990s, in a context of a growing international concern with aid effectiveness.[1] The underlying assumption is that the objectives and results of a government’s (donor) development policy can be undermined by other domestic policies in areas with important cross-border dimensions such trade, investment, and agriculture, and can have potential impacts on the development and growth prospects of developing countries (aid recipients).

In the last two decades, OECD’s work has contributed to raise awareness and foster analysis on potential development impacts of members’ policies in key sectoral areas such as agriculture, fisheries, health, and migration, amongst others. This work has been instrumental in building commitment not only by individual DAC members, but also by the whole OECD membership at Ministerial level (Box 2.1).[2] OECD efforts in promoting PCD at the level of its members have mainly focused, however, on setting up good institutional mechanisms and practices. These concern the process rather than development impact of policy-making and have focused on integrating the development perspective in designing and implementing national (“development-friendly”) policies.

The experience of more than a decade of assessing ‘beyond aid’ issues in the DAC peer reviews has shown that progress is limited. Institutional mechanisms (the ‘three building blocks for PCD’) are and continue to be necessary to raise awareness and build efficient decision-making, but not sufficient to deliver more coherent policies in practice and to consider systematically the potential impacts of domestic policies on sustainable development.[3]

While institutional mechanisms for PCD will still be relevant in the context of the post 2015 Development Agenda, they need to be adapted and strengthened to respond effectively to the vision and needs of the new agenda, and ensure progress. Complementary actions are needed to fully engage sectoral ministries beyond foreign affairs, development ministries and agencies; improve understanding of the diverse interactions between sectoral policies; develop new data to capture the effects of policies; incorporate sustainability criteria in policy-making; involve key stakeholders in the policy dialogue; and strengthening monitoring systems.

Box 2.1. **OECD non-binding instruments on PCD**

- **The 2002 Ministerial statement 'OECD Action for a Shared Development Agenda'** called on the Organisation to "enhance understanding of the development dimensions of member country policies and their impacts on developing countries … to encourage greater policy coherence in support of the internationally agreed development goals".
- **The 2008 Ministerial Declaration on Policy Coherence for Development** emphasised the need to strengthen the dialogue between OECD countries, developing countries and emerging economies in sharing experiences on the effects of policies on development, as well as to consider the increasing relevance of PCD in developing countries' policies.
- **The 2010 Recommendation of the Council on Good Institutional Practices in Promoting Policy Coherence for Development** emphasises that progress requires strong leadership and political commitment at the highest level. The three phases of "building blocks" (political commitment, co-ordination, analysis and monitoring) need to be in place for a country to make sustained progress towards PCD.
- **The 2012 OECD Strategy on Development** called on the OECD to strengthen Members' capacities to design policies consistent with development, by: (1) Developing evidence-based analyses on the costs of incoherent policies as well as on the benefits of more coherent policies; (2) Work with partner institutions to develop robust indicators to monitor progress; (3) Apply a PCD lens to contribute to the analysis of key issues, such as global food security, illicit financial flows and green growth; (4) Provide a platform for dialogue with developing countries and key stakeholders on PCD issues; and (5) Foster coherence for development throughout the Organisation and its Committees.

The work under the *OECD Strategy on Development* has highlighted that more comprehensive approaches, bringing in diverse policy communities and key actors and stakeholders, are now needed to better understand the magnitude and the multidimensionality of development challenges, and to identify effective solutions based on dialogue, knowledge sharing, partnerships and policy coherence. Applying a broader PCD lens to OECD work on global food security (OECD, 2013c), illicit financial flows (OECD, 2014 b) and green growth has shown how greater coherence at different levels (local, national, regional, global) is critical for dealing with systemic conditions that constrain sustainable development. The *OECD Strategy on Development* has also identified key lessons for adapting current approaches to the new post-2015 framework (Box 2.2).

Ensuring progress on policy coherence involves going beyond institutional aspects to take into account the whole policy-making process from policy objectives, policy design mechanisms and instruments, to implementation at different levels. In Spain, for example – which is one of the handful countries that have written their commitment to PCD into their legal framework and established institutional mechanisms with specific mandates for ensuring coherence – new efforts are underway to redefining their methodology for tracking progress and reporting on PCD considering the above mentioned elements. Policy coherence beyond 2015, as shown in Figure 2.1, will be the result of complementary efforts in articulating four key elements of the policy-making process: *(i)* setting up explicit institutional mechanisms for coherence, including commitment by the political leadership, central overview, coordination capacity and monitoring systems; *(ii)* managing policy interactions at different levels to anticipate, detect and resolve policy conflicts; *(iii)* addressing contextual factors that enable or impede coherence for sustainable development; and *(iv)* considering policy effects.

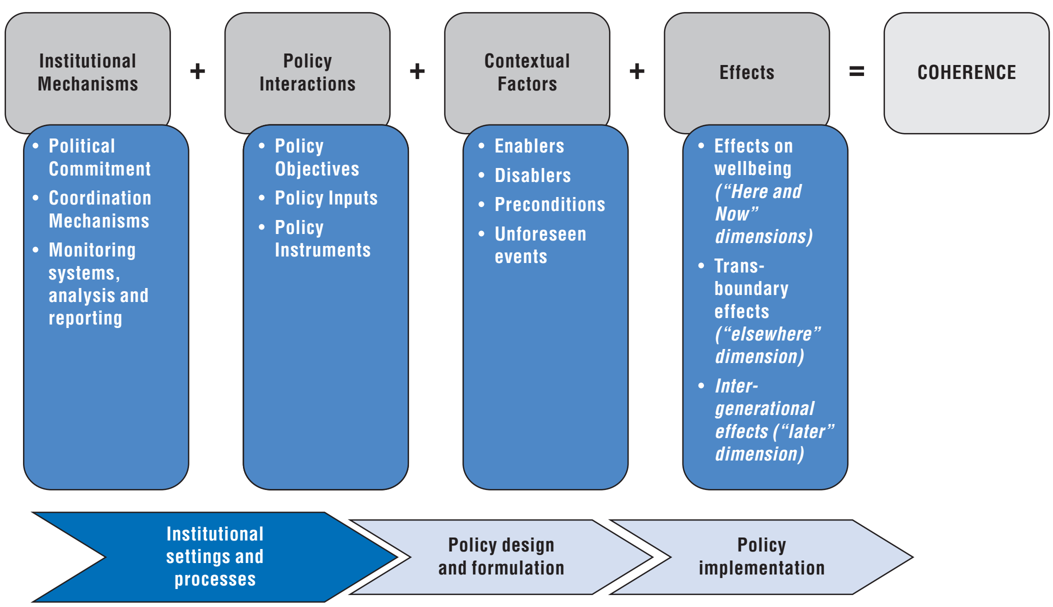
Box 2.2. **Lessons learned on PCD from the OECD Strategy on Development**

The Strategy has helped bring about a broader approach to PCD, which will entail the following shifts:

- **Move away from generalities to an "issues-based" focus on common challenges**, such as improving framework conditions for achieving global food security.
- **Consolidate, but go beyond institutional mechanisms**, and take into account international level coordination.
- **Move away from a donors only emphasis** to engaging key actors in advanced, emerging and developing countries.
- **Go beyond the negative impacts of non-aid policies ("do-no harm")** towards more proactive approaches based on synergies across sectors and common solutions.
- **Recognise the importance of PCD across all levels** (local, national, regional, and global).
- **Shift the focus from sectoral to more integrated cross-sectoral approaches** to capture the **dimensions of sustainable development in a holistic manner**.
- **Recognise the role of PCD to inform policy making**, not prescribe (Identify win-win scenarios to engage policy communities in a dialogue on common solutions).

Source: OECD (2014a), "2014 Report on the implementation of the OECD Strategy on Development", OECD, Paris.

Figure 2.1. **Key elements for policy coherence beyond 2015**

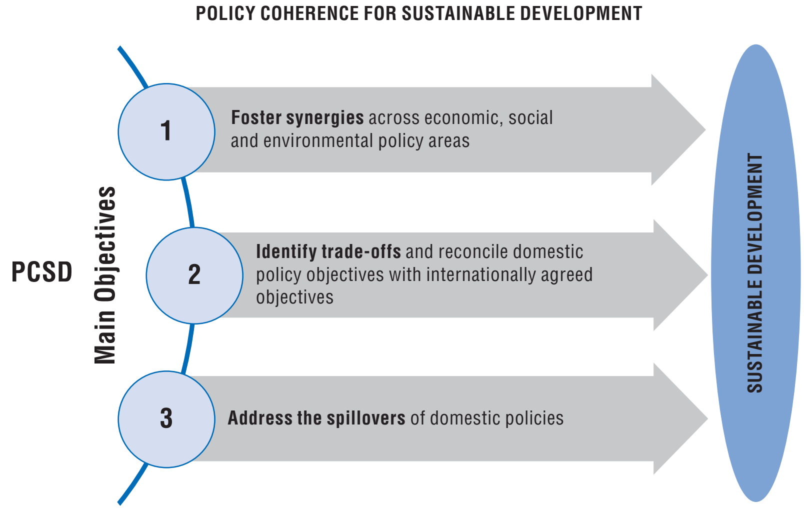


Source: OECD Policy Coherence for Development Unit (2015).

Shaping the new concept of Policy Coherence for Sustainable Development

A key deliverable of the *OECD Strategy on Development* was the new definition of 'Policy Coherence for Sustainable Development' (PCSD), as shown in Figure 2.2. PCSD is defined as an approach and policy tool – relevant to all countries – to integrate the economic, social, environmental and governance dimensions of sustainable development at all stages of domestic and international policy making. It aims to increase governments' capacities to identify synergies, consider policy trade-offs between multiple objectives, for example between economic growth, environmental protection, and reduction of carbon emissions; and address the potential spillovers of domestic policies.

Figure 2.2. **What is policy coherence for sustainable development?**



Source: OECD (2014b), Better Policies for Development 2014. Policy Coherence and Illicit Financial Flows, OECD Publishing, Paris. DOI: *http://dx.doi.org/10.1787/9789264210325-en*

A key tool for coherence is informed decision-making. The new PCSD approach developed by the OECD aims to support members and partner countries in the adaptation to and the implementation of the SDGs. In achieving sustainable development goals, policy makers need information and analysis on cross-sectoral interactions to know what their realistic options are, what inconsistencies might result from their decisions, how the cost of those inconsistencies can be mitigated, and how they can articulate and communicate the trade-offs they have had to make.

The analytical framework introduced in Figure 2.3, provides the basis for the definition of PCSD. It encompasses the fundamental elements that need to be borne in mind when enhancing policy and institutional coherence for sustainable development in the implementation of the SDGs. This framework can help inform decision-making and support policy-makers and stakeholders to design policies that systematically consider:

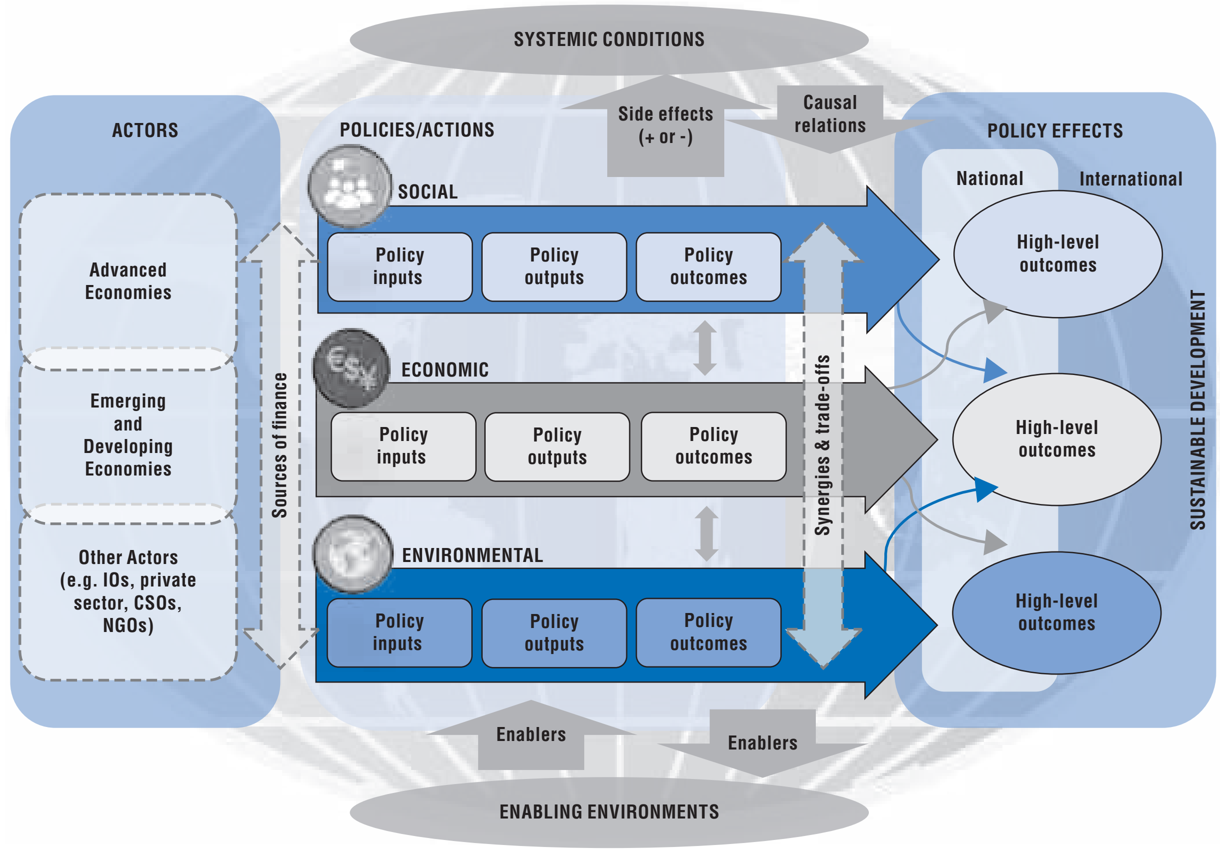
a) the diversity, roles and responsibilities of different actors as well as the diverse sources of finance – public and private, domestic and international – for achieving sustainable development outcomes

b) the policy inter-linkages across economic, social and environmental areas, including the identification of synergies, contradictions and trade-offs, as well as the interactions between domestic and international policies

c) the non-policy drivers, i.e. the enablers (that can contribute to) and disablers (that hamper) sustainable development outcomes at the global, national, local and regional levels

d) the policy effects, i.e. transboundary and intergenerational impacts.

Figure 2.3. **Analytical framework for policy coherence for sustainable development**



Source: OECD Policy Coherence for Development Unit (2015), adapted from work by UNECE/OECD/Eurostat Task Force on measuring sustainable development (2014).

Against this background, the OECD is developing an updated self-assessment policy toolkit – PCSD Framework (Box 2.4) aimed at providing policy-makers with practical guidance to identify good institutional practices as well as complementarities and potential policy conflicts between economic, social, and environmental sectors in implementing the SDGs; and to consider the significant trans-boundary impacts for sustainable development. It includes thematic modules on global food security and illicit financial flows.[4]

Building coherent and integrated approaches for implementing the post-2015 Development Agenda

The SDGs are the result of one of the largest ever international consultations to identify global challenges and priorities. They constitute an integrated, indivisible set of global priorities that incorporate economic, social and environmental aspects and recognise their inter-linkages in achieving sustainable development (OWG, 2014; UN, 2015). The new agenda puts sustainable development at the core and will guide international efforts on policy and practice over the next 15 years.[5] The SDGs as a whole provide an organising framework to connect in an integrated manner multiple objectives to: eradicate extreme poverty; promote human well-being and prosperity; preserve the environment; and address climate change (See Figure 2.5).

Box 2.3. **Elements of the analytical framework for policy coherence for sustainable development (Figure 2.3)**

- *Actors* are governments at all levels, parliamentarians, civil society, business and industry, philanthropists, international organisations, bi-lateral and multi-lateral agencies, among others, that are involved and/or influence policy-making and implementation.
- *Policy inter-linkages* are channels through which policies influence each other's performance and objectives.
- *Policy inputs* are institutional factors such as resources, including knowledge, expertise and capital assets that feed into the policy making process.
- *Policy outputs* are goods or services provided by governments to their citizens.
- *Policy outcomes* are intended changes in society that governments seek to generate through laws, regulatory framework, policies or offcial directives.
- *Systemic conditions* (disablers) are the set of social, political, economical, environmental and institutional conditions at the national and international levels that affect sustainable development and have a significant influence in policy performance and outcomes.
- *Enabling environments* (enablers) are set of interrelated conditions in the political, legal, economic, and social domains that can influence possitively policy outcomes.
- *Policy effects* are economic, social, and environmental impacts resulting from the implementation of policies (outcomes). These include intersectoral effects, transboundary impacts as well as intergenerational impacts

The SDGs go beyond the MDGs in fundamental ways; they affect practically all aspects of public policy and apply to all countries – including OECD members – not only to developing countries. The SDGs represent a more ambitious universal, transformative and integrated agenda which entails a broader approach to development, emphasising well-being and sustainability in all countries for all people of this generation and those to come. It means transitioning away from the "donor-recipient" dynamic and sectoral or silo perspectives.

The multi-sectoral nature of sustainable development and the need for greater policy integration will be one of the most difficult challenges to achieve in policy making and implementation. Similarly, the emergence of new actors, sources of finance and multi-stakeholder partnerships calls for wider efforts to improve policy coherence. The post-2015 Development Agenda will call on policy makers to focus not only on transboundary effects of domestic policies, but also on cross-sectoral inter-linkages, the non-policy drivers such as constraints and enablers, the contribution of different actors to policy outcomes, as well as inter-generational impacts.

A more interconnected world economy means that policies in any country can influence sustainable development across the globe. Creating opportunities for constructive dialogue with developing countries on policy coherence issues will be essential to generate the sound evidence-base needed to inform policy-making and ensure progress. Given the changing structure of world trade, it is no longer relevant to view the international spillover effects of policies as exclusively a developed country issue. For example, during the 2007-2008 food price crisis, export restrictions applied by several emerging economies exacerbated the crisis and placed a particular burden on some developing countries unable to source imports (OECD, 2013d).

Box 2.4. **The Framework for policy coherence for sustainable development – a self-assessment tool**

The PCSD Framework can support government efforts to design, implement and track progress on mutually supportive policies for sustainable development. It is a flexible tool adaptable to diverse national and institutional contexts. It provides recommendations for:

1. Conducting analysis on key global issues by applying a PCSD lens (e.g. food security, illicit financial flows);
2. Establishing strategic policy frameworks; and
3. Strengthening existing institutional mechanisms for policy coordination and interaction. It includes two thematic modules on illicit financial flows as well as food security.

It also offers an analytical and a self-assessment tool (screening checklists) which aim to prompt policy makers to ask relevant questions about their institutional mechanisms, policy setting, priorities and practices, and how they align with sustainable development objectives.

The PCSD Framework includes questions such as:

- Is the budget process used to set priorities, reconcile policy objectives and promote policy integration?
- How do planned policy outputs contribute to achieve the SDGs?
- Have the potential negative effects on well-being of people living in other countries been identified?
- Have mechanisms been established for inter-ministerial consultation, coordination and policy arbitration on sustainable development?

The PCSD Framework includes three inter-related (sub) frameworks:

Figure 2.4. **Elements of the Framework for policy coherence for sustainable development**

Analytical framework	Institutional framework	Monitoring framework
Elements of policy design	**Mechanisms for coherence**	**Elements of coherence**
• Actors and stakeholders • Policy objectives and practices • Policy inter-linkages • Non-policy drivers (enablers and disablers) • Policy effects (trans-boundary, intergenerational)	• Political commitment • Strategic policyframework and time-bound plan • Policy co-ordination mechanisms • Capacity of government departments • Involvement of stakeholders • Systems for analysis • Reporting	• National compliance with SDGs • Positions in international negotiations • Integration of sustainability criteria in public policies • Chantes in domestic policies • Reductions in fragmentation participatory approaches and partnerships • Policy effects: «elsewhere» and «later» dimensions of sustainable Development.

Policy coherence is also relevant in developing countries. An example is the cost and trade-offs of high levels of fossil fuel subsidies. In 2011, subsidies in developing countries were nearly six times higher than in OECD countries (amounting to around USD 433 billion). OECD analysis concludes that phasing out fossil fuel consumption subsidies in emerging and developing countries could reduce global greenhouse gas emissions by 6% by 2050 compared to business as usual, and by over 20% in Russia, the Middle East and North Africa (OECD, 2012b). A fuel subsidy reform could also offer fiscal space for governments to extend social programmes focused on poor people. Indonesia for example as part of its decision of phasing out fossil fuel subsidies has provided cash transfers, increased spending on social programmes and introduced tax exemptions for some industries and agriculture to mitigate the effects of energy price increases on poorer households. While recognising these benefits, a policy coherence analysis should also address the political economy factors that prevent governments from taking action, and explore ways of better communicating the trade-offs and costs of inaction.

The challenges addressed in the SDGs – which focus not only on the symptoms, but also on the underlying causes of development challenges – will require integrated approaches, and strengthened co-ordination at different levels. A key lesson from the implementation of the MDGs was that sustained change cannot be achieved through isolated actions or one-dimensional or single sector goals. Successful implementation of the SDGs will entail capitalising on synergies between goals and targets and addressing potential trade-offs and conflicts. This is crucial to ensure that progress achieved in one goal (e.g. water) or target contributes to progress in other goals (e.g. food security). Conversely lack of coherence across policy areas underpinning the SDGs poses the risk that progress achieved in one goal occurs at the expense of that in another goal.

The inter-linkages between water, energy, and food sectors for example, are numerous and dynamic. Agriculture is the largest user of water at the global level; energy is needed to produce and distribute both water and food; and the food production and supply chain accounts for almost one third of total global energy consumption. Policy decisions made in these sectors can have significant impacts on each other and tensions may arise from real or perceived trade-offs between various objectives. A coherent policy approach can improve impacts. Improved water and energy services, for example, reduce the burden on women and young girls who often spend several hours each day collecting water and gathering biomass for cooking, thus freeing up time for their education and income generation activities. The provision of cleaner water and energy services is also linked to improvements in the health, micro-enterprise activity, and agricultural productivity of women. Investing in water and energy services will lead to increased levels of human health, reduced levels of poverty and indigence, and increased opportunities for education and employment, resulting in overall national economic development.

PCSD can provide an analytical framework to identify and address the systemic conditions (i.e. social, political economic, environmental and institutional factors) that hinder countries' capacities to use and mobilise effectively their own resources and revenues to achieve sustainable development objectives. These conditions include, among others, barriers to trade, markets, and knowledge, as well as conflict and corruption, and illicit financial flows. PCSD can help to cope, for example, with the reform of distortions in agricultural markets, including export subsidies, and other inefficient subsidies for fossil fuel consumption and production. PCSD can also provide a lens through which to identify potential 'enablers' and guide coherent policy action, including measures to promote: a fair, open and rules based global trading system; a stable financial system, a fairer and more transparent international tax system, among others. Analysing these influencing factors can help countries to identify priority areas for PCSD national efforts as well as the effects of policy measures.

Policy coherence will be critical to consider more systematically what matters for human well-being of the present generation in one particular country – 'here and now' –, what matters for the well-being of future generations – 'later' – and what matters for the well-being of people living in other countries – 'elsewhere' (UNECE/OECD/Eurostat, 2014). The 'elsewhere' dimension captures the ways in which countries in the pursuit of the well-being of their citizens affect the human well-being on the rest of the world. PSCD can help identify an appropriate balance between resources used to maximise human well-being for current or future use; or for one country's well-being versus another.

In my view: Integrating PCD in a post-2015 'beyond-aid' framework

By Niels Keijzer / Sebastian Paulo, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

The Millennium Declaration in 2000 is among the UN's most prominent achievements, given the symbolism of the new millennium, the high ambitions of the statement, and its near-universal endorsement by countries. The Millennium Development Goals (MDGs) that were developed on the basis of the Declaration have strongly influenced international development policy and operations ever since.

The OECD had a strong influence on the formulation of the MDGs, in particular through its 1996 strategy "Shaping the 21st Century: The Contribution of Development Co-operation". At its core was the pledge to improve the quantity and quality of international development efforts, by making mutual commitments with developing countries supported by adequate resources, by improving coordination of assistance in support of locally-owned development strategies and by achieving coherence between aid and other policies with an impact on developing countries. This contributed to the inclusion of the 8th MDG, on the global partnership on development. After the adoption of the MDGs, the OECD and EU became strong proponents of 'policy coherence for development'. This concept continued to gain acceptance, leading eventually to the 2008 MDG Summit, which called for "…increased efforts at all levels to enhance policy coherence for development. We affirm that achievement of the Millennium Development Goals requires mutually supportive and integrated policies across a wide range of economic, social and environmental issues for sustainable development. We call on all countries to formulate and implement policies consistent with the objectives of sustained, inclusive and equitable economic growth, poverty eradication and sustainable development."

However, many OECD governments struggle to translate their commitments into actions and to be accountable for actual progress made. One reason for this is that PCD often calls on stakeholders to make changes in other areas of public policies, while development actors themselves are too often reluctant to make changes themselves. The post-2015 framework for global development is an important opportunity to better integrate PCD with wider policy areas.

Beyond Aid?

Development co-operation is in transition: mainstream development co-operation continues to be closely linked to "aid" or official development assistance (ODA). But the changing global environment has restructured the foundations of international co-operation. Global shifts in wealth and poverty are reducing the relative importance of aid. The number of countries receiving aid is set to fall. Twenty-eight developing countries, with a total population of two billion, are expected to graduate from the OECD's list of ODA-eligible countries by 2030. And in the poor and fragile countries, which remain dependent on aid, donors' ability to shape policy through aid is decreasing. Today, aid needs to deal with a larger variety of development situations, beyond basic needs and poverty reduction. Climate change, global health, food security and other global public goods issues have emerged as development demands.

As a result of this context, aid is becoming less relevant compared to other contributions to development. The international debate on effective development cooperation partly acknowledges the need for reform (redefining ODA, moving from aid to development effectiveness). These discussions have stressed the need for 'beyond-aid' approaches, which can be grouped into four interrelated dimensions:

Actors: The number and diversity of actors dealing with developing countries has been expanding beyond bilateral and multilateral aid agencies. Other actors include: emerging economies that engage in South-South cooperation; line ministries from donor countries that deal directly with actors from other countries in areas such as health, energy and science; and sub-national actors such as cities that form networks with their counterparts in developing countries. This diverse group of public actors is complemented by a range of actors from the private sector: companies, non-governmental organisations, and church-based and philanthropic actors.

In my view: Integrating PCD in a post-2015 'beyond-aid' framework *(cont.)*

Finance: The relevance of aid for developing countries is decreasing relative to other sources and flows of development finance. Domestic resources are the main source of public investments in developing countries. Private international financial flows (e.g. foreign direct investment, securities transfers or remittances) also play a bigger overall role than aid in financing development: aid accounts for just two per cent of international funding available for developing countries (although it remains essential for many low-income countries, especially those affected by conflict). And innovative financing mechanisms (such as thematic public-private partnerships related to health or climate change) create market-oriented incentives to use private sources of finance, or offer new sources of revenue.

Regulation: Donor policies and international regimes have a strong impact on development outcomes, which is captured in the idea of PCD. Efforts to understand these impacts are still ongoing, and must adapt to the broadening development agenda and differentiation of partner countries. First, a broadening development agenda will have to manage a growing number of goal conflicts arising between individual dimensions of development (e.g. reducing poverty versus mitigating climate change). Second, policies have different effects on different groups of countries, as well as within these countries. Finally, a growing number of developing countries must be included in efforts to achieve greater PCD and shape development-friendly international regimes.

Knowledge: The broadening and specialisation of knowledge in development is a main feature of 'beyond aid'. Development requires knowledge from many areas, such as new farming methods, public financial administration and measures to mitigate climate change. With aid decreasing in importance, transfers of knowledge are becoming an activity distinct from financial and aid-advisory transfers. Knowledge relating to the expanded development agenda and the differentiated needs of developing countries increasingly comes from outside of the aid arena. In the 'beyond–aid' context, the challenge is to identify and share knowledge that is both specialised and scattered around many sources, and to apply it to specific contexts. Development co-operation actors will play a key role by helping to promote knowledge sharing, but organisations specialising in knowledge intermediation (which is part of what is known today as 'technical assistance') will lose relevance in relations with more advanced developing countries.

The future of PCD

With the role of aid decreasing, achieving development goals depends more than ever on linking the four 'beyond-aid' dimensions to the global development agenda. The MDGs were limited to a relatively simple goal-instrument relationship: poverty reduction in developing countries should be supported by aid from OECD countries. With the exception of MDG 8, the 'beyond-aid' dimensions were not well pronounced in this development framework, and PCD was seen mainly as concerned with improving the effectiveness of aid. PCD thus largely became an advocacy tool to name and shame "non-aid policies". This approach has achieved policy changes in some cases, but did not sufficiently influence structural transformation of development cooperation.

In the future, 'beyond aid' – and PCD in particular – can be linked to the post-2015 development agenda in two ways:

Specialisation: One option is that development co-operation retains a focus on poverty reduction and targets a shrinking group of poor and fragile countries. Current discussions on the redefinition of ODA and allocation decisions by major donors like the EU and the UK point towards focusing aid on these countries. At the same time, solving the problems of this specific category of countries also requires a more consistent use of the four dimensions of 'beyond aid'. Examples are security policy in fragile states and curbing illicit financial flows. Development cooperation actors will argue for aligning PCD with their specialised agenda, thus prioritising a particular subset of goals of the post-2015 agenda. In this case, PCD will still be owned by "traditional" development cooperation actors. Other actors and policy areas appear as targets to influence.

In my view: Integrating PCD in a post-2015 ‘beyond-aid’ framework *(cont.)*

Integration: Another option is that development co-operation integrates itself into the broader system of global co-operation, along the ‘beyond-aid’ dimensions. Aid would pursue poverty reduction in the poorest and most fragile countries as an important objective. In addition, aid would contribute to other national and global goals. The allocation of aid would not follow primarily country classifications, but thematic considerations that cover development challenges in a wide range of contexts. In this scenario, the function of aid would change significantly: it would not be used as a dominant contribution to deal with resource or capacity deficits, but instead to spur and improve contributions to development from ‘beyond aid’, e.g. by removing obstacles to collective action, brokering new partnerships and promoting the exchange of knowledge. The question will no longer be what ‘beyond aid’ can do to increase the impact of aid, but what aid can do to enhance global cooperation. In this context, PCD would become a tool of global co-operation that mediates the complex interactions between interests of different groups of countries and goal conflicts in a broadened development agenda.

The OECD is currently working on a proposal to reconceptualise PCD as ‘policy coherence for inclusive and sustainable development’ (or PCSD): “PCD in the post-2015 context could be framed as a global policy tool for collective action on complex, multidimensional, multi-actor development problems”. This proposal can be seen as reflecting the ‘integration’ option described above - broadening discussions on PCD from a focus on policies adopted at the national level (as well as in the EU) towards a stronger concern with the coherence of international frameworks. In an interdependent global economy, PCD also needs to include emerging and developing countries and other important stakeholders, and to take into account complex interactions between different dimensions of development at the national and global level.

At the same time, the OECD’s proposed approach is closer to specialisation: PCD is modelled as a process that aims at aligning various policies with unequivocally identifiable development objectives. The main task of PCD is seen as providing evidence-based analysis and monitoring, and organisational structures for coordination. However, evidence will be more complex, with development impacts diverging more and more for different groups of countries and stakeholders and goal conflicts arising between different issue areas and levels of governance. Overall, the management of a broader PCD strategy requires more bottom-up and demand-driven approaches as well as space for political deliberation and dispute settlement.

Specialisation and integration illustrate the spectrum within which development co-operation can change to fit into the overall system of international cooperation. Transformation towards either of these scenarios involves creating new linkages between development co-operation and ‘beyond–aid’ means of implementation, such as PCD. In reality, specialisation and integration overlap and are likely to play out simultaneously: many donors follow a specialisation strategy that seeks to allocate financial aid mostly to the poorest and most fragile countries. In parallel, PCD might evolve as part of a more comprehensive ‘beyond–aid’ strategy for achieving the whole range of post-2015 development goals that is no longer a mere appendix to aid.

Leaning more towards either has implications for the governance of PCD. In the case of specialisation, it is unclear to what extent aid actors are capable of working with other actors in order to achieve their own goals. The scenario of integration provides potential for synergies between development co-operation and other areas of co-operation, but it also demands a high degree of mutual openness. The two options also differ as to how they resolve the trade-off between control and relevance: in the case of specialisation, aid actors can control their own sphere, but have little influence outside of it. Through integration, development co-operation becomes more relevant in addressing global challenges, but plays a smaller role in steering overall co-operation.

Further progress on PCD therefore involves important adjustment costs for those actors associated with development co-operation today, with the large majority of them concentrated on the task of effectively managing ODA budgets. Development co-operation actors instead need to transform themselves into policy mediators, which among many requirements calls for institutional repositioning towards a stronger

In my view: Integrating PCD in a post-2015 'beyond-aid' framework *(cont.)*

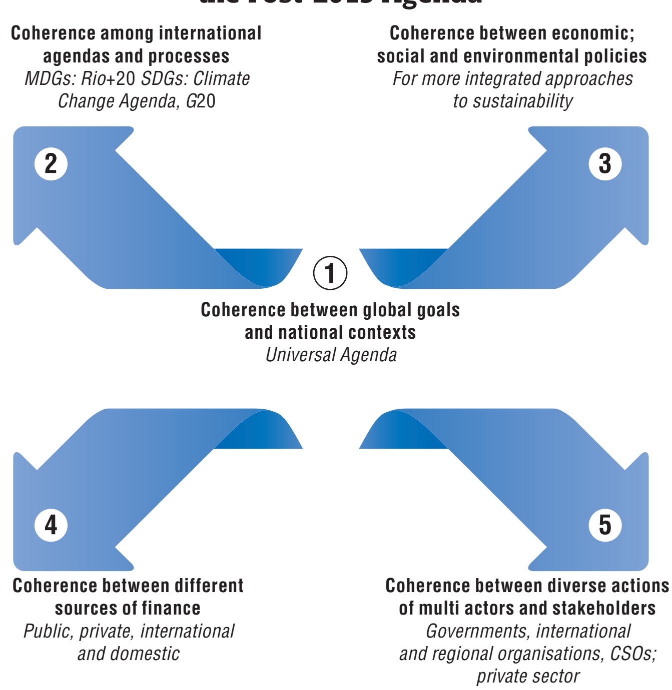
coordinating role within government, as well as human resource development: away from generalist job profiles and frequent internal turnover, and towards knowledge brokering roles and a long-term engagement. A fully integrative PCD (or PCSD) agenda will only reap benefits once it becomes part and parcel of broader transformations of international development policy. (Janus, H., S. Klingebiel, and S. Paulo, 2014a and b)

Enhancing policy coherence at multiple levels to ensure sustainable development

Effective implementation of a universal, integrated and transformative post-2015 Development Agenda requires a high degree of policy coherence at multiple levels. Policy (and institutional) coherence for sustainable development is considered an integral part of the cross-cutting means of implementation (MoI) for the whole SDG framework in the new agenda. The framework of SDGs and targets, which will constitute a set of internationally agreed priorities for the next fifteen years, provide the objectives to guide policy coherence for sustainable development going forward. The OECD has identified five complementary levels of coherence that need to be addressed in the implementation of the SDGs (Figure 2.5).

Key steps for policy coherence for sustainable development beyond 2015 include: 1) Setting country specific objectives for PCSD based on the SDGs and targets; 2) Strengthening existing PCD institutional mechanisms to co-ordinate policies and resolve policy conflicts in priority setting and implementation; 3) Identifying policy interactions and spelling out the outcomes that different domestic policies aim to achieve in the attainment of the SDGs; and 4) Considering contextual factors; and 5) Determine potential policy effects on the well-being of other countries and future generations.

Figure 2.5. **Five complementary levels of coherence for implementing the Post-2015 Agenda**



Source: OECD (2014b), Better Policies for Development 2014. Policy Coherence and Illicit Financial Flows, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264210325-en

Applying a coherent approach to fighting illicit financial flows as part of the post-2015 Development Agenda

The key challenge of reducing illicit financial flows (IFFs) serves to illustrate how PCSD can contribute to the implementation of the SDGs at the five complementary levels shown in Figure 2.5. The SDG Framework includes a target to reduce IFFs which indicates their relevance as a significant disabler for sustainable development (Table 2.1). IFFs are correlated with other fundamental obstacles that hamper governments' efforts to effectively use and mobilise their own revenues and resources for sustainable development, such as corruption, poor governance and weak institutions, crime, terrorism, among other factors.

The amount of money lost through IFFs significantly exceeds the inflows from ODA and foreign direct investment in many developing countries, as highlighted in the Module on IFFs of the 'PCSD Framework' (Box 2.5). IFFs reduce resources adversely affecting domestic expenditure and investment, both public and private. This means fewer hospitals, schools and infrastructures, and ultimately fewer resources to support sustainable development transformation. Practices that lead to IFFs occur in all countries and are damaging everywhere, but the economic, social and environmental impact on developing countries is more severe given their smaller resource base and markets (OECD, 2014d). A modest improvement in the reduction of IFFs will make a significant contribution to sustainable development and would also help to achieve other policy objectives such as improved governance and stability, and reduction of crime and violence.

Coherence between internationally agreed goals and national contexts: increasing consistency among national and international regulations

A coherent approach entails that countries aim for consistency with international conventions and standards established in the fight against IFFs, such as the UN Conventions against Corruption and against Transnational Organized Crime;[6] the recommendations of the Financial Action Task Force (FATF) or international standards on exchange of information for combating tax evasion, and the Stolen Asset Recovery Initiative (StAR).[7] Fighting illicit financial flows depends on country compliance with international best practices and alignment to internationally agreed instruments. IFFs are facilitated by differences between national legal systems; weak international co-operation; and secrecy jurisdictions which can undermine the regulations of other jurisdictions. The quality of national regulations as well as their implementation matter. Capabilities and the specific challenges differ from country to country. In addressing IFFs in the context of the SDGs, for instance, some countries may focus on strengthening institutions and building national capacities in identifying, tracking and fighting tax evasion, money laundering, and corruption; and others on taking specific actions to strengthen domestic regulations to avoid being safe havens for illegal money.

Coherence between diverse international agendas and processes: enhancing international normative frameworks

Fighting IFFs requires a coherent international normative framework. The current international framework for fighting illicit financial flows consists of multiple overlapping conventions, treaties, standards, initiatives and forums. Each international instrument and standard was developed independently to address a specific and distinct element of the IFFs challenge; they were not planned as an integrated system. These include (i) international legal obligations such as the Vienna Convention; the Palermo Convention; the Merida Convention; the Terrorist Financing Convention; and various UN Security Council

Box 2.5. **Thematic module on illicit financial flows**

The thematic module on IFFs of the PCSD Framework, to be released at the end of 2015, provides a non-technical guide for policymakers to help understand the complex web of policies involved in combating illicit financial flows, and in particular to highlight the issues of coherence that arise and how they can be addressed.

Objective

The objective of the module is to give a road-map of all those policy interactions, so that countries can plan for, avoid, and resolve the most significant trade-offs or policy conflicts and can apply these measures in a coherent and effective way.

Structure

The thematic module is structured in eight substantive sections and a self-assessment tool (checklist) for countries that policy-makers can use to assess their own situation and identify ways to build an integrated 'whole-of-government approach'. The Module:

1. Provides **a definition of illicit financial flows** as well as a broad perspective of the context in which they occur. It places IFFs in the context of the post-2015 Sustainable Development Goals.
2. Gives an overview of the complicated **international normative framework** for dealing with IFFs. It highlights potential policy conflicts between the international rules on illicit financial flows and national laws or objectives on another subject - such as company creation and registration.
3. Considers **enabling and disabling conditions** for illicit financial flows.
4. Looks at **the range of actors** involved in combating IFFs, including the institutions, agencies, and companies inside and outside government, involved in implementing IFF measures; or significantly affected by them.
5. Identifies the key national **policy inter-linkages** which can influence measures to combat illicit financial flows.
6. Considers the four main **international spillovers** which influence IFFs: (i) the effect of cross-border differences in creating markets for illicit finance; and the operation of measures to combat IFFs, including (ii) legal cooperation, (iii) development assistance, and (iv) the supervision of multinational financial institutions.
7. **Considers trade-offs and conflicts** between different policy objectives, and how governments can ensure balanced outcomes.
8. Considers **how to promote coherence** in combating IFFs, e.g. through formal institutional mechanisms such as inter-agency bodies for coordination and discussion of policies within governments or for liaison with the non-government partners.

This module builds on work from across the OECD - in particular the 2014 report on OECD Responses to Illicit Financial Flows from Developing Countries (DOI: *http://dx.doi.org/10.1787/9789264203501-en*) - and on the work of the different directorates in the OECD which look at illicit financial flows - including the Centre for Tax Policy and Administration, the Development Co-operation Directorate, the Directorate for Financial and Enterprise Affairs and the Directorate for Public Governance and Territorial Development, as well as the Financial Action Task Force. It has also benefited from input by the UN Office on Drugs and Crime, the World Bank, and national Focal Points for Policy Coherence.

Resolutions, as well as (ii) international standards, such as the OECD Model Tax Convention; the Convention on Mutual Administrative Assistance in Tax Matters; and the Global Forum on Transparency and Exchange of Information for Tax Purposes. These also include the OECD Anti-Bribery Convention and the Financial Action Task Force recommendations. There are also many Voluntary and Regional Codes, Standards, Initiatives and Bodies which apply to illicit financial flows, such as StAR; the Extractive Industries Transparency Initiative (EITI), the Oslo Dialogue on Tax and Crime, amongst others.

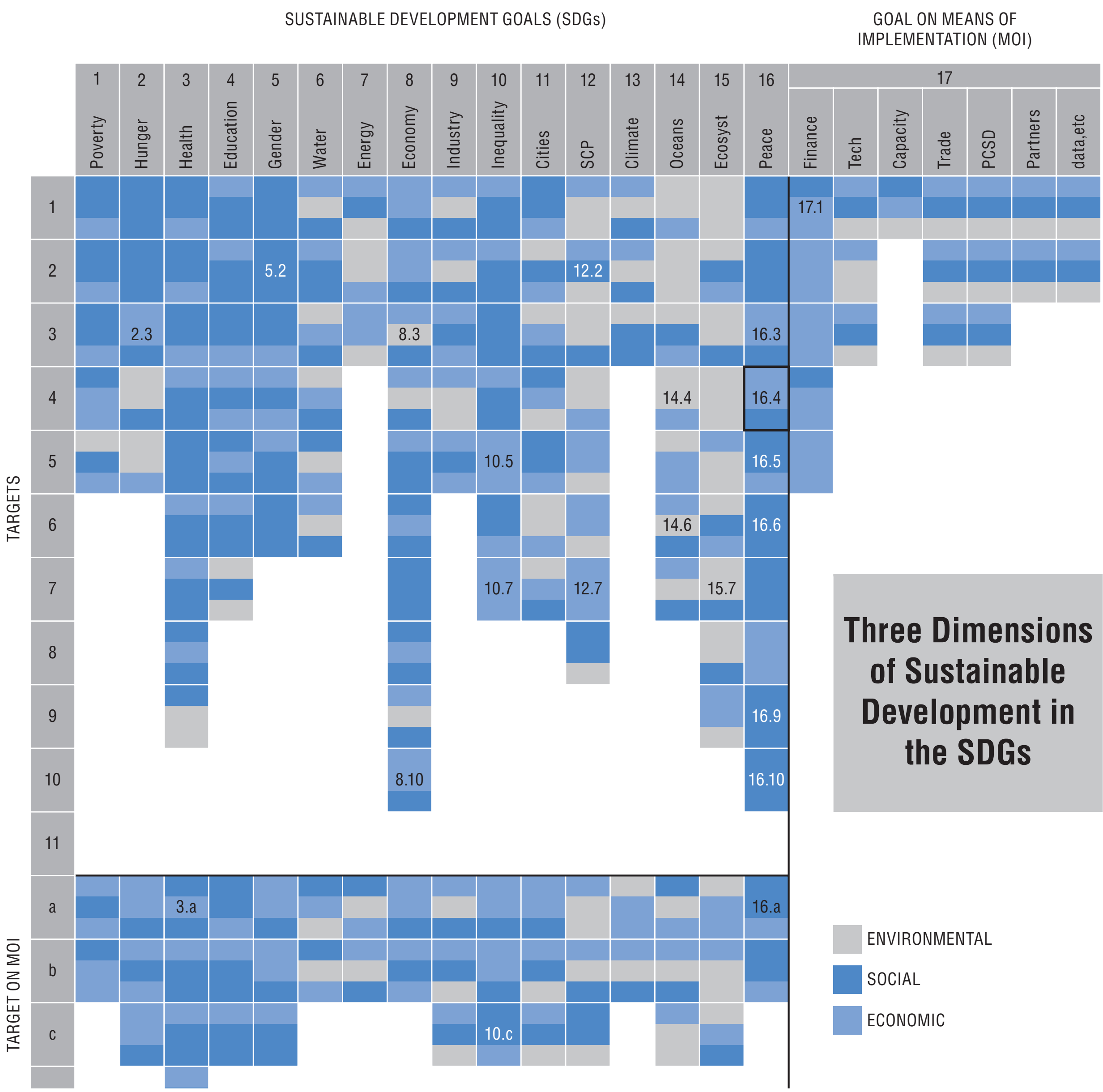
Preliminary analyses from the OECD's work on the PCSD Framework have shown that there is a high degree of convergence on the specific requirements of the conventions, standards, and initiatives. In general, the UN Conventions set out essential and universal requirements, while more recent standards incorporate the requirements of the Conventions, but also include more detailed and more ambitious requirements. However, each of the Conventions, standards, and initiatives has different governance and membership arrangements, with UN and OECD bodies, as well as stand-alone treaty-based organisations, task-forces, and initiatives. The lack of an overarching co-ordination mechanism may hinder efforts for collective and coherent actions to tackle illicit financial flows, although this is mitigated in part by informal groups. The G20 countries, for example, make up a common core membership of all the bodies noted above, and have recently taken on a greater leadership role with regard to transparency of beneficial ownership, and other specific measures to combat illicit financial flows, giving a high-level political steer on the further development of the relevant standards. Synergies and complementarities among these different instruments and initiatives will be fundamental to create global conditions that discourage IFFs and align existing efforts towards the achievement of the SDGs and targets.

Coherence between economic, social and environmental policies: adopting integrated approaches to address key issues

Dealing with illicit financial flows in an integrated way is critical to support the achievement of all the SDGs. A coherent approach to fight IFFs flows needs to encompass illicit funds, illicit financial techniques, the deficiencies in the legislative, enforcement and policy framework which allow them to take place, and the measures which can be applied to fight them. The wide range of economic, social, and environmental phenomena related to illicit financial flows can only be effectively dealt with through co-ordinated national and international actions. Illegal natural resource exploitation, which is a source of IFFs, for example represents a threat not only to the environment, but also to revenues from natural resources, to state security, and to sustainable development. It is estimated that USD 48-153 billion of natural capital is lost through illegal trade of wildlife globally each year (UNEP, 2014). Similarly, illegal, unreported or unregulated (IUU) fishing, which is a driver of corruption and source of IFFs, not only damages the environment and threatens biodiversity and ocean ecosystems, but also has an impact on human rights by undermining labour standards, harming markets for legally harvested fish, destabilising the economy in developing coastal nations and encouraging corruption. Global estimates suggest a minimum 20 percent of seafood worldwide is caught illegally, representing losses between USD 10 to 23 billion and 11 to 26 million tonnes (Martini, R. *et al*, 2013).

Dealing with IFFs in a coherent manner involves articulating a multidimensional understanding of the problem by identifying synergistic actions and tackling its underlying causes. Addressing illicit financial flows in the context of the SDG framework will require identifying and considering critical interactions to support more coherent decisions. For example, the IFFs-related targets (included in SDG 16) cannot be achieved without progress in other goals and targets critical for addressing the drivers behind IFFs, such as those related to the elimination of violence against women, including trafficking and sexual exploitation (included in SDG 5) since human trafficking

Table 2.1. **Illicit financial flows in the SDG framework**



Source: OECD Policy Coherence Unit (2015), adapted from Kőrösi (2014).

generates illicit flows. To illustrate potential interactions between different goals and targets relevant for tackling IFFs, Table 2.1 provides an integrated perspective of the SDG framework. This table should be seen in conjunction with Table 2.2, which provides a preliminary analysis of the main interactions in terms of synergies, trade-offs and policy conflicts, highlighting those targets that could also help create conditions for discouraging IFFs.[8]

Coherence between different sources of finance: making best use of existing resources to tackle key challenges

Fighting illicit financial flows require mobilising multiple resources to build technical capacity, strengthen institutions and systems, and ensure policy reforms. These resources may be provided through development co-operation, international and regional

Table 2.2. **SDG Targets related to Illicit Financial Flows (16.4)**

SDG	Summary of Target	Relevance to IFFs
Enablers and Disablers **Factors which make an essential contribution to combating illicit financial flows, e.g. as a precondition for certain measures, or as structural factors which could undermine the effectiveness of anti-IFF measures.**		
10.5	Regulation of Financial markets	Some measures to counter IFFs rely on requiring preventive measures by financial institutions, supported by supervision.
16.3	Rule of Law	An essential precondition for anti-IFF measures
16.5	Reduce corruption	Corruption of key institutions can undermine anti-IFF measures
16.6	Sound institutions	An essential precondition for anti-IFF measures
16.9	Identity documentation	Required for many anti-IFF preventive measures
16.10	Public access to information	Transparency to relevant government authorities can discourage crime and enhance anti-IFF measures
16.a	Institutions to combat crime	An essential precondition for anti-IFF measures
Potential Trade-offs and Policy Conflicts **Areas where there is a risk that excessively strict or poorly targeted anti-IFF measures could undermine implementation of other SDG targets.**		
8.3	SME development	Longer company registration process, with additional information requirements.
8.10	Access to financial services	Financial inclusion issues – e.g. with poor people who lack good identity documentation
10.c	Cheaper remittances	De-risking means money remitters lack access to financial system… potential to drive remitters underground (with cost to recipients). Also cost of compliance may make remittances more expensive…
16.10	Public access to information	Data protection rules, business secrecy, and censorship may conflict with measures to counter IFFs.
Key Sources of Illicit Funds **SDG targets which relate to significant sources of IFFs. Laundering of illicit flows is an essential enabler for many of these activities, so restricting illicit flows is an effective way to combat the underlying activity.**		
2.3	Agricultural productivity/incomes	Drug production is a major source of illicit funds. Measures promoting agricultural productivity and rural incomes can reduce pressure on farmers to grow narcotics.
16.5	Reduce corruption	Corruption is a major source of illicit funds.
17.1	Strengthen domestic resource mobilisation	Tax evasion is a major source of illicit funds, which weakens the capacity of countries to fund their own development through domestic resource mobilisation.
3.a	Tobacco control	Illicit trade in tobacco products generates illicit funds
5.2	Violence against women	Human trafficking generates illicit funds
10.5	Regulation of Financial markets	Poorly-supervised financial institutions are important facilitators of tax evasion and other sources of illicit funds
10.7	Safe migration	Smuggling migrants generates illicit funds
12.7	Public Procurement	Public procurement, public works and construction, are at high risk of corruption, and major sources of funds
12, 15	Sustainable use of oceans and terrestrial ecosystems	Exploitation of natural resources is a driver of corruption and source of illicit funds. This includes forestry and fisheries, as well as extractive industries.
14.4	IUU fishing	
14.6	Subsidies that contribute to IUU	
15.7	Illegal wildlife products	
15.c		

development banks, the private sector and philanthropists, and domestically. National and international efforts will be more effective if the funds are disbursed in a coherent manner and under the umbrella of internationally agreed goals. Ways for ODA to better leverage additional resources should also be explored to fight IFFs.

Coherence between diverse actions of multiple actors and stakeholders: strengthening cooperation and partnerships

The measures to combat IFFs require the intervention of a large number of different actors and agencies from inside and outside the government and at different levels. In general, critical policy areas for tackling IFFs, such as the prevention and mitigation of money laundering, the financing of terrorism, corruption, tax evasion, and other economic crimes are often dealt with in silos. To combat illicit financial flows effectively, governments have to incentivise coherent action at the national and international levels and bring together different agencies as well as entities outside the government with different skills and priorities. There is a wide recognition that successfully addressing illicit financial flows will require co-ordinated efforts by a broad range of partners, from developed and developed countries, to international agencies, the private sector, and civil society.

In my view: The imperative of addressing illicit financial flows in the Financing for Development and Sustainable Development Goals processes

By Tom Cardamone, Managing Director, Global Financial Integrity

Over the past several years the concept that illicit financial flows have an adverse impact on development and economic growth has become well known and embraced by the international community. In 2013 the World Bank noted that "there is little doubt" that IFFs have a caustic effect on development and last year the African Union noted that "it is imperative to curtail" illicit flows. An estimated USD 1 trillion of illicit capital flows out of developing countries annually – this exceeds the amount of ODA and FDI flowing into those economies. Moreover, the magnitude of illicit flows has more than tripled from 2003 to 2012 (the last year for which data are available). The stark reality is that this fundamental drag on development is acute and worsening each year.

Global Financial Integrity (GFI) estimates that of the total estimated annual outflows, close to 80% of the funds are moved offshore using trade misinvoicing (i.e. invoice fraud). This method of transferring wealth is at the crux of the development equation due to its direct linkage to domestic resource mobilisation (DRM). The importance of domestic revenues was underscored in the 2002 Monterrey Consensus which committed nations to improving their DRM efforts, and in a 2013 UN technical paper which noted that domestic resources are "being severely undermined by" IFFs.

And in the most fragile of countries, adequate domestic funding is of even greater importance due to the inherent challenges to build economies when emerging from conflict. In the 2014 UN Peacebuilding Commission's Annual Meeting summary it was noted that "countries emerging from conflict have difficulty mobilizing domestic resources, while facing steep challenges to meet expectations for social service delivery.

More recently, reports have been issued that highlight the role illicit financial flows play in undermining economic progress as well as human rights. In January, the Africa High Level Panel on Illicit Financial Flows completed three years of work with a report which recommended, among other things, that "African States' customs authorities should use available databases of information about comparable pricing of world trade in goods to analyse imports and exports and identify transactions that require additional scrutiny."

Given the importance of DRM to development and the corrosive role played by illicit financial flows - and in particular the technique of trade misinvoicing it is imperative that this issue be addressed within the context of the FfD and SDG processes. We believe the following steps should be taken to underscore the international community's commitment to development:

- There should be more awareness of the pernicious impact trade misinvoicing has on domestic resource mobilisation and the ability of developing countries – especially those emerging from conflict – to grow their economies and address poverty.
- Improved co-operation between developed and developing countries, to provide commercially available trade databases and relevant training to developing country customs departments which will enable them to identify, investigate and interdict goods when they have been misinvoiced.
- Improved monitoring by the IMF, to estimate the amount of trade misinvoicing for each developing country and to monitor progress in combating misinvoicing during the Post-2015 period.

With these steps in place the international community will have matched its rhetoric about the severity of illicit flows with concrete actions that will address the problem head-on. These are not technically difficult to implement but will require sufficient political will to execute correctly. And lest it be forgotten, civil society and the media have important roles to play by ensuring that their governments are sufficiently dedicated to curtailing the flows and allocating the resulting tax proceeds in a way that benefits their society."

Notes

1. In 1996 Development Minister, heads of Aid Agencies and other senior officials responsible for development co-operation, members of the DAC, adopted the document "Shaping the 21st Century: The Contribution of Development Co-operation" which outlined a series of key principles for effective aid, and they committed to help: "by a determined effort to achieve coherence between aid policies and other policies which impact on developing countries".
2. International commitments to PCD have been included in the Millennium Declaration (2000) and as part of the MDG8; the Monterrey Consensus (2002); the European Consensus on Development (2005); the Paris Declaration (2005) and Accra Agenda for Action (2008); the EU's Lisbon Treaty; the outcome document of the 2010 MDG Summit; and the outcome document of the Fourth High Level Forum on Aid Effectiveness (2011).
3. Since 2010 DAC Peer Reviews look at the political commitment to policy coherence by DAC members'; how their government institutions work and coordinate to promote coherence, and whether they have the capacity to analyse and monitor the potential impact of their policies on development. The 2010 OECD Council Recommendation gives guidance on good practices in promoting PCD along the lines of three PCD building blocks. The reviews focus on the organisational aspects of those building blocks as opposed to in-depth analysis on the impact of specific non-aid policies on developing countries.
4. The PCSD Framework updates the 'PCD toolkit' which was first developed in 2009-10 as well as its revised version published online in 2012 as an OECD-PCD Unit Working Paper "PCD Framework". These previous versions were developed drawing on lessons learned and best practices collected by the OECD over several years of peer reviews, as well as on consultations with in-house experts and member countries which are captured in this updated version.
5. According to the most commonly accepted definition, sustainable development refers to "development that meets the needs of the present without comprising the ability of the future generations to meet their own needs". See: World Commission on Environment and Development, (Brundtland Commission), 1987, Our Common Future, Oxford University Press, Oxford, United Kingdom.
6. The UN key instruments which establish legal obligations are: the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988 (Vienna Convention), which includes provisions on money laundering and international cooperation; the United Nations Convention against Transnational Organized Crime 2000 (Palermo Convention), which requires countries to criminalise money laundering, and includes frameworks for extradition, mutual legal assistance and law enforcement cooperation; the International Convention for the Suppression of the Financing of Terrorism 1999 which requires states to criminalise the financing of terrorism, and adopt powers to freeze and seize funds intended to be used for terrorist activities; and the United Nations Convention against Corruption 2003 (Merida Convention), which requires measures to prevent and criminalise corruption, provide international cooperation and asset recovery on corruption cases. In addition a number of UN Security Council Resolutions have introduced measures to counter illicit financial flows, in particular by establishing targeted financial sanctions regimes applied to Al Qaida and other terrorist groups
7. The OECD is the hosts of key international standards and standard-setting bodies which are responsible for setting international soft law. These include: the OECD Model Tax Convention, which addresses key issues arising in the international tax system including to promote the elimination of double taxation and to prevent fiscal evasion; the Multilateral Convention on Mutual Administrative Assistance in Tax Matters as a legal instrument for countries to undertake cross-border cooperation to counter tax evasion and avoidance in areas including exchange of tax information (on request, automatic and spontaneous) as well as assistance in tax collection and simultaneous tax examinations; the OECD Anti Bribery Convention; the Global Forum on Transparency and Exchange of Information for Tax Purposes; and The Financial Action Task Force, which promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction.
8. A report coordinated by the International Council for Science and the International Social Science Council has highlighted relevant types of interactions between goals and targets in the SDG Framework which include, but go beyond synergies and trade-offs. According to the report, some targets are interdependent, meaning that one target must be realised in order for another to be viable. Other targets impose constraints on how another can be reached. Some targets reinforce each other (synergies). And critical trade-offs may also occur. See: *http://www.icsu.org/publications/*

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Better Policies for Development 2015
Policy Coherence and Green Growth

Chapter 3

Policy coherence, green growth and sustainable development

by
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Attaining the Sustainable Development Goals (SDGs) will require building synergies across economic, social and environmental policies, as well as pursuing multiple policy objectives in a coherent manner. Green growth, which pursues environmental goals simultaneously with growth and development, will be a fundamental component of national strategies to achieve the SDGs. This chapter considers relevant lessons learned from the challenges facing countries in the transition to green growth. It first provides a general overview of the core actions and policies involved in aligning economic and environmental objectives and implementing green growth policy frameworks, then considers two priority areas in further detail: (1) aligning policies for the transition to a low carbon economy; and (2) aligning social and labour policies in pursuit of green growth.

The world economy will change dramatically over the coming decades. By 2050 global economic output is projected to nearly quadruple. This expansion has the potential to raise living standards around the world. But it also poses major environmental and social challenges with implications for future generations. Without increasing the economic, social and environmental sustainability of growth the cost and consequences will be colossal. Both developed and developing countries face the twin challenge of limiting growth in greenhouse gas emissions and promoting the transition to green growth.

This chapter illustrates some of the challenges associated with implementing a policy coherence agenda within the context of green growth, providing useful insights into strategies to overcome these challenges. It draws on: the recent review of progress on implementing green growth strategies; analysis of aligning policies for the transition to a low-carbon economy; and analysis related to aligning social and labour policies in the pursuit of green growth.

In June 2009, in the middle of the global financial crisis, Ministers from 34 countries signed a Green Growth Declaration that acknowledged that environmental progress and economic growth *can* go hand-in-hand. They endorsed a mandate for the OECD to develop a Green Growth Strategy, bringing together economic, environmental, social, technological and development aspects into a comprehensive framework. The resulting 2011 *OECD Green Growth Strategy* formed an important part of OECD contributions to the Rio+20 Conference in June 2012 that launched the process to develop Sustainable Development Goals (OECD, 2011a).

In its Strategy, the OECD defined green growth as fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies (OECD, 2011a). Green growth strategies therefore pursue opportunities for both growth and development, and the management of environmental and economic risks.

Green growth can enable economic growth and sustainable development through expanding markets for green technologies and services, improving market confidence with greater clarity regarding environmental policy, and providing incentives for innovation and efficiency improvements. Economic opportunities can also result from newly created jobs, efficient management of natural resources and productivity gains (OECD, 2015a).

Environmental damage and resource scarcity are disablers of growth and sustainable development. Water scarcity, worsening resource bottlenecks, greater pollution, climate change and biodiversity loss have the potential to undermine growth and development. Imbalances in natural systems raise the risk of more profound, abrupt and highly damaging environmental impacts that are not necessarily foreseeable on the basis of past experience. Climate change and biodiversity loss in particular represent systemic risks to growth, with greater risks to physical capital from more intense and frequent storms, droughts and floods, and risks to essential ecosystem services such as water purification, flood protection and carbon sequestration. As natural capital erodes and is replaced with increasingly costly and limited physical capital, possible resource bottlenecks may undermine gains from future economic activity and hinder growth (OECD, 2015a).

Mismanaging and undervaluing natural resources can impose substantial human and economic costs. For example, the estimated costs to society of outdoor air pollution, in terms of lives lost and ill health, were USD 1.7 trillion in 2010 in OECD countries alone (OECD, 2014a), USD 1.3 trillion in China and USD 2.5 trillion in India. A narrow definition of economic growth, such as gross domestic product, does not account for these costs – hence the need for broader measures of prosperity that fully recognise the role of natural capital in economic growth and human well-being, as well as the limits and costs of existing production technology and consumer behaviour (OECD, 2014a).

Developing countries are particularly vulnerable to environmental risks, with natural assets representing over one quarter of wealth. They also offer significant global opportunities for investment in green infrastructure, given projected population and economic growth (OECD, 2013a). OECD analysis of the potential for green growth in Southeast Asia, for example, highlighted some of the costs associated with environmental damage and unsustainable resource use, including an estimated 200 000 deaths in the region in 2010 due to air pollution, and increased risks from flooding as a result of deforestation and destruction of mangroves (OECD, 2014a).

The importance of green growth strategies to the post-2015 Development Agenda is underscored in the Sustainable Development Goals (SDGs), which will require approaches to water, energy, infrastructure, cities, climate change, oceans, biodiversity and economic growth and development that successfully integrate domestic and global economic, environmental and social objectives. The SDGs give a prominent role to environmental objectives - for example by including high level goals relating to sustainable consumption and production; climate change; sustainable use of oceans, seas, and marine resources; and protection of terrestrial ecosystems and biodiversity. And environmental concerns are interwoven throughout the other goals and targets, as shown in the diagram on the SDG framework (Table 2.1).

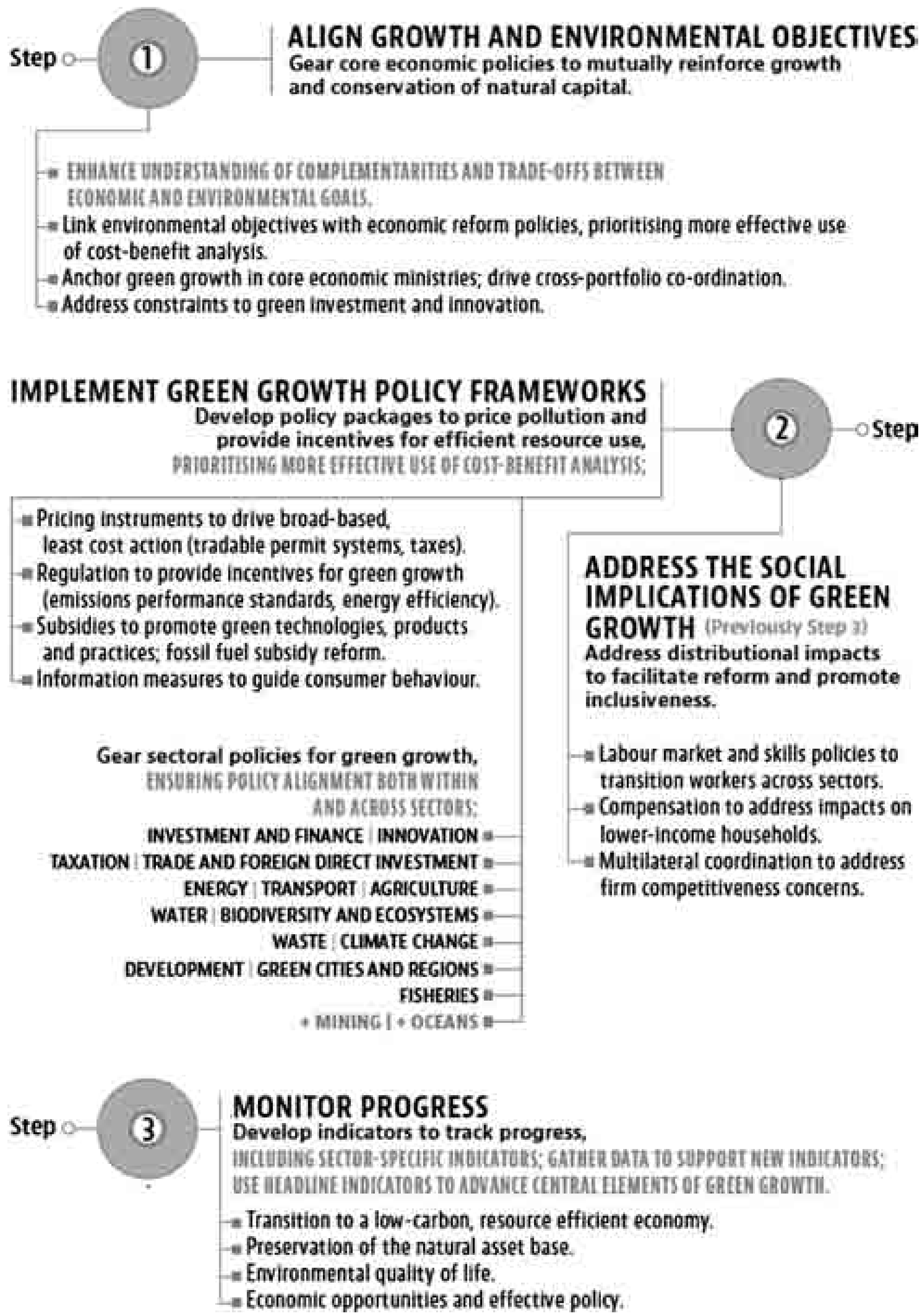
The OECD Green Growth Strategy provides a useful policy framework to guide the alignment of economic and environmental policies. A recent update to the framework also places emphasis on addressing the social implications of green growth policies (OECD, 2011b). While a number of countries have implemented green growth measures, no country has yet comprehensively linked environmental and economic reform priorities. Much more concerted efforts are needed to meaningfully align economic and environmental priorities (OECD, 2015a).

Box 3.1. **Policy Alignment and Policy Coherence**

The phrase "policy alignment" is commonly used in the OECD's Green Growth Strategy, and in discussions of sustainable development or low-carbon growth, instead of the phrase "policy coherence". Both of these phrases refer to essentially the same objective. The difference in terms is not based in any subtle conceptual differences - but simply reflects the way these objectives have developed in different contexts.

The updated 2015 Green Growth Strategy (Figure 3.1), suggests several areas for improvement, including: greater emphasis on understanding longer-term complementarities and trade-offs between economic and environmental goals; more attention to the distributional consequences of policies; increased efforts to ensure policy alignment both within and across sectors; integration of the ocean economy and mining into the

Figure 3.1. **The 2015 Green Growth Strategy**



Source: OECD (2015a), Towards Green Growth? Tracking Progress.

Strategy; and use of headline green growth indicators to raise awareness, measure progress and identify opportunities and risks (OECD, 2015a). These additions will necessitate even greater policy coherence across economic, environmental and social policies, with shifts in institutional arrangements and administrative culture to enable well-aligned and mutually supportive policies.

Policy coherence to drive green growth strategies

Place environmental challenges at the heart of economic policy making

The first step in developing a green growth strategy is to align growth and environmental objectives so that they are mutually reinforcing and not working at cross-purposes. As environmental risks can undermine growth and human well-being, economic policies that aim to promote growth and raise living standards must take these risks into account. That means articulating economic growth and environmental objectives into a consistent set of policy criteria and taking a longer timeframe into account in economic policy decisions. The ultimate goal is environmental and structural reform policy priorities that are bound together in a single, coherent agenda.

In order to accomplish this, however, there needs to be a shared understanding of the interactions between economic and environmental goals, their complementarities and potential policy conflicts and trade-offs. There is uncertainty related to environmental risk (e.g., unknown economic implications of global temperature rise), the unknown implications and outcomes that results from various policies (e.g., the impact of environmental policies on economic growth) as well as political uncertainty with respect to how the next government will address or manage environmental issues. As a result of all of the uncertainty, it may be difficult to prioritise the policies needed to achieve green growth. Box 3.2 shows how OECD analysis is helping to build a stronger shared knowledge base on environment-economy interactions.

In aligning growth and environmental objectives, it is also important to link environmental objectives with economic reform policies. A 2012 paper, *Incorporating Green Growth and Sustainable Development Policies into Structural Reform Agendas*, by the OECD, World Bank and UN drafted for the G20 Summit provided recommendations for incorporating green growth and sustainable development policies into structural reform agendas, including a toolkit of policy options for both developed and developing countries to draw upon. The report highlighted the importance of framework policies, such as tax reform, investment policies and innovation policies in supporting green growth, and removing policy-induced distortions, including fossil fuel subsidies and barriers to trade and investment. The report also identified infrastructure as a domain where substantial synergies between economic, social and environmental goals in both developed and developing countries can exist (OECD/World Bank/UN, 2012).

Integrating green growth objectives into broader economic policy making and development planning implies a major role for finance and economic ministries, in addition to environment ministries. Most countries will require new institutional and governance arrangements to help align economic and environmental policies, and overcome institutional inertia in policy making. The aim is to integrate green growth into core policy processes. OECD efforts to drive and co-ordinate green growth across its work programme since 2009 provide some important lessons for governments seeking to implement institutional mechanisms for green growth, including the importance of:

high-level leadership and clear accountabilities; formal structures for co-ordination and collaboration; clear articulation of how green growth links to other policy priorities; and dedicating human resources to mainstreaming in organisations important to green growth. Information sharing and use of indicators are also important.

Box 3.2. **Building a shared understanding of economic and environmental interactions**

Recent OECD studies are helping to broaden and deepen the knowledge base on the interaction between environmental regulation and economic growth. For example, a 2014 empirical study showed that environmental policy tightening since 1990 has had no net negative effect on productivity growth in OECD countries. Less productive firms experience a temporary fall in growth, but the gains experienced by the most productive firms – by seizing new market opportunities and deploying new technologies – counter this effect. Another study examined the relationship between the stringency of environmental regulations and country exports of environmental goods, finding that stringent regulation positively affects countries' specialisation in environmental products. Other analysis showed that market-based environmental instruments, such as taxes and trading schemes, tend to have a more robust positive effect on productivity growth than other measures. Policy design is also important, with policies that advantage existing firms or directly influence technology choice more likely to affect competition and entry.

Further work on the effects of environmental policy on investment, firm entry-exit, and international trade and relocation as well as a greater comprehension of investment, employment and production processes, would enhance understanding of the broader effects of environmental policies. Further assessments of the competitiveness impacts of environmental policy, and greater development of the micro-data required for such studies, would also be useful. Such analyses could inform adjustments to policy design, the development of complementary policies or the pursuit of greater international harmonisation.

Quantifying the impacts of environmental damage on the economy can also help to prioritise green growth objectives within the context of economic growth or development policies. It can underscore the importance of governments integrating longer-term perspectives that factor in interactions between the environment and economy when developing policy tools. Recent analysis has shown, for example, that the economic cost of outdoor air pollution, in terms of the value of lives lost and ill health, is much higher than previously thought. While costs were estimated at 4% of Gross Domestic Product (GDP) in OECD countries on average in 2010, China faced costs that were estimated at the equivalent of 12% of GDP. Further work is underway to assess the economic consequences of risks posed by climate change, air pollution and the link between land, water and energy. Cost-benefit analysis that includes economic valuation of environmental externalities is a key tool available to comprehensively consider both the economic and environmental consequences of policies.

Sources: Albrizio, S., T. Koźluk and V. Zipperer (2014); Sauvage, J. (2014); Koźluk, T. (2014); and OECD (2014b).

Green investment and innovation are essential elements of the green growth strategy. However, there are several barriers that can limit progress, including the underpricing or lack of a market price for environmental externalities, a lack of financing, path dependency and dominance of existing technologies or firms (e.g., the energy and transportation sectors), the capital intensity and technology risk of some green technologies (e.g., carbon capture and storage, new transportation technologies), and barriers to trade and foreign investment (OECD (2011). Securing sources of finance to support green growth is even more challenging in developing countries (2014c). Addressing these barriers requires an integrated approach across environment, economic and social domains, and often close coordination among different levels of government. Clear, stable and credible long-term environmental, energy, transport and infrastructure policy signals are important drivers of investment and innovation (Kaminker, C., *et al*, 2013; Corfee-Morlot, J., *et al*, 2012; Criscuolo, C. and C. Menon, 2014; OECD, 2012; and OECD, 2013b).

Broader framework policies that support research, development and demonstration, innovative approaches to leverage private sector financing, skill development, small and medium-sized enterprises, and new firms are also needed (Criscuolo, C. and C. Menon, 2014); and Beltramello, A., L. Haie-Fayle and D. Pilat, 2013). In addition, barriers to investment and innovation can often be addressed with revision to existing policy, regulation and tax settings (Kaminker, C., *et al*, 2013).

Implementing green growth policy frameworks

Green growth policy frameworks consist of a combination of pricing instruments such as tradable permit systems and taxes to value environmental action, regulations such as: emissions performance and energy efficiency standards; subsidies to promote green technologies, products and practices; fossil fuel subsidy reform; and information measures to guide consumer behaviour. Cost-benefit analysis is also an important component of policy framework development, as it helps inform policy decisions with a rigorous consideration of environmental and economic implications.

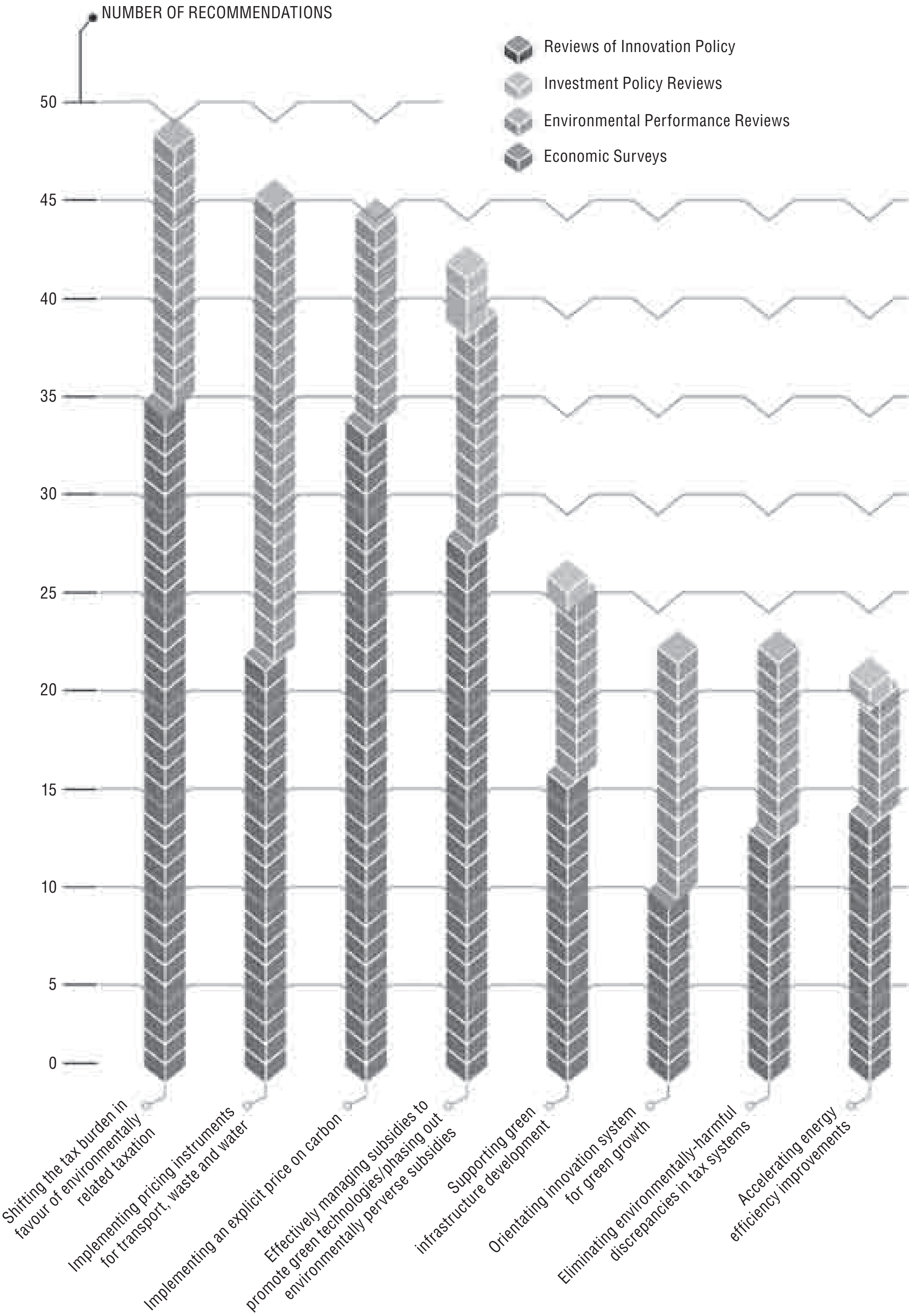
The OECD recently undertook a preliminary assessment of the major challenges to implementing green growth policy frameworks at the national level, many of which are a result of policy incoherence across sectors. Figure 3.2 shows the eight most common green growth challenges[1] facing OECD countries based on country surveillance, which include:

- shifting the tax burden in favour of environmentally related taxation
- implementing pricing instruments for transport, waste and water (e.g., water financing mechanisms, congestion and distance-based charging)
- implementing an explicit price on carbon
- effectively managing subsidies to promote green technologies/phasing out environmentally perverse subsidies (e.g., feed-in-tariffs, fossil fuel subsidies)
- supporting green infrastructure development (e.g., directing public and private investment into green infrastructure)
- orientating innovation systems for green growth (e.g., support for basic research and development, protection of intellectual property)
- eliminating environmentally-harmful discrepancies in tax systems (e.g., differences in the tax treatment of gasoline and diesel, preferential tax treatment of company cars)
- accelerating energy efficiency improvements (e.g., labelling, certification programmes, training and education).

Pricing externalities: cost-effective incentives for innovation and efficiency

Pricing environmental externalities is essential to successful green growth strategies and PCSD, as it is a cost-effective environmental policy instrument, provides incentives for innovation and efficiency improvements, and generates revenue that can be used to address distributional consequences or as a source of finance.

Figure 3.2. **Eight most common green growth challenges in OECD country surveillance**



Source: OECD (2015a), Towards Green Growth? Tracking Progress.

Developed, emerging and developing countries are increasingly establishing an explicit price on greenhouse gas emissions through taxation or a tradable permit system, but there is significant scope for further uptake. An estimated 40 national and 20 subnational jurisdictions have implemented or are considering implementing an explicit price on carbon, covering approximately 6 gigatonnes of carbon equivalent, or about 12% of global greenhouse gas emissions. However, the carbon prices that have been established to date have generally been low and insufficient to spur technological change or significantly alter consumer behaviour.

Political opposition has been identified as one of the fundamental challenges to carbon pricing. Addressing social implications, in terms of the effects of carbon pricing on households and businesses, is an important way to respond to political opposition (OECD, 2015a). This chapter explores considerations related to aligning social and labour policies in pursuit of green growth.

Using pricing instruments to change behaviour with respect to water, waste and transport also continues to be a challenge to green growth. OECD countries are making efforts to increase cost recovery for water, and prices in developing countries appear to be rising. Much more remains to be done, however, to finance the significant costs associated with modernising and upgrading water systems in the OECD (0.4 – 1.2% of GDP per year for the next 20 years) and increasing the level of the population with access to an improved water supply in developing countries (USD 18 billion per year, on top of the USD 54 billion needed to maintain existing services) (OECD, 2012a).

To address waste, further efforts are required to decouple material consumption and GDP through the use of pricing instruments as part of a mix of policy tools addressing different stages of the resource life cycle (OECD, 2015a). The high number of economic actors and sectors implicated in promoting resource productivity, combined with the lack of comprehensive data, make implementation difficult, however (OECD, 2014c).

A more coherent policy framework is also required to address the externalities of road transport, including CO_2 emissions, air pollution, and congestion (OECD, 2015a).

Orienting tax systems to support green growth

Shifting the tax burden from other taxes towards environmentally-related taxation continues to be an underutilised tool to achieve environmental objectives and sustainable development, despite its value as a cost-effective means of achieving environmental objectives, and the role it can play in reducing other more distortive taxes, reducing deficits or funding public expenditures. The revenue raised through environmentally-related taxation remains limited in many countries (OECD, 2015a).

Eliminating environmentally harmful discrepancies in tax systems also continues to limit green growth. OECD analysis has found three key areas where tax policy is not coherent with environmental objectives in a number of OECD countries: (1) inconsistencies in the taxation of different forms, uses and users of energy; (2) differences in the tax treatment of gasoline and diesel for road use; and (3) preferential tax treatment of company cars. Boxes 3.3, 3.4 and 3.5, respectively, provide further detail on each of these issues.

Box 3.3. **Hidden policy incoherence: Tax treatment of company cars**

The use of company cars for personal purposes is taxed more favourably than wage income in all OECD countries, significantly so in most cases. Across at least two-thirds of OECD countries, no more than 50% of the benefit to employees is captured as a taxable benefit relative to a counter-factual of neutral tax treatment. This represents an untaxed amount of approximately EUR 26.8 billion based on 2012 numbers, reflecting that company cars represent a substantial proportion of the car fleet in many OECD countries. Only two countries – Canada and Norway – capture more than 90% of the total counter-factual benchmark. The weighted average annual subsidy across countries is EUR 1 600, which is large enough to suggest behavioural consequences.

Sources: Roy, R. (2014).

Box 3.4. **The Diesel Differential**

Another example of misalignment in tax policy is the difference between tax rates on diesel and gasoline for road use. Diesel fuel is taxed at lower rates than gasoline both in terms of energy and carbon content in 33 out of 34 OECD countries; the United States is the exception. This difference is not justifiable from an environmental perspective. As compared to gasoline, per litre diesel emits higher levels of harmful local air pollutants such as nitrogen oxide, sulphur dioxide and particulate matter, as well as carbon dioxide. This implies that the level of tax for a litre of diesel should be higher than that for a litre of gasoline, to reflect relative environmental costs. Diesel vehicles also tend to travel further per litre of fuel than gasoline vehicles, as they are often more fuel efficient. This means that social costs such as congestion, noise, accidents and infrastructure wear are also higher on a per litre basis for diesel than gasoline.

Sources: Harding, M. (2014).

Infrastructure: long-term consequences for green growth

The development of green infrastructure is a core element of successful green growth policy frameworks, given that infrastructure choices made today have significant long-term implications for the environment. In the energy sector, the International Energy Agency (IEA) estimates that the sources of around 80% of possible cumulative greenhouse gas (GHG) emissions to 2035 under an energy scenario consistent with international climate goals are already in place or under construction, leaving little room for additional polluting facilities (IEA, 2012). However, current government policy does not support sufficient acceleration of green infrastructure investment.

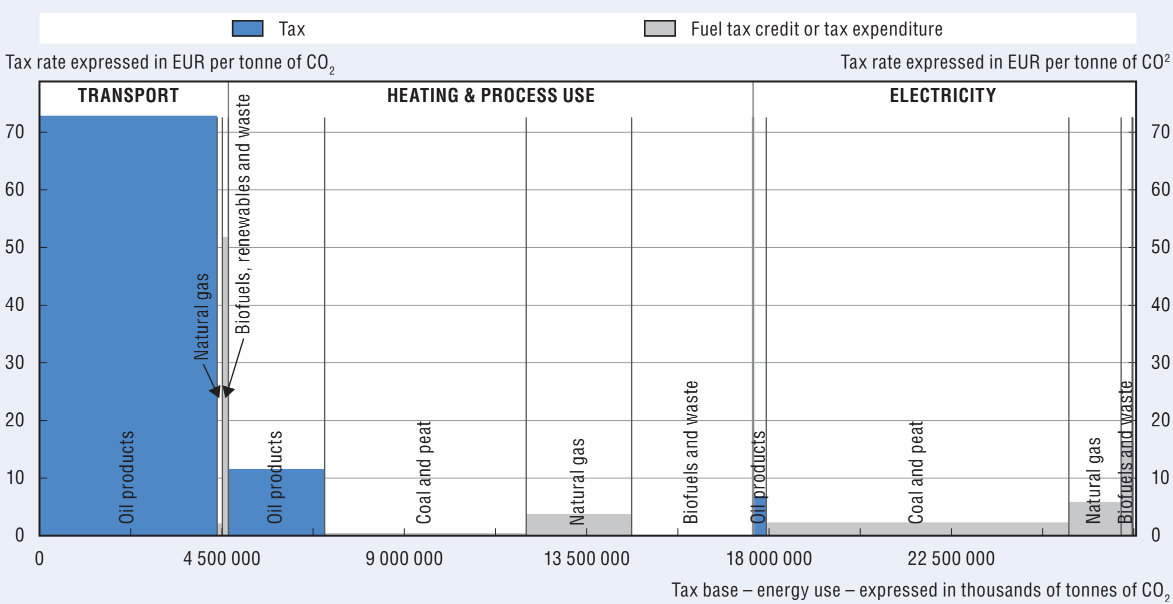
Solving the green investment challenge may be more about channelling investment towards the right kind of infrastructure than unlocking significant amounts of additional capital (OECD, 2013c). In order to direct private investment towards clean infrastructure, policy makers need to address a range of government and market failures, as well as other investment barriers. This means, in addition to core green growth policies, governments need to consider: existing rules, regulations and policies that may restrict green infrastructure investment; creating investment vehicles that generate risk-return ratios required by investors; promoting collaborative dialogue among investors and across different levels of government; and compiling and sharing the data needed for investors to evaluate the risks and performance of green infrastructure investment (OECD, 2015b; Bahar, H., J. Egeland and R. Steenblik, 2013). The OECD's 2013 Mexican Economic Survey, for example, advised Mexico on directing public and private investment into green infrastructure, including in public transportation. Recommendations included improving the planning function and fiscal relations among different levels of government and greater use of cost-benefit analysis (OECD, 2013d).

Box 3.5. **Environmentally-harmful discrepancies in energy taxation**

Revenue from energy taxes in OECD countries amounts to 72% of all revenues from environmentally-related taxation. Taxation of energy use is vital given the environmental and social costs associated with the use of fossil fuels in particular (e.g. climate change, local air pollution, resource depletion, vulnerability to supply shocks). Yet, recent OECD analysis shows that OECD countries inconsistently tax different forms, uses and users of energy when assessed against environmental and other social costs. These result in uneven price signals and suggest untapped, low-cost opportunity for reform, to ensure where possible that tax rates reflect the external costs associated with different forms of energy and energy use.

Figure 3.3 shows the significant differences in effective tax rates on carbon from energy taxes, with transport facing far higher taxes than other energy uses. Many countries tax energy products used for industrial or energy transformation purposes at lower rates than those used for residential or commercial purposes, perhaps driven by concerns about not undermining industrial competitiveness. Fuel used in aviation, agriculture, fishing and forestry are often exempt from tax. Other countries tax energy products used for residential or commercial purposes at lower rates, which may reflect a desire to protect households from high energy costs. It would be more effective from an environmental point of view to address objectives related to competitiveness or low-income families through other tools, such as cash transfers that do not subsidise energy use. There is also often a very low or zero tax rate on coal, despite its greater contribution than other fuels to greenhouse gas emissions and other air pollutants per unit of energy.

Figure 3.3. **Taxation of energy in the OECD on a carbon content basis**



Source: OECD (2015d).

Taxation of Energy in the OECD on a Carbon Content Basis

Effective tax rates on carbon are very different across countries as well, ranging from EUR 2.80 per tonne of CO_2 in Mexico to EUR 107.28 in Switzerland, with a simple average for all OECD countries of EUR 52.04 per tonne of CO_2. The highest overall effective tax rates tend to be in European countries, and the lowest in Australia, New Zealand and the Americas.

Sources: Harding, M. (2014); and OECD (2013).

Government subsidy schemes: vast potential

Managing subsidies can be an important tool for green growth. If well targeted, subsidies can weight incentives in favour of more environmentally sound activities and products, address market failures, and drive green innovation and investment. Governments spent an estimated USD 121 billion on renewable energy subsidies worldwide in 2013 (IEA, 2014a). Mixed messages, "stop-and-go" policy making and retroactive changes can seriously weaken market signals, however. In the United States, only 1 gigawatt of new wind power capacity was installed in 2013 – a fraction of the 13 gigawatts installed in 2012 – following the anticipated expiration of a tax credit on renewable electricity production at the end of 2012 (IEA, 2014a); the credit was subsequently extended in late 2012.

Support for environmentally harmful consumption or production, such as that associated with fossil fuels, undermine sustainable development. Governments currently spend an estimated USD 640 billion a year on environmentally harmful support for fossil fuels, with an estimated USD 550 billion spent by emerging and developing countries. In 2009, G20 leaders made a commitment to "rationalise and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption" and called on the rest of the world to do the same. In addition to being environmentally-harmful, the subsidies absorb substantial public resources that could be spent elsewhere, and largely benefit the wealthy.

In Indonesia, for example, fossil-fuel subsidy expenditure reached an estimated 24% of GDP in 2013; in 2009, 40% of the country's subsidies went to the richest 10% of households, and only 1% to the poorest 10% of households. The Indonesian government continues to pursue reform, however. At the beginning of 2015, it grasped the opportunity offered by falling world oil prices to scrap its existing petrol and diesel price-setting regime. Prices are now linked to world prices, although diesel retains a fixed subsidy of IDR 1 000 (rupiahs) (USD 0.08). In India, it is estimated that the implicit subsidy on oil is seven times higher for the richest 10% of households than the poorest 10% and yet reform often faces public resistance (OECD, 2015a).

Innovation as a critical building block for green growth

Innovation helps to decouple growth from the extraction or degradation of natural capital, generate new sources of growth and lower transformation costs. The challenge is to gear innovation systems so that they both accelerate innovation generally and directly promote green technologies and processes through a "system innovation" approach that addresses specific market failures, but also responds to demand-side issues such as consumer and household acceptance and institutional resistance. Considerable scope remains for further government action across the breadth of policies required to drive innovation. Improved governance mechanisms and broad stakeholder engagement will be needed to facilitate systemic innovation. Adopting an approach that brings together policy domains that are often kept separate, such as economic policy, environmental and social policies will be important (OECD, 2015a).

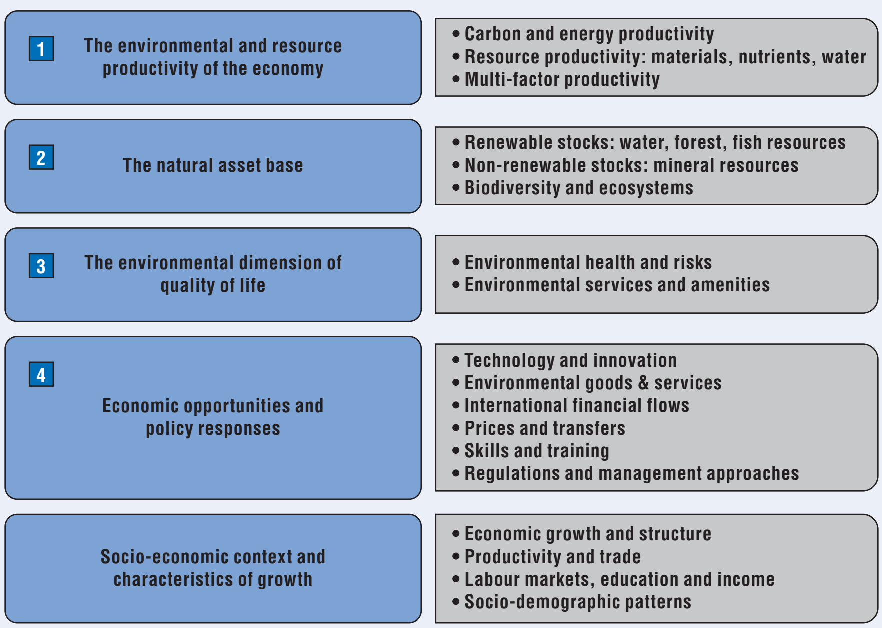
Energy efficiency: unrealised potential

There are multiple benefits to energy efficiency, including reduced public expenditures on energy infrastructure, improved health and well-being, improved industrial productivity and energy delivery. Unfortunately, the bulk of economically viable energy efficiency investments will remain unrealised under current and proposed policies. The IEA found that energy efficiency measures are off track in all applicable areas, including buildings, industry, transport, appliances and equipment (IEA, 2014a). Improving energy efficiency will require environmental pricing mechanisms, regulatory measures such as building codes and fuel-economy standards, and public awareness and information measures such as labelling, training and education (OECD, 2015a).

Box 3.6. **Monitoring Progress Towards Green Growth: Green Growth Indicators**

The OECD framework for monitoring progress towards green growth explores four inter-related groups of indicators, shown below, which are flexible enough for countries to adapt them to different national contexts. As of January 2014, 23 countries had used the framework to develop indicators that suit their national circumstances, fifteen of which were developing or emerging economies.

Figure 3.4. **Indicator groups and topics covered**



A representative set of six 'headline" indicators is used to track important concepts of green growth, and enhance understanding by policy makers and the general public.

A 2014 report measured OECD country progress on green growth indicators, finding that while there has been some progress on green growth, stronger, sustained efforts are needed to improve the efficient use of energy and natural resources to reverse environmental damage, maintain the economy's natural asset base and improve people's quality of life. The environmental productivity of OECD economies in terms of carbon, energy and materials has improved since 1990, but overall carbon emissions continue to rise, fossil fuels continue to dominate the energy mix, the consumption of material resources remains high and many valuable materials continue to be disposed of as waste.

Green growth indicator development requires progress on two fronts: (1) methodology; and (2) addressing data gaps and quality. The UN System of Environmental-Economic Accounting (SEEA) will be a useful tool to help further develop green growth indicators.

Source : OECD (2011c); OECD (2014d); and OECD (2015a).

Policy coherence for a low carbon economy

Without action to reduce GHG emissions, climate change is likely to result in an increase in the global mean surface temperature that may exceed 4˚C, taking the world into a completely new climate regime to the one in which human societies developed, with a greater likelihood of severe, pervasive and irreversible impacts for people and ecosystems (OECD, 2015c).

Global action is not yet at a scale consistent with governments stated long-term climate target of limiting the increase in global mean temperature to less than 2˚C. Substantial and sustained emission reductions are required (OECD, 2015c).

Three core policies are needed to drive decarbonisation: a robust price on GHG emissions; regulations in areas where price signals are less effective; and targeted technology support. A recent OECD report, *Aligning Policies for the Transition to a Low Carbon Economy*, argues that while these policies are necessary, they will not be sufficient on their own to effectively tackle climate change. In order to enhance the responsiveness of economic and social systems to the climate change agenda, misalignments in broader policy and regulatory frameworks need to be addressed (OECD, 2015c).

The report lays the groundwork for extending the discussion of climate policies to include Ministers and parts of government not typically involved in climate policy discussions, given their role in delivering emission reductions at least cost. The study considers four cross-cutting policy domains where misalignment is important to climate change: investment; taxation; innovation; and trade. In addition, it also looks at specific areas where climate objectives need to be systematically integrated in public and private decision-making processes: electricity; urban mobility; and rural land use (OECD, 2015c).

Low carbon investment

The global economy requires around USD 90 trillion of investment in infrastructure between 2015 and 2030 to support economic growth and the broader development agenda (Global Commission on the Economy and Climate, 2014). Advanced economies face ageing infrastructure networks for water, energy and transport. Developing and emerging economies require infrastructure to meet development goals. If long-lived investments continue to support the use of fossil fuels, there is a risk that greenhouse gas emissions will be locked-in for decades (OECD, 2015c).

While shifting to low-carbon investment would involve incremental short-term costs, these costs would be limited and bring about other benefits in terms of: better mass transport that reduces congestion and air pollution; distributed renewable energy infrastructure that can improve access to energy in developing countries; improved indoor air quality; stimulated innovation; and reduced energy costs from greater energy efficiency (OECD, 2015c).

Many countries are, however, struggling to mobilise long-term finance to meet infrastructure needs of any kind. The public sector has traditionally taken the lead in long-term investment in public goods, and particularly in infrastructure projects, but most OECD governments have tightened budgets in the aftermath of the 2008 financial crisis.

Governments will need to target scarce resources at mobilising large-scale private investment, and at activities unlikely to attract sufficient private funding. The allocation of even a small fraction of the estimated USD 305 trillion in assets held by financial institutions would go a long way towards achieving the necessary low-carbon transition. Tightened financial regulations could unintendedly restrict traditional sources of private capital, such as commercial banks, but institutional investors such as pension funds, insurers and sovereign wealth funds could play a significant role in driving long-term investments in a low-carbon economy with an estimated 92 trillion in assets in 2013. Direct investment in infrastructure projects only accounts for 1% of their asset allocation.

The risk-return profile for low-carbon investments is often less attractive than fossil-fuel-based equivalents, as a result of several policy misalignments outlined in Table 3.1.

Table 3.1. **Policy misalignments which undermine low-carbon investment**

Sector-Specific Misalignments	
Fiscal policies	• Insufficient carbon pricing and incentives • Environmentally harmful subsidies and incentives (e.g. fossil fuels) • Misaligned tax policies that favour carbon-intensive behaviour
Climate policies	• Lack of international and national reduction targets or binding objectives • Lack of climate policy stability: retroactive changes in climate legislation
Investment policies	• Regulatory barriers to international investment in low-carbon projects (e.g. limits on foreign ownership, restricted access to land, local content requirements) • Lack of transparency, insufficient investor protection and intellectual property rights protection in low carbon technologies, weak contract enforcement
Competition policies	• Lack of open and competitive infrastructure markets (e.g. in the electricity or transport sectors) • Market design issues and regulatory rigidities that favour carbon-intensive infrastructure investment in the energy sector • Lack of a level playing field in the power sector for existing fossil-fuel producing state-owned enterprises and independent producers of clean energy
Trade policies	• Trade barriers for low-carbon goods and services
Public governance	• Lack of long-term goals for low-carbon infrastructure planning and procurement • Misalignments between national and sub-national climate objectives
Financial System and Regulatory Misalignments	
Financial markets policies	• Potential unintended consequences of financial regulations limiting long-term investments • Financial incentives across the financial system favouring short-termism (remuneration practices and fiscal measures) • Barriers to the deployment of innovative financial instruments for institutional investors
Business conduct	• Corporate reporting that does not reflect the risks of stranded assets and climate change • Lack of a responsible investment code • Lack of clarity on fiduciary duty and stewardship with respect to environmental, social and governance and stewardship (ESG) issues
Public finance and investment	• On-going support to carbon intensive investments, nationally and internationally • Lack of consistency in official development assistance, and in development policies more broadly

Source: OECD (2015c), Aligning Policies for the Transition to a Low-Carbon Economy.

There is no one-size-fits-all remedy to investment policy misalignments. The relative importance of each barrier will depend on the country concerned. For example, developing economies may prioritise improving the business environment, building capacity, and the maturity of financial markets. International co-operation, such as climate finance and technology transfer, is needed to help developing countries address some short-term trade-offs involved with the low-carbon transition. In OECD countries, the lack of stable and strong climate policies, financial regulations and environmentally harmful subsidies may be more prominent.

Box 3.7. **Incentives for green investment in Tunisia**

Incentives for green investment, in the form of subsidies, bonuses (primes), tax exemptions etc., can complement a favourable and attractive investment environment. However, the impacts of such incentives may over time become burdensome or counterproductive. They may also have been granted without taking into account their environmental impact and they may be found to be damaging and inconsistent with green growth objectives.

Tunisia has instituted mechanisms and instruments to discourage activities that harm the environment and to encourage better environmental performance. Examples of this include the environmental protection tax, the energy conservation tax, and the oil products tax. In addition, the Pollution Cleanup Fund (Fonds de depollution, FODEP) grants subsidies of up to 20% of the amount of investment for clean technology and de-pollution projects, such as facilities (individual, public or private) for the treatment of wastewater, atmospheric de-pollution equipment, waste collection, and processing and recycling plants.

A new line of environmental credit instituted a parallel incentive framework outside FODEP's current coverage area, which enables businesses to rely on a system of preferential financing. The programme, which gets support from the European Union and the French Development Agency (AFD) has provided at least three Tunisian banks with a preferential credit line to encourage environmental projects.

Source: OECD (2012b).

There are also regulatory-induced misalignments between the time horizons of investors and the need for long-term infrastructure financing. Greater transparency and harmonisation of corporate disclosures on climate risks and liabilities could also encourage climate-friendly investments (OECD, 2015c).

In my view: Climate-Compatible Development

By Simon Maxwell, Executive Chair of the Climate and Development Knowledge Network

There are three reasons why policy coherence, in its widest sense, should be central to the debate about green growth and sustainable development – and especially the issue of climate compatible development.

First, and often under-appreciated, is the fact that climate change and measures to deal with climate change will send shock waves through the global economy, requiring adjustment in all sectors in all countries. The size of shocks will be mediated by policy.

Second, policy issues are part of the complex bargain which will link Sendai, Addis Ababa, New York and Paris.

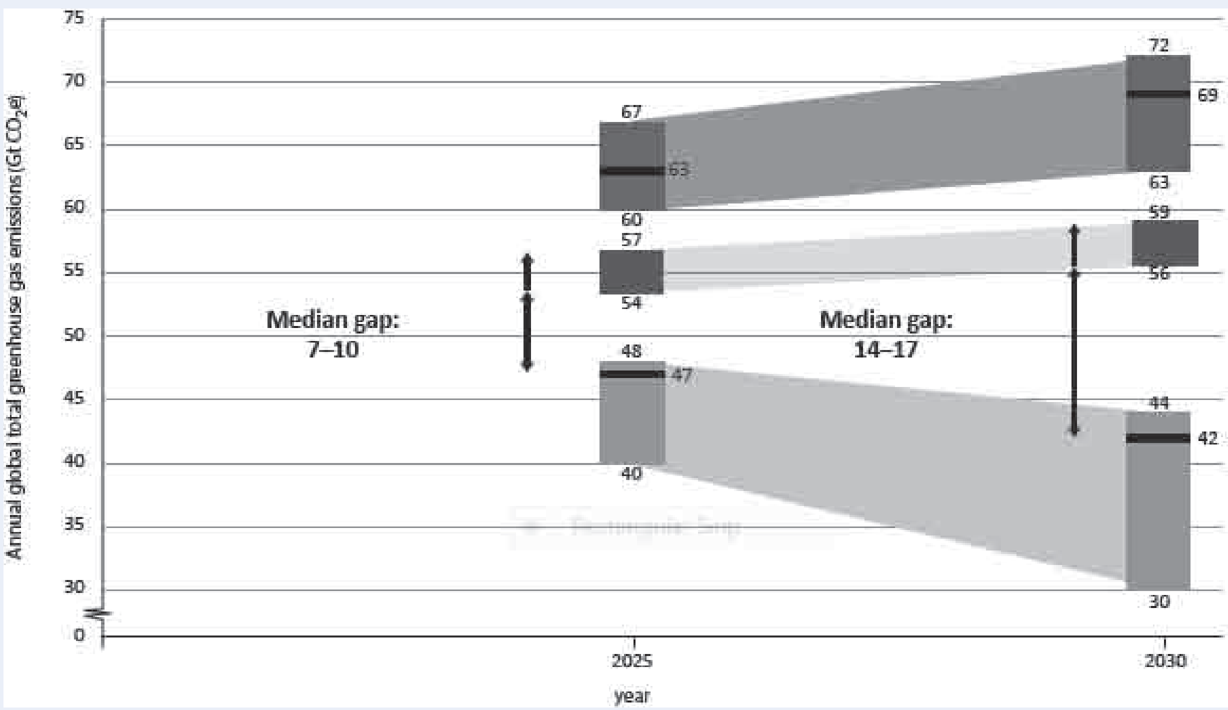
Third, and looking to the future, governments at all levels of income, faced with tight budgets and the need to focus concessional finance on the very poorest, will increasingly look to policy as the principal arena within which to support development.

In my view: Climate-Compatible Development *(cont.)*

Climate compatible development

The scale of the climate challenge does not need repeating. However, a stand-out conclusion from the work of climate modellers is that keeping temperature rise within 2°C will mean reducing CO_2 emissions by 2065 from the current level of about 54 Gt a year to zero. The world is currently far off track in meeting this goal in a cost-effective manner. Last year's Emissions Gap Report (UNEP, 2014) showed that emissions needed to fall to 42 Gt by 2030, and that current pledges, not all of which are being met, amount to about 57 Gt in that year. Thus, further cuts of some 25% are required over and above current plans by 2030, with further radical cuts to come thereafter.

Figure 3.5. **Emissions gap**



Business as usual emissions
Emission levels consistent with range of pledge cases 1-5
Emission levels consistent with 2˚C temperature target (starting from 2020 Copenhagen pledge levels)*

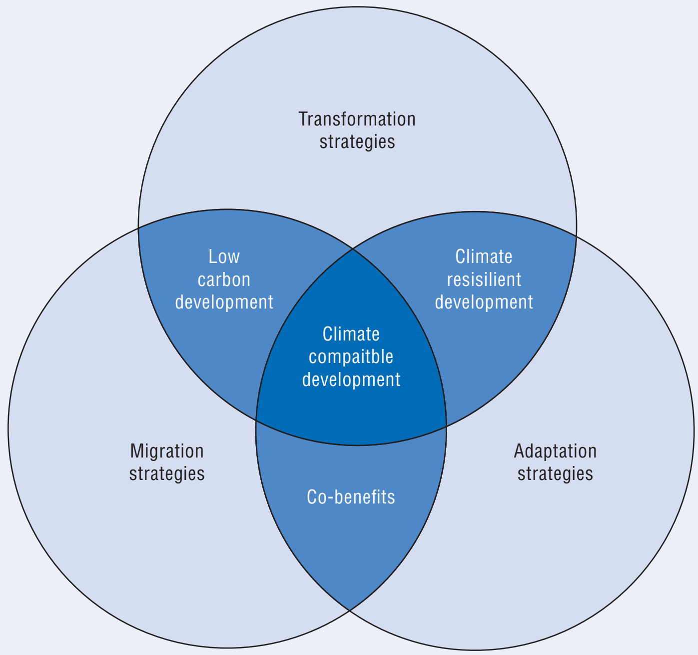
Results for the business-as-usual emission levels and emission levels consistent with 2˚C temperature targets are expressed as median, 20th and 80th percentiles

* Copenhagen Pledges in these scenarios were assumed to result in a range of 52 (50-53) Gt CO_2e total greenhouse gas emissions by 2020. This is lower than the current pledge assessment for 2020.

Emissions cuts need to be achieved without sacrificing progress on poverty reduction and human development – indeed without running the real risk of reversing progress already achieved. That is why 'climate compatible development' is a powerful concept, linking action on climate change to the wider post-2015 sustainable development framework. For national planners, Climate Compatible Development has three dimensions, each with an element touching on the need for policy coherence:

In my view: Climate-Compatible Development *(cont.)*

Figure 3.6. **Climate compatible development**



- Mitigation, meaning the reduction of emissions of all Greenhouse gases, including CO2 and shorter-lived gases like methane. Key themes include green energy, climate-smart agriculture, reforestation, and energy efficiency in production and consumption.
- Adaptation, meaning the reduction of vulnerability to climate trends and shocks, like higher temperatures and extreme weather events. Key themes include disaster risk reduction, resilient infrastructure, improved building design, and better city planning.
- Transformation, meaning the way economies are affected by changes as others face climate change elsewhere in the world. A key theme is competitiveness analysis, to assess what is happening to a country's comparative advantage or the size of its market. For example, will investments in energy efficiency in other countries make industry less competitive? Or will carbon taxes affect trade costs?

Mitigation and adaptation are well-established themes, reflected in the work of the United Nations Framework Convention on Climate Change (UNFCCC) or special projects like the work on the New Climate Economy by the Global Commission on the Economy and Climate.[2] Transformation is less visible in global debate, though could be of greater scale. For example, Bolivia has huge reserves of lithium. If electric batteries using lithium were to become a major way of powering vehicles, Bolivia would have an unprecedented opportunity to transform its economy, perhaps becoming not just a source of raw materials, but also a major manufacturing centre. This would not be about mitigation or adaptation in Bolivia itself, but about the country finding a new niche in the world economy. China's move into producing solar panels is another example, with the major market initially being not in China but in Europe.

Policy and policy coherence are vitally important in building a climate compatible world. Developed countries can support transformation in developing countries with concessional assistance, but they can also help with more carefully targeted non-concessional finance (for example, blending grants and loans), or with better trade rules, technology transfer, tax arrangements, migration regimes, and many other measures.

In my view: Climate-Compatible Development *(cont.)*

Brokering global deals in 2015

Such innovations may be especially valuable in 2015, as countries strive to put together a package across various negotiating fora which will guarantee global consensus, at the level of normative frameworks, legal agreements and practical programmes. Often, negotiations focus very much on money, especially concessional funding. That is why there was such publicity on the funding available to the new Green Climate Fund, which reached its target of USD 10 billion just in time for the Lima meeting of the UNFCCC. However in 2015, with many donors still recovering from the great recession and with budgets tight in all countries, it is helpful to remember that policy change provides an additional set of instruments in negotiation. The debate at the Addis Ababa Financing for Development Conference was deliberately framed as being about Means of Implementation more generally, and not just about finance. Will there be additional measures in the realm of policy coherence that can be offered in time to help broker a deal at the climate talks in Paris? In particular, what can be offered to emerging countries that might not qualify for large volumes of concessional aid, even if labelled as climate finance. Support will surely be necessary, to encourage the commitment by such countries to ambitious goals.

Technology could be one option for such a measure, building on the idea of an Apollo Project for the present century, a large multinational collaboration on renewable energy, with full participation of developing countries. Professor Sir David King has promoted this idea.

Another option could be a new set of trade rules that would further facilitate trade in green products, or provide transition assistance to countries whose competitive advantage may be damaged by green transitions.

Or can countries be helped by new tax rules, part of a general review of fiscal pathways to climate compatible development? Or new migration rules, to share learning or ease the burden of adaptation? There are many such options.

Shaping the development agency of the future

In the future, policy issues like these are likely to feature more prominently in debate about international development. This is because the number of poor countries in immediate need of traditional aid is falling – there are only 34 on the latest (2014) World Bank list of low income countries, and many of those are fragile states, which may need aid, but also a wide range of other interventions, sometimes including military. For these and middle income countries, policy coherence is crucial. At the same time, the need for action on global public goods is rising, and here, too, policy issues are important, not just on climate, but also on financial stability, trade, illicit financial flows, health pandemics, and other topics.

How, then, will development agencies evolve? Will they concentrate on delivering aid projects in poor and fragile states, leaving policy issues to others, most likely Ministries of Foreign Affairs)? Or will they take on the role of policy-based development champions across Government? Many countries are currently reviewing their legislation, structures, competences and accountabilities to make possible a wider role.

As they do this, it will be important for countries to review the tools available. Some write cross-Government strategies and set cross-Government targets. Some make use of formal impact or spillover assessments for all Government policies. Some create new Cabinet committees or cross-Government units. Some report formally to parliament. Some do all the above.

Whatever the level of reorganisation associated with taking policy coherence seriously, the topic will need to be at the heart of policy-making, for all three reasons given above. In the short-term, a favourable future for the post-2015 sustainable development framework and an ambitious climate deal in Paris will not be possible without policy input. In the longer term, development objectives, including climate-related goals, need policy coherence as well as cash. Governments will need to adapt accordingly.

For more information about the Climate and Development Knowledge Network, see *http://www.cdkn.org*.

Taxation

Taxation is an important determinant of economic choices. One of the obvious misalignments with the low-carbon transition is the existence of subsidies and tax expenditures favouring the production and use of fossil fuels. Fossil fuel subsidies can adversely affect the GHG implications of international trade by distorting markets and harming the competitiveness of renewables and energy efficient technologies.

Boxes 3.3, 3.4 and 3.5 above show specific cases where tax systems are misaligned with green growth objectives, including reducing greenhouse gas emissions. Property taxes and related instruments can also influence CO_2 emissions, especially in countries with rapidly growing urban areas. The design of taxes on land and buildings can encourage or discourage renovation, affect the viability of inner cities, and influence urban sprawl. In addition, property taxes are sometimes designed to encourage single-occupancy housing, rather than denser housing infrastructures.

Taxes and tax expenditures on corporate income can be powerful drivers of economic choices, including investment. Occasional biases in favour of energy-intensive activities still exist in G20 countries. Taxes on greenhouse gas emissions can also be an important source of revenue for countries seeking to address budget shortfalls, and can replace lost fossil fuel revenues from the low-carbon transition.

Innovation policies

Innovation will be essential to decoupling greenhouse gas emissions from economic growth and development. Innovation is about the creation of new businesses and the end of old ones, the emergence of nascent technologies and business models, and how the policy and regulatory environment must adapt to let them thrive.

However, two failures need to be addressed simultaneously to drive low carbon innovation: (1) the costs of negative externalities associated with greenhouse gas emissions are not internalised by emitters; and (2) the benefits from positive externalities associated with the information and knowledge generated by innovation are not internalised by innovators. In general, different instruments should be used to address each of these failures. The first requires placing a price on greenhouse gas emissions through either taxation or emission trading systems. Regulation may also be appropriate in some circumstances. The second involves evaluation of broader innovation policies to ensure that they are aligned with low-carbon economy objectives.

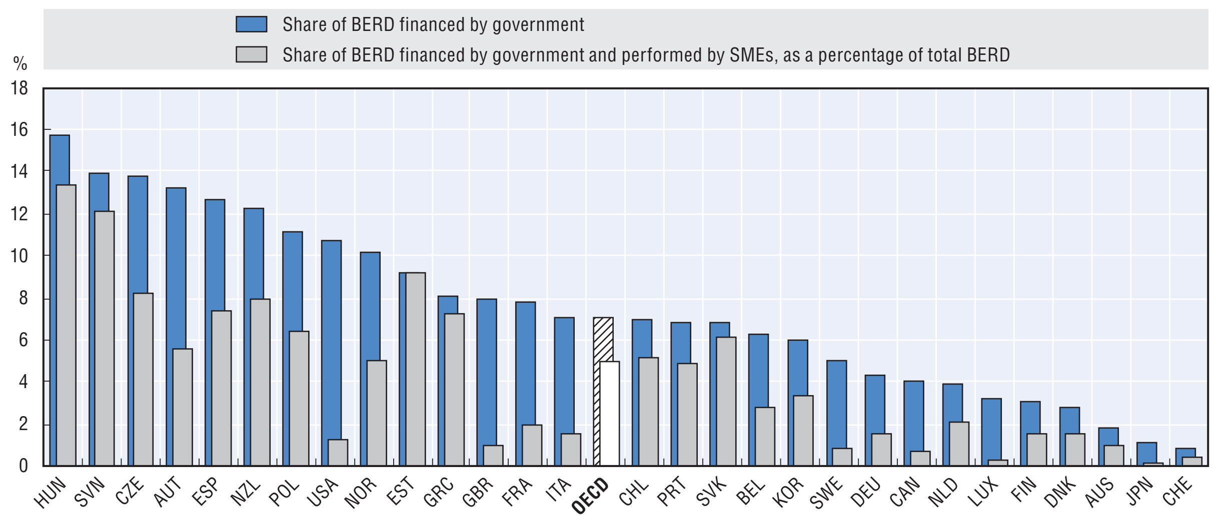
Innovation policies can entail investment in basic research, intellectual property rights, tax incentives, direct support for business R&D, public-private co-operation and networks. Policies that support or hinder the entry and growth of young and innovative firms may also play an important indirect role. Skills policies can support the transition to a low carbon economy if they adequately anticipate changing skill demands.[3]

Analysis by the IEA has shown that a tripling of global government spending on energy research, development and deployment should take place to match country aspirations on low-carbon technologies (IEA, 2013a) The last few years have shown an increase in government support to renewable energy sources and energy efficiency, and a rise in patents for lighting, electric power, electric and hybrid vehicles, energy generation, and electricity storage, although progress remains insufficient (OECD, 2015c).

There may also be misalignment in some countries in terms of supporting the birth and growth of new entrants. For example, some countries do not provide research and development (R&D) tax incentives to small, new companies that are not profitable. Possible solutions include: refunds for expenditure on R&D and personnel wages; strengthening support for the commercialisation of public research and start-ups; and enhancing access to finance. Direct support is also an important complement to R&D tax incentives, allowing governments to target particular technological domains or firm types (OECD, 2015c).

In most countries, over 50% of direct R&D public funding goes to finance small and medium-sized enterprises (SMEs) R&D, but in Japan, the United Kingdom, Sweden and the United States about 90% goes to larger firms (Figure 3.7.).

Figure 3.7. **Business and Enterprise R&D (BERD) by SMEs and direct government funding 2012**



Source: OECD, Research and Development Database, www.oecd.org/sti/rds.html, March 2015

In my view: Business strategy can be closely aligned with the implementation of the SDGs

By Andy Wales, SABMiller

The post-2015 sustainable development agenda envisages a greater role for business than under the MDGs. Businesses have already made significant contributions to sustainable development over the past 15 years, and these contributions have come about almost entirely through our normal business operations, rather than through corporate social responsibility programmes. This article offers two examples of how SABMiller's business operations and value chain are closely linked with some of the proposed SDGs. It also suggests some implications for the enabling policy environment arising from our experience.

SABMiller is one of the world's largest brewers, with 70 000 employees in more than 80 countries. Our history goes back 120 years and we were the world's first multinational company to emerge from African origins. Beer is produced, marketed and consumed locally and this, combined with our heritage, has given our leadership a deep understanding of the close connection between our company's success and that of the local communities and environment of which we are a part. Put simply: where society prospers, SABMiller prospers.

That is why we call our sustainable development strategy "Prosper". A fundamental part of our overall business strategy, it was launched in July 2014 by our entire global Executive Committee. It recognises that to manage business water risk, we have to go beyond efficiency measures and work in partnership with others to secure water resources for all water users, permanently. The strategy sees a central role for our

In my view: Business strategy can be closely aligned with the implementation of the SDGs *(cont.)*

business in developing the productivity of the smallholder farmers who supply us, and the business skills of the small retailers who buy from us. It puts the circular economy into practice, seizing the opportunities for our operations in minimising waste and emissions. All these approaches are business growth strategies, giving their social and environmental impacts considerable scalability.

For example, our Ugandan subsidiary Nile Breweries has made a significant and lasting difference to the prosperity of farming communities by creating new market opportunities and improving skills. They pioneered the development of beer from sorghum, replacing expensive imported raw materials with this locally-grown, drought-resistant crop. Our sorghum-based Eagle Lager is now our top-selling beer in Uganda. In turn, Nile Breweries provides a direct market for more than 20,000 sorghum farmers, improving livelihoods for them and their families, and at the same time offering the business a more resilient supply chain and lower costs. The availability of lower-cost beer within the formal, regulated market also helps to attract consumers away from buying illicit alcohol.

In a similar way, we see water security and prosperity as inseparable at every level – for our business and for the communities we are close to. Our work in Neemrana, Rajasthan, is a great example of this. SABMiller India is helping small-scale farmers there to take up rainwater harvesting and use water more efficiently, because inefficient agricultural use is the main cause of water risk to all water users in the area. Over the past three years, the project has helped farmers increase their productivity by over 20%, reduce their water demand by 33% and raise their disposable income by 21%. SABMiller benefits from the protection of the water and other natural resources on which our brewing operations depend.

Our ambition also includes a role for us to do our part in helping create a sociable world where our beers are marketed, sold, and consumed responsibly. Supported by sound government policies, meaningful partnerships, and a shared commitment from consumers and society, we believe reductions in harmful alcohol consumption around the world can be achieved.

An alignment between business interests and development goals is quite common, but it has often been missed in sustainable development policymaking. Where they are too narrowly focused on a compliance agenda, policies can miss the opportunity to make the most of these win-wins. Well-framed regulations – such as on human rights including labour rights, health and safety and environmental regulation – are of course vital. Good policies in these areas, implemented consistently and predictably, are in businesses' interests as well as everyone else's. They define the common standards for raising prosperity and wellbeing for society as a whole, for the long term. They prevent those who might hope to gain some short-term advantage through lower standards from doing so.

It is vital, though, that policy does not relate to business only at this level. Where large businesses are making substantial contributions to development through our operations and value chain, policy can work with this, leveraging further societal and environmental benefits from what businesses intend to do anyway. The enabling environment is central to making the most of business investments such as those of Nile Breweries. Policies that work in a joined-up way to strengthen education and training, access to credit, infrastructure, land rights and other property rights – these can all multiply the benefits from value chain investments and ensure the gains ripple out beyond the immediate beneficiaries, such as those smallholder farmers who are our direct suppliers.

This kind of thinking can also make it easier for companies to invest, because a focus on enabling policies will often make investments more productive. Partnerships such as Grow Africa help to align investment, practical collaboration and policy development. A further critical aspect of policy coherence is in how governments respond to the water-food-energy nexus. Water, agriculture and energy are all vital for our business and we see a close relationship between them. But policies rarely approach them in an integrated way: water policy is often overseen through the narrow lens of infrastructure challenges, as if it

In my view: Business strategy can be closely aligned with the implementation of the SDGs *(cont.)*

was independent from farming and energy policies. Our partnerships for water security and prosperity are more successful where they can be aligned with supportive, coherent policy frameworks.

The success of the Sustainable Development Goals will depend on governments using policy as an enabler; one important dimension of this will be in making the most of new kinds of partnership that leverage even greater benefits from company investments. Many companies are already clear on the business case for investing in livelihoods, the productivity of land, resilience, water security and the circular economy. Aligning this business imperative with an enabling policy framework can lead to transformational results.

Andy Wales is Director of Sustainable Development for SABMiller plc

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Demand-side innovation policy measures such as public procurement, information dissemination, advanced market commitments and technology prizes can be an important complement to supply-side measures. Within the context of public procurement, there can be challenges to supporting low-carbon procurement such as: single-year budget frameworks; split responsibilities for capital and operating costs; and accounting treatment of capital charges.

Addressing failures associated with increased access to seed and early-stage financing may also be particularly beneficial to low-carbon innovation, given the preponderance of novel technologies with uncertain performance characteristics combined with young firms with little track record or collateral (OECD, 2015c).

Box 3.8. **Should government support specific low-carbon technologies?**

While the backbone of innovation policy should be technology-neutral, in practice governments with limited budgets provide discretionary incentives for specific technologies. OECD research on the drivers of breakthrough innovations considered the attributes of climate change mitigation technology inventions which serve as leading indicators of subsequent technological and market development. In preliminary empirical analysis, the role of industrial generality – the range of sectors or firms which subsequently cite a given patent – emerged as being the only robust indicator of success in terms of growth in patent applications, granted patents, private industry penetration and risk finance attraction. It is still, however, important that governments embrace a certain degree of trial and error to account for uncertainty, with mechanisms to adjust support when a technology proves unsuccessful or successful enough to attract private financing.

Sources : OECD (2015c); and OECD (2014e).

Existing regulations can also be an important source of misalignment with low-carbon objectives. For example, regulations governing industrial and end-use products, by-products and wastes can sometimes preclude their most efficient use in the industrial system (e.g. cement, steel, chemicals and paper). For example, the cement industry could reduce emissions by switching to alternative fuels for cement kilns such as municipal solid waste and sewage sludge, provided they are guided by stringent environmental standards to limit any health or environmental risks. The cement industry could also use by-products from coal power plants or iron and steel facilities to reduce emissions from clinker production. Such practices can, however, be limited by technical standards for cement, construction material preferences, and air pollution and solid waste regulations.

Box 3.9. **Barriers to industrial combined heat and power in India**

In many industrial situations, electricity, heat (steam) and sometimes cooling can be produced via a single process – combined heat and power (CHP), or cogeneration. The approach can significantly reduce emissions and energy use.

In India, several policies make the implementation of CHP difficult. First, there is a lack of centralised data on installed capacity, its distribution among sectors, the type of fuel used, and the amount of power and heating and cooling generated. This limits understanding the potential for CHP and required efforts to support a deployment program. Second, there is a lack of pipeline networks for delivering heating or cooling to external users.

Sources: OECD (2015c); and IEA (2014b).

Trade policies

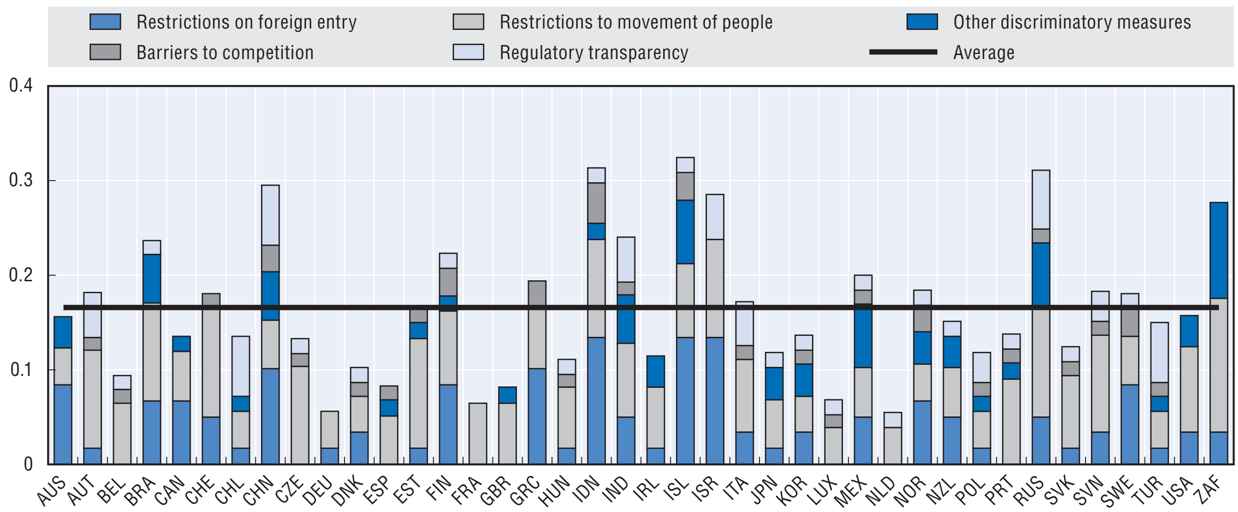
If greenhouse gas emission externalities were correctly priced globally, increased trade would lead to a more GHG-efficient global economy. Increased trade and investment flows could help underpin sustained growth and diffusion of low-carbon technologies.

Many countries, particularly outside the OECD, continue to have import tariffs on environmental goods important to climate change-mitigation. Recent negotiations by a group of World Trade Organisation (WTO) members seeking an Environmental Goods Agreement are a promising development.

Services trade is also important for the low-carbon transition because more efficient services sectors contribute to improved productivity throughout the economy, often leading to lower energy and emissions intensity. Goods important for climate change are also often new to markets and require highly skilled personnel to install, operate and maintain them. Removal of barriers to services trade, such as restrictions on firm ownership and temporary movement of professionals, could support the diffusion of technologies. Figure 3.8 shows the results of the OECD's Services Trade Restrictiveness Index (STRI) for engineering services, one of 18 sectors across 40 countries that are used to generate a picture of services restrictiveness. Engineering services are particularly relevant to climate change technology (OECD, 2015c).

Measures to stimulate domestic industries manufacturing low-carbon power generating equipment can also restrict international trade, undermining overall investment and uptake of the technology. Of particular concern is the recent prevalence of local-content requirements (LCRs) in the wind and solar energy sectors (OECD, 2015c). OECD research shows that LCRs linked to wind and solar PV have been planned or implemented in at least 21 countries, including 16 OECD countries, mostly since 2009. LCRs are typically imposed as a precondition for access to financial support schemes such as feed-in tariff (FiT) programmes or as part of eligibility requirements in renewable energy public tenders. Some countries have also designed LCRs as eligibility criteria for direct financial transfers such as subsidised loans and loan guarantees from government agencies and national development banks, such as in Brazil. In some cases different LCR ratios are used depending on the technology used in downstream installations, such as India. While these measures may achieve certain short-run objectives, they can undermine industrial competitiveness over the long run as they can raise costs to producers further along the production chain, lead households to switch away from the higher cost product and increase economic isolation that undercuts global value chains. The policies have also been shown to have a negligible impact on employment (OECD, 2014f).

Figure 3.8. **Services Trade Restrictiveness Index: Engineering Services**



Source: OECD (2014), Services Trade Restrictiveness Index: Policy Brief, OECD, Paris.

Another trade-related challenge for enhancing coherence for sustainable development is that fuel destined for international shipping and aviation is often not covered by countries' core climate policies, yet shipping and aviation are expected to account for more than 40% of the 290% increase in emissions from international merchandise transport by 2050. Multilateral measures are, however, making progress with energy efficiency standards set by the International Maritime Organisation and consideration of a global market-based mechanism by the International Civil Aviation Organisation (OECD, 2015c). The slow progress in these sectors is an example of how rigid global norms can be used to lock-in policy incoherence, and to frustrate national attempts to better align incentives with environmental priorities.

Electricity: investment signals and incentives

Electricity is critical to a successful low-carbon transition. Global CO_2 emissions from electricity and heat still account for 25% of total greenhouse gas emissions and are rising. Low-carbon electricity also offers a potential substitute for fossil fuels in many end-uses (e.g. vehicles, buildings) (OECD, 2015c).

Current designs of wholesale electricity markets in many OECD countries are not strategically aligned with the low-carbon transition. A standard energy-only wholesale electricity market would require a high CO_2 price, periods of very high electricity prices, and risks of rolling brown-outs before investors would unlock financing in low-carbon technologies. Without out-of-market arrangements, which can include FiTs or long-term power purchase agreements, electricity markets may only support low carbon investments such as the life extension of nuclear or hydro-electric plants and the conversion of coal to biomass (OECD, 2015c).

There also needs to be a balance between providing a strong signal for investors, such as average cost pricing, and an incentive for low-carbon generators to deliver their electricity when its value to the system is highest, during times of peak demand. South Africa, for example, structured power purchase agreements with payments differentiated according to time of production (OECD, 2015c).

Mobilising least-cost low-carbon electricity generation will require the availability of base-load generation capacity (to compensate for variable generation such as wind and solar); electricity transmission capacity; energy storage; and the possibility of cross-border electricity trade (Bahar H. and J. Sauvage, 2013). The IEA projects that USD 5.9 trillion must be invested in transmission and distribution between 2011 and 2035 in a 2˚C compatible scenario, of which 8% would be in infrastructure supporting the integration of variable renewables (IEA, 2014c).

A potential breakthrough in electricity systems may come from the development of energy storage technologies for electricity and heat. New innovative storage solutions such as flywheels, the transformation of excess electricity into hydrogen, and storage of heat in the form of molten salts in concentrated solar power plants, are at various stages of development and commercialisation. However, pre-existing policy frameworks can be barriers to storage solutions. In the United States, for example, transmission assets were previously forbidden to participate in wholesale electricity markets to avoid market manipulation (IEA, 2014d).

Efficient use of electricity is an essential element of the low-carbon transition, but new policy frameworks are needed to address the demand-side of electricity. Dynamic electricity pricing to encourage demand response – where use decreases as prices rise – has been slow to develop in many countries. Technical solutions, based on smart meters and automatic control devices could go a long way towards increasing demand-side response in residential and buildings sectors. Information and communication technologies can also help industrial users to identify equipment that can adjust electricity demand at times of high electricity prices, leading to cost savings (OECD, 2015c).

Supplying affordable electricity to communities without access is one of the Sustainable Development Goals. To be consistent with lower global greenhouse gas emissions scenarios, countries outside the OECD will have to install the majority of low-carbon generation in the coming decades. In the IEA's 2˚C compatible scenario, about two-thirds of capacities in nuclear, onshore wind, solar power and nine-tenths of the coal-plants fitted with carbon capture and storage (CCS) would be built outside the OECD in 2050 (IEA, 2014e). Examples of successful tender auctions in countries with regulated markets, including Brazil, South Africa and Abu Dhabi show how well-designed competitive processes can be very effective in securing renewables generation capacity at low prices (OECD, 2015c).

Sustainable urban mobility

The global transport sector produces roughly 23% of global CO_2 emissions and is the fastest growing source globally. Without further policy action, CO_2 emissions from transport could double by 2050 (OECD, 2015c). In 2012, road transport emissions represented more than 70% of CO_2 emissions from the entire transport sector (OECD, 2012c). The number of individual cars increased from 625 million to 850 million between 2000 and 2013, mainly in developing countries (IEA, 2013b). By 2050, an estimated 66% of the global population is expected to live in urban areas (UN, 2014).

Policy action is required to slow emissions growth through measures that reduce demand for travel and total motorised transport activity while preserving accessibility and mobility needs, promote the shift to low-emission transport modes, and improve the carbon and energy efficiency of fuels and vehicle technologies. Urban transport policies need to be refocused on access rather than mobility itself, providing safe infrastructure for walking and cycling, shifting to mass transport modes where demand is concentrated, developing cities along mass transit corridors, improving fuel efficiency and promoting electric and fuel cell vehicles in concert with low-carbon electricity (or hydrogen) production (OECD, 2015c).

In cities in developing and emerging economies, urban expansion needs to be managed in a way that limits the demand for energy-intensive mobility while promoting safe, affordable, accessible and sustainable transport systems. Sub-national governments are critical decision-makers in urban transport planning, but a lack of co-ordination and capacity can be a barrier to effective climate action. For example, mismatches between city administrative boundaries and the functional extent of built-up areas can undermine effective planning. Solutions such as metropolitan governance bodies that integrate land-use and transport planning can help improve alignment (OECD, 2015c). As previously noted, the consequences of infrastructure and urban planning decisions have implications that last for decades.

National legislation also typically defines cities' and sub-national governments' responsibilities and revenue sources. National fiscal systems, lack of funding, and regulations can encourage further carbon-intensive development. Capacity-building is also often essential to support effective urban design and private-sector engagement (OECD, 2015c).

Box 3.10. **Integrated land-use planning and transport in Singapore**

In Singapore, the Land Transport Authority (LTA) is a statuary board under the Ministry of Transport, established in 1995 as a result of a merger of four government agencies. A higher degree of integration was achieved by removing administrative boundaries. The LTA is responsible for planning, operating, and maintaining land transport infrastructure and systems, including road safety, vehicle licensing and electronic road pricing. In order to reduce carbon emissions, the LTA constantly improves and expands its current public transport network, complementing it with parking policies and electronic road pricing. This has seen a shift from private to public transport use over recent years. In 2012, 63% of trips during morning and evening peak times were on public transport, compared to 59% in 2008. To increase this number even further, the LTA aims to make the transport system even more accessible and competitive. By 2030, 80% of households should be within a 10-minute walk of a train station, 85% of public transport journeys (less than 20km) will be completed within 60 minutes and 75% of all journeys in peak hours will be via public transport. The LTA's investments mainly stem from government grants and operating income, such as management fees from the government.

Source: OECD (2015c).

Innovation in electric and hybrid vehicles is progressing, but a number of market failures and barriers are hindering the scaling up of alternative fuel vehicles. Experiences with electric vehicles in Norway and the Netherlands show that combining batterycharging infrastructure, rebates on electric vehicle purchases and priority lanes on main access roads can lead to very rapid uptake (OECD, 2015c).

Sustainable land use

Policy coherence in land-use will be particularly important to attaining climate change and other environmental goals as well as ending hunger and achieving food security. By 2050, land-use will have to supply 60% more food than today to feed a growing population, in a way that does not harm the soil, water, biodiversity, ecosystem services or climate upon which human well-being and development depend. Land-use policy will also be critical to slowing an anticipated 10% loss of biodiversity by 2030.

Current land-use – mainly agriculture and deforestation – is responsible for around 25% of man-made global GHG emissions. Agriculture accounts for around 70% of global water use, and food production and supply chain accounts for almost one third of total global energy consumption. Achieving sustainable development goals in these areas will require breaking down the silos between diverse policy areas, A nexus approach to food-water-energy, for example, can help to take into account competing objectives and identify potential synergies and trade-offs. Box 3.11 provides an excellent example of how India's Jyotigram Scheme helped solve the dual problems of water scarcity and electricity supply.

Box 3.11. **Separating agricultural energy from other uses to reduce groundwater overdraft**

In the state of Gujarat in India, free groundwater and subsidised electricity to pump it contributed to severe groundwater overdraft, as well poor power supply to farmers and other rural residents. But any rationalisation efforts to price groundwater and electricity to reflect their value met great resistance by farmers.

An alternative approach, the Jyotigram Scheme, was introduced in 2003. Rather than viewing subsidies as a default component of free electricity supply, the Jyotigram scheme focused on providing rationally managed subsidies where needed, and pricing where possible. Villages are given 24-hour, three-phase power supply at metered rates for domestic use and in schools, hospitals and domestic industries. Farmers operating tube wells continue to receive free electricity, but for 8 hours rather than 24 and on a pre-announced schedule designed to meet their peak demands.

This separation of agricultural energy from other uses and the promise of quality supply proved sufficient to gain political and social backing for implementation. The Jyotigram has now radically improved the quality of village life, spurred non-farm economic enterprises, and halved the power subsidy to agriculture. And while groundwater itself is still free, the programme has indirectly raised the price of groundwater supply, thus providing a signal of scarcity and reducing groundwater overdraft

Source: WWAP, United Nations World Water Assessment Programme, 2014.

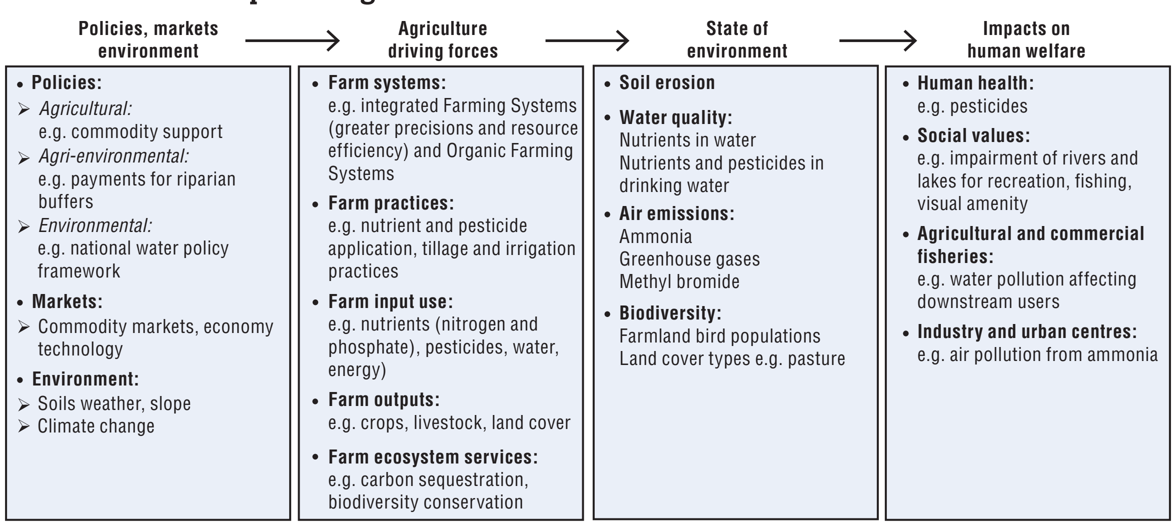
Agricultural input subsidies, such as for nitrogen fertilisers and fossil fuels, and price support policies can reduce the environmental and climate performance of agriculture. Since 1990, concerted efforts by OECD countries have reduced the most environmentally-harmful subsidies, from over 85% of subsidies to 49% in 2010-12. Governments should continue these efforts.

Reducing tariffs and subsidies on agricultural products could also optimise land use and reduce the overall demand for land, reducing pressure on forested areas. Open trade also enhances the four pillars of food security: accessibility, availability, utilisation and stability. Yet there is a mixture of positive and negative effects resulting from trade openness across each dimension, such as concerns over import dependence for countries without a comparative advantage that need to be managed. More support is also needed to help farmers adapt to drought, flooding or other climate impacts, particularly in developing countries. Agriculture will likely be very hard-hit by climate change, possibly reducing yields by 25% compared to current levels in some regions.

The services provided by forests and ecosystems are often not properly valued in economic decisions. Incentives systems can be used to encourage activities with dual benefits of emissions abatement and natural asset sustainability. For example, REDD+ (Reduction in Emissions from Deforestation and forest Degradation) is a framework through which developing countries are rewarded financially for forest protection actions which lead to a measured decrease in the conversion of forests to other land uses. The program now also includes the role of conservation, sustainable management of forests and the enhancement of forest carbon stocks in developing countries. Financial incentives are not yet compelling enough to drive forest-friendly development in a number of countries, however. Agriculture subsidies, rural development programmes and tax policies need to be designed to reinforce and support sustainable approaches.

Shifting to greater use of bio-energy and bio-products could drive significant low-carbon transformation. Policy alignment is important, however, to avoid diverting more biological resources to purposes other than food and generating higher emissions. Decisions should be based on the quantification of carbon flows and other environmental impacts throughout the entire life cycle of bio-products.

Figure 3.9. **Linkages between policies, agricultural driving forces and the state and impact of agriculture on the environment and human welfare**



The bullet points in each box are illustrative and some are interchangeable. Soil erosion, for instance, is included in the "state of environment" list, but could also be listed as a "driving force" behind soil sedimentation

Source: OECD (2014), *Fertiliser and Biofuel Policies in the Global Agricultural Supply Chain: Implications for Agricultural Markets and Farm Incomes*, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5jxsr7tt3qf4-en

Reducing food losses and waste from field to household could help ease environmental pressures and climate impacts. Coordinated policies are needed to bring together the ministries of agriculture, economy, environment and health to develop solutions (OECD, 2015c).

Role of social, labour policies in green growth

Experience has shown that the success of environmental policies depends not only on what they deliver and what they cost, but also on how the costs and benefits are distributed in society. In order to find both immediate support for passing reforms and long-term support for lasting change, environmental policies must be designed so that benefits and costs are distributed in a fair and transparent manner. This is particularly important where environmental policies have the potential to directly affect the prices of necessities, such as space heating, water heating or electricity (OECD, 2014g). The impact on labour markets, and potential job losses, are also an important consideration (OECD, 2014h). This section of the chapter considers the importance of policy coherence between green growth, social and labour policies.

Social implications of green growth policies

Policy coherence analysis needs to include an in-depth assessment of the distributional consequences and the design of compensatory measures to alleviate potentially negative outcomes on inequality and poverty. Regressive distributional effects, which disproportionately impact the least well off in society, should be avoided. Ensuring the alignment and effectiveness of green growth policies requires understanding and addressing the distributional consequences at the household level and consideration of energy poverty (i.e., non-affordability of energy services) in developed and developing countries (OECD, 2014g).

Further collaboration between national institutions and international organisations is needed to build capacities for a rigorous assessment of distributional effects of green growth policies. Such studies also depend on the ongoing generation of rich sets of household data. Several types of analytical tools are available, which can be used individually or in combination, to analyse distributional effects:

- Microsimulation models allow for a detailed analysis of effects at the household level.
- Computable General Equilibrium (CGE) models allow for analysis of the global effects of policy reform, including on industries and trade patterns.
- Input-Output (IO) models are useful to evaluate indirect economic effects of price changes in the economy.
- Empirical studies use economic data to evaluate consequences of past reforms.

Data availability and the capacity to build adequate models for analysis are important issues facing developing countries. Many models may also neglect specific aspects of developing economies, such as regulated parts of the economy without competitive pricing or the existence and importance of informal markets.

Household behaviour is also an important consideration in green growth policy design. It is important to estimate the household reaction to changes in prices, and consider non-price behavioural aspects such as attitudes, social norms, culture or aspects related to general socio-demographic characteristics of households. For example, voluntary approaches to raise awareness of the environmental consequences of energy consumption may influence behaviour.

Environmental taxation

Environmental and energy taxation can be highly cost-efficient tools for green growth. However, a review of more than 120 studies found that environmental and energy tax reforms will in many cases cause negative distributional effects. These effects can be mitigated and fully compensated through policy design and thus avoid negative distributional effects.

The most effective methods of revenue recycling will depend on country-specific aspects such as the existing social security scheme, economic circumstances and existing tax and benefit schemes. In developing countries, exposing the agricultural sector to world markets and specialisation in a few goods should also be considered where applicable.

For a number of OECD countries, recent OECD work shows that taxation of transportation fuels tend to have progressive impacts, taxation of space heating is neutral, and taxation of electricity tends to produce regressive impacts.

Studies of the impact of environmental and energy tax reforms have thus far neglected aspects of domestic energy efficiency, poverty and energy-related deprivation. Indicators of income poverty, material deprivation, or energy-related deprivation should ideally be included in such analyses.

If environmental and energy tax revenues are used to mitigate negative distributional consequences, fewer revenues will be available to lower other pre-existing taxes that would strengthen the efficiency of the policy and boost economic growth. This is referred to as the efficiency-equity trade-off. Revenue-recycling should be designed so that benefits for consumers and producers are as large as possible while negative regressive effects for poorer households are avoided.

Box 3.12. **The distributional impacts of carbon taxes on households in China**

China is expected to play a major role in global energy consumption and carbon emissions in the future, with energy consumption in private households as an important driver. An Empirical simulation found that a carbon tax in China could have progressive impacts if revenues are recycled in a lump-sum fashion (i.e., a one-time payment). One important reason for this is the difference in energy use in rural vs. urban areas. Poor rural areas would be over-compensated by a lump-sum revenue recycling scheme. A recent study, however, came to a different result using a Computable General Equilibrium (CGE) approach without detailed household structure. The study concluded that a carbon tax will decrease the income and welfare of rural and urban households and will have regressive effects. The authors, however, emphasise that revenue recycling by reduced indirect taxes and increased benefits for rural households will cause the least negative distributional effects. An Input-Output (IO) study concluded that a carbon tax in China would be regressive in urban areas but progressive in rural areas.

Sources : Brenner, M., Riddle, M. & Boyce, J.K. (2007); Sun, W. & Kazuhiro, U. (2011); and OECD (2014a).

Labour market implications of green growth policies

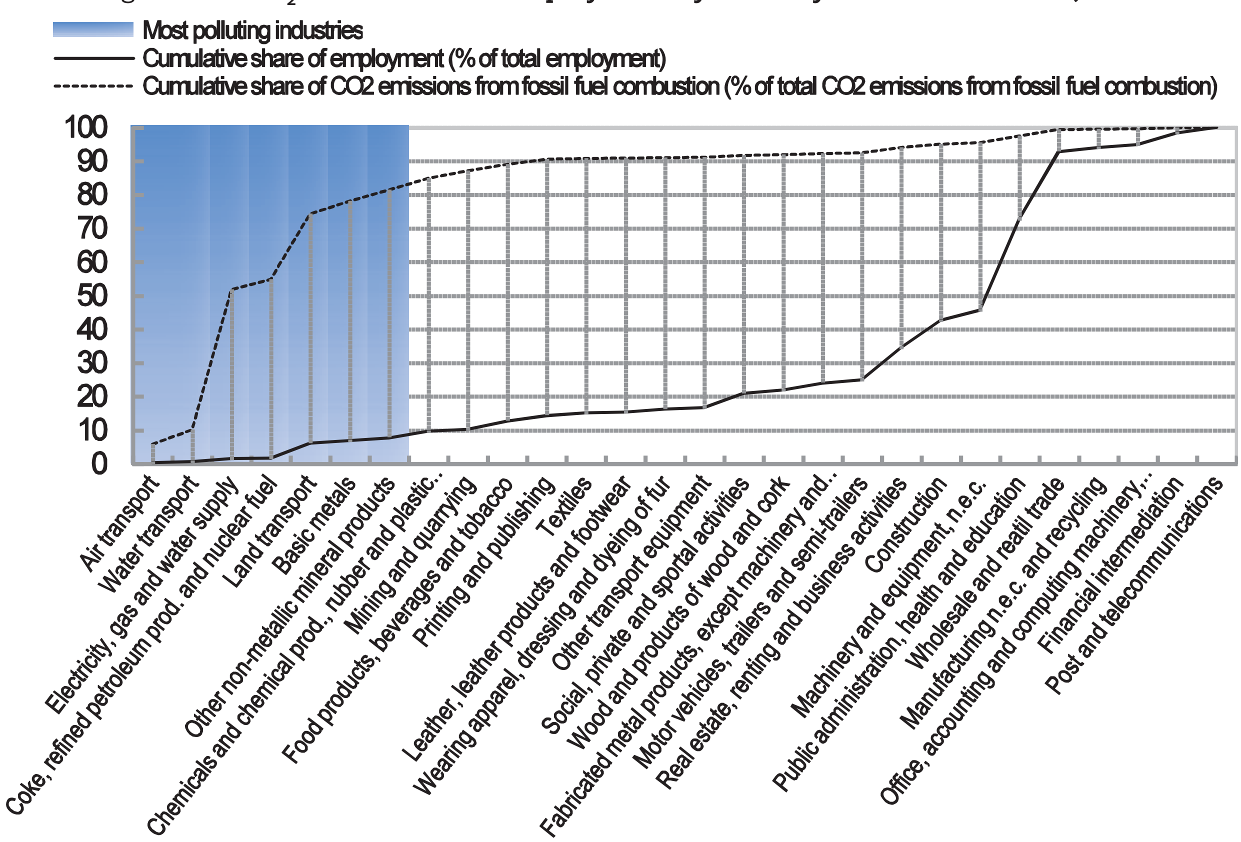
Inclusive labour markets are essential for green growth. The pursuit of this objective however presents opportunities and risks regarding labour market transitions and new sources of jobs growth. The impact of green growth policies points to higher demand for some specialised skills but the complete picture is unclear, given the likelihood of widespread green innovation in the future. The impact is likely to differ widely across regions and local areas. Coordinated strategies at the local level are necessary. Green growth policies must also be sensitive to the need to raise more people out of poverty (OECD, 2014h).

Defining standards for counting 'green jobs' is useful for assessing the size and direction of structural change caused by events or actions (e.g. policies, taxes or investments), but data collection is lagging. The size of the labour force in the environmental goods and services sector is probably of the order of 2% in advanced industrial countries, and less in the developing world as a whole. Some developing countries, such as China, are building a comparative advantage in machinery needed for renewable energy production.

Microeconomic studies of the effects of environmental regulation on jobs and productivity generally found only small effects. The relative size of employment losses is larger in some sectors subject to more stringent environmental regulation. The estimated competitiveness impacts through relocation of industry have also tended to be modest.

Interestingly, the ten most carbon-intensive industries account for nearly 90% of all CO_2 emissions, but only 14% of employment on average, in the EU-25 (Figure 3.10).

Figure 3.10. **CO_2 Emissions and employment by industry in 25 EU countries, 2005**



Source: EU-LFS, GTAP database, KLEMS database.

Overall impacts on the number of jobs across the whole economy will depend not only on the mix of green growth policies, but also on how labour markets work in a particular country, its openness to trade, its endowments of raw materials and its macroeconomic situation. Studies often assume either that increases in labour demand affect only the level of employment, not the level of wages, or that employment is determined by a fixed labour supply. Neither assumption is valid in all countries at all times.

The impact on the pattern and level of demand for skills is likely to differ across regions and local areas. Co-ordinated strategies and flexibility to tailor the response of employment and training services are therefore necessary.

Impacts on the distribution of real incomes will differ according to countries' income per capita, resource endowments and labour market characteristics. The desired mix of policies of least developed economies is likely to be different than that of advanced industrial economies, given the greater focus on raising more people out of poverty.

Adverse distributional effects can be mitigated through three main strategies:

- **Revenue recycling** – using revenues from environmental taxation to reduce taxes on labour.
- **Welfare system** – target assistance to poorer families.
- **Labour market policies** – use active labour market policies, such as training, to facilitate smooth structural adjustment across industries.

In the long-run, however, green growth is likely to depend on the growth of the knowledge economy and the substitution of ideas and human capital for natural resources. The general skills and education levels of workforces therefore need to be augmented in order to take advantage of the economic opportunities associated with greening growth.

A review of studies conducted to date suggests several areas for further research, including: the application of more sophisticated models of how labour markets function; greater tailoring of models to the characteristics of the country under investigation; more empirical study on the impacts of past reforms; more rigorous microeconomic studies of particular projects and policies; greater focus on sectors other than energy; more studies of evaluating and monitoring efficient policy coordination mechanisms to link labour and environmental policies.

Summary of key messages

- The broad green growth agenda is heavily interconnected. Green growth is an important component of Sustainable Development Goals, in that it can be both an enabler of economic growth and development, as well as a useful framework to address environmental damage and resource scarcity, which can be disablers of growth and development.
- Policy coherence across economic, environmental and social domains is essential to successful green growth strategies, and to the attainment of Sustainable Development Goals. This requires a whole-of-government approach.
- Addressing misalignments with green growth goals in tax systems, and economic, energy, agriculture, trade, transport and other sector-based policies will enhance the responsiveness of economic and social systems to green growth policies. The risks and costs of policy misalignments and policy incoherence are significant.
- Ensuring coherence across infrastructure investments, innovation policy frameworks and green growth policies will have important and longest lasting implications for economic and environmental outcomes. The decisions made now lock-in economic and environmental performance for decades to come.

- Greater coherence across social, labour market and green growth policies could help support both green growth and social objectives, as some green growth policy designs could actually improve outcomes for the poorest members of society and understanding potential shifts in skills demands can allow for policies that ease the transition.

Notes

1. The challenges were identified based on the green growth policy recommendations contained in OECD Economic Surveys, Environmental Policy Reviews, Investment Policy Reviews and Reviews of Innovation Policy – a total of 115 different publications released between 1 June 2011 and 4 February 2015.
2. See: *http://newclimateeconomy.net/*
3. See: *http://newclimateeconomy.net/*

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Better Policies for Development 2015
Policy Coherence and Green Growth

Chapter 4

Monitoring Policy Coherence for Sustainable Development

by
Carina Lindberg, OECD

This chapter aims to guide national efforts to monitor the coherence of their domestic policies and to assess their overall contribution to sustainable development outcomes. It recognises that ensuring progress in policy coherence for sustainable development (PCSD) in the post-2015 framework will require going beyond institutional mechanisms and also take into account policy interactions, contextual factors, and effects on human wellbeing – including over time. The initial focus is on the three priority areas in the OECD Strategy on Development: global food security; illicit financial flows; and green growth. For each of these areas, this guidance highlights existing OECD indicators, policy instruments and dialogue platforms, as identified in an Organisation-wide mapping exercise to inform the implementation of the Sustainable Development Goals (SDGs).

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Strengthening national monitoring systems for policy coherence

A new phase in monitoring policy coherence was initiated in 2012, following the adoption of the OECD Strategy on Development (OECD, 2012a). Recognising policy coherence for development (PCD) as one of its primary objectives, the Strategy called on the Organisation to develop more systematic approaches to evidence-based analyses on the costs of incoherent policies as well as on the benefits of more coherent policies. It also encouraged the development of robust indicators to monitor progress and assess the impact of diverse policies on development.[1]

Traditionally, OECD countries' efforts to monitor policy coherence have concentrated on institutional mechanisms, conceptualised as the three building blocks for policy coherence for development: political commitment; co-ordination mechanisms; and monitoring systems, analysis and reporting (OECD, 2009). Having these building blocks in place provides a critical foundation for strengthening development outcomes and progress on the building blocks has been assessed regularly as part of the Development Assistance Committee's (DAC) Peer Reviews of its members.[2]

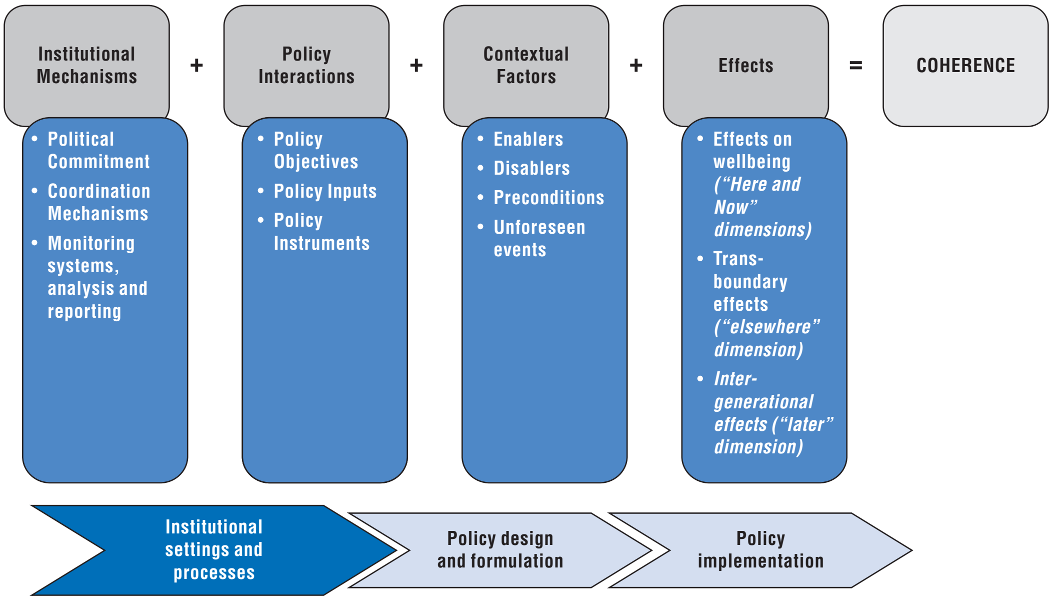
Monitoring policy coherence for sustainable development beyond 2015 will require consideration of at least three additional inter-related elements: policy interactions; contextual factors; and effects (Figure 4.1). This broader approach can support national governments to assess if their domestic policies are coherent and contribute to sustainable development objectives, such as the Sustainable Development Goals (SDGs). It will also help to incentivise more effective dialogue among stakeholders and to raise awareness of policy interactions and their potential effects on human wellbeing.[3] Countries can choose freely how and in what sequence they wish to address each of the four elements below. Complementary self-assessment questions are provided in the *OECD Framework for Policy Coherence for Sustainable Development* (forthcoming), and the indicators listed in this chapter provide additional entry points for analysis.

Policy monitoring is and has been part of OECD's core business for many years. Consequently, the Organisation sits on a wealth of data, indicators and tools in a wide range of policy areas that matter for development. The majority of data sets produced by the OECD are available for its 34 member countries, but increasingly also for large emerging economies and beyond. Recently, the OECD carried out a mapping exercise to collect information about its full range of available indicators, policy instruments and dialogue platforms of particular relevance for the post-2015 agenda.[4]

Drawing on this mapping exercise, the chapter highlights those OECD indicators, policy instruments and dialogue platforms that can be used to support countries' efforts to track progress on policy coherence for sustainable development (PCSD) in the three priority areas for policy coherence identified in the Strategy on Development:

- *Building global food security:* In a world of unprecedented economic opportunities and with vast resources at our disposal, the fact that over 800 million people in the developing world still suffer from hunger represents one of the biggest incoherencies of our time.

Figure 4.1. **Elements for tracking progress on policy coherence for sustainable development**



Source: OECD Policy Coherence for Development Unit (2015).

- *Reducing illicit financial flows:* Illicit financial flows from developing countries diminish the resources available for investment, growth and poverty reduction and result in significant losses in government revenue. They have been estimated to far exceed official development assistance (ODA) and foreign direct investment (FDI) inflows to developing countries.
- *Promoting green growth:* Long-term projections suggest that risks to development and to future growth are rising as current growth paths continue to erode natural capital. If left unchecked, this would mean increased water scarcity, worsening resource bottlenecks, greater pollution, climate change and biodiversity loss.

Each of the three sections is structured as follows:

- *The role of policy coherence for sustainable development:* Why is PCSD important to achieve the objectives? How can it contribute?
- *The relationship with the Sustainable Development Goals:* Which SDGs are relevant for addressing food security, illicit financial flows, and green growth, respectively? How do they interact? What are the synergies/trade-offs between them?
- *OECD indicators for tracking progress on PCSD domestically:* Can the indicators help to identify enablers/disablers (factors that contribute to/hamper development efforts)? Can they help detect potential trade-offs (areas where policy conflicts may arise)? To what extent do they illustrate policy effects on human wellbeing ('here', 'later' and 'elsewhere')?
- *OECD policy instruments and dialogue platforms:* What tools are available at the OECD that can be used to inform coherent policy making and national efforts to implement the SDGs?

The OECD is not alone in trying to assess and/or monitor policy coherence for development, and this chapter also recognises the important work done in this area by other stakeholders.

For over a decade, the Center for Global Development, has been illustrating how advanced country policies affect people in poor countries. Their Commitment to Development Index ranks 27 countries based on their performance in seven policy areas: aid; trade; finance; migration; environment; security; and technology. Based on their experiences, Owen Barder and Petra Krylova, share with us their views on policy coherence for development in the years ahead (below).

A Spanish NGO Platform, *Plataforma 2015 y más*, is in the process of designing a 'policy coherence for development index'. The purpose of this index, which will be launched by the end of 2015, is to improve citizen knowledge about the role of their country's policies in the promotion of human development; to foster better advocacy actions from civil society organisations; and to develop a monitoring system for all policies in the SDGs framework. Pablo José Martínez Osés tells us more about this initiative towards the end of this chapter.

In my view: Policy Coherence for Development: how to ensure better policies for development

By Owen Barder and Petra Krylova, Center for Global Development

If the world is going to meet the Sustainable Development Goals, then we are going to need more than additional development finance. Developing and developed countries alike are going to need to pursue better policies and work together through the international system. And that means we need to pay more attention to policy coherence for development.

The phrase "policy coherence for development" is complex and can distract from the real objective. Does it mean coherence of policies in one country, or does it mean coherence between countries internationally? Does it mean specifically coherence between a country's policies and its aid programme: and if so, why should aid be singled out as the yardstick by which a country's other policies are measured? Or is it perhaps a concern about coherence of the activities of different actors? Or all of these?

In our view the phrase tends to focus attention too much on coherence, and not enough on the simpler goal of development-friendly policies. Presumably we all want countries to pursue policies which support development and poverty reduction. For example, an effort to reduce overfishing in the waters of developing countries is a good development policy, and it is a good policy even if there is no other policy – aid policy or otherwise – that with which it is coherent. So the idea of "coherence" can be a distraction from what we are trying to achieve, which is the much simpler goal of more development-friendly policies across the board.

Furthermore, policy coherence for development is often side-tracked into a discussion about systems and processes. Practitioners debate whether policies should be accompanied by development impact assessments, and whether a policy coherence unit is needed in the office of the Prime Minister or President. Should governments provide annual reports to Parliament about policy coherence? We think there is too much time spent on thinking about systems, and too little on identifying and promoting good policies. Different countries are likely to have different ways of getting good policies implemented: what we need to collaborate on internationally is using evidence, and generating new evidence where it is needed, to identify what these policies should be.

As well as moving the discussion from processes to policies, and from coherence to good development policies, it is essential to move the discussion from broad-brushed rhetoric to specific, measurable commitments. If the SDGs are going to succeed, we need specific, quantified and measurable targets for development-friendly policies.

In my view: Policy Coherence for Development: how to ensure better policies for development *(cont.)*

A recent report by the International Council for Science found that of the 169 targets included in the Sustainable Development Goals only 29% are well defined and based on the latest scientific evidence, while 54% need more work and 17% are weak or non-essential. This lack of quantifiable measures will be a significant challenge to achieving the SDGs.

Is 0.05% of a country's GDP enough to "support research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries"? What do we mean by "support to technology development" and how can we quantify "enhanced international cooperation"? (There are plenty of other examples.) We must get out of the habit of setting specific targets for developing countries, but resisting such targets for developed countries.

It is encouraging to see more and more governments recognising the importance and impact of national non-aid policies on development abroad. A recent example of this can be the United Kingdom's Parliamentary Committee on International Development Inquiry into "Beyond Aid" Policies. The Committee concluded that foreign aid is not sufficient to address shared global challenges, and UK's development policy should begin to focus more on policy coherence, for which it is essential that the Department for International Development does "more to influence policy across all Government departments".

Perhaps most importantly of all, we have to stop thinking of policy coherence for development as if it were an expanded list of sacrifices to be made by wealthy countries for the good of the world's poor. The policies the world needs to adopt to meet the SDGs will, for the most part, be good for rich countries as well as poor countries. We will all benefit from a tax system that is fit for purpose, protecting our environment, tackling climate change, allowing more people to move across borders, reducing conflict, pursuing open and fair trade and investing more in research and development and shared knowledge. Though some vested interests in most countries have reasons to oppose these reforms, overall they would improve the lives of the vast majority of citizens, consumers and taxpayers in every country.

There are already plentiful examples of what countries can do to improve their policies and support a more universal and inclusive agenda. For example, New Zealand abolished almost all of its import tariffs 20 years ago, while the European Union still imposes high tariffs on many imports from developing countries. There is substantial evidence that better world market access for exports from poor countries delivers dramatic economic and development impact, and there is also evidence that increased imports facilitate trade and are beneficial for the recipient countries' economies and consumers.

The OECD is well placed to support this idea of policy coherence for development. It can be the leading example of implementing policy coherence within the institution, it can identify best practices among its member countries, it can stimulate debate and discussion internally and externally, it can show how these reforms benefit all countries, and it can objectively review success and recommend policy change.

Building global food security

The role of policy coherence for sustainable development

Building global food security presents multiple challenges that require an integrated approach to policy coherence for sustainable development. This entails collective and coherent action by all countries across a wide range of policies, such as agriculture, trade, investment, environment, and development co-operation. It is the objective of PCSD to help governments identify relevant policy interactions and to ensure that progress in one policy area does not undermine progress in another.

By applying a policy coherence lens to the issue of global food security, *Better Policies for Development 2013* showed that the main challenge of ensuring global food security is to raise the incomes of the poor, and that both agricultural development and rural diversification are needed to foster economic growth and job opportunities. Increased productivity to close the yield gap between advanced and developing countries will require large increases in investment, including from the private sector and farmers themselves. Trade will also have an increasingly important role to play in ensuring global food security (OECD, 2013a). Furthermore, applying a nexus approach to food-energy-water can help practitioners to identify additional issues that impact on food security, such as biofuels production, irrigation methods and waste recycling, treatment and disposal.

Global food security in the Sustainable Development Goals

Sustainable Development Goal 2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture – calls for an end to hunger and all forms of malnutrition by 2030. While the first Millennium Development Goal on eradicating extreme poverty and hunger focused primarily on undernourishment and caloric intake in poor countries, the SDGs framework takes a broader approach and includes aspects such as the nutritional value of food, micronutrient deficiencies, and obesity in all countries.

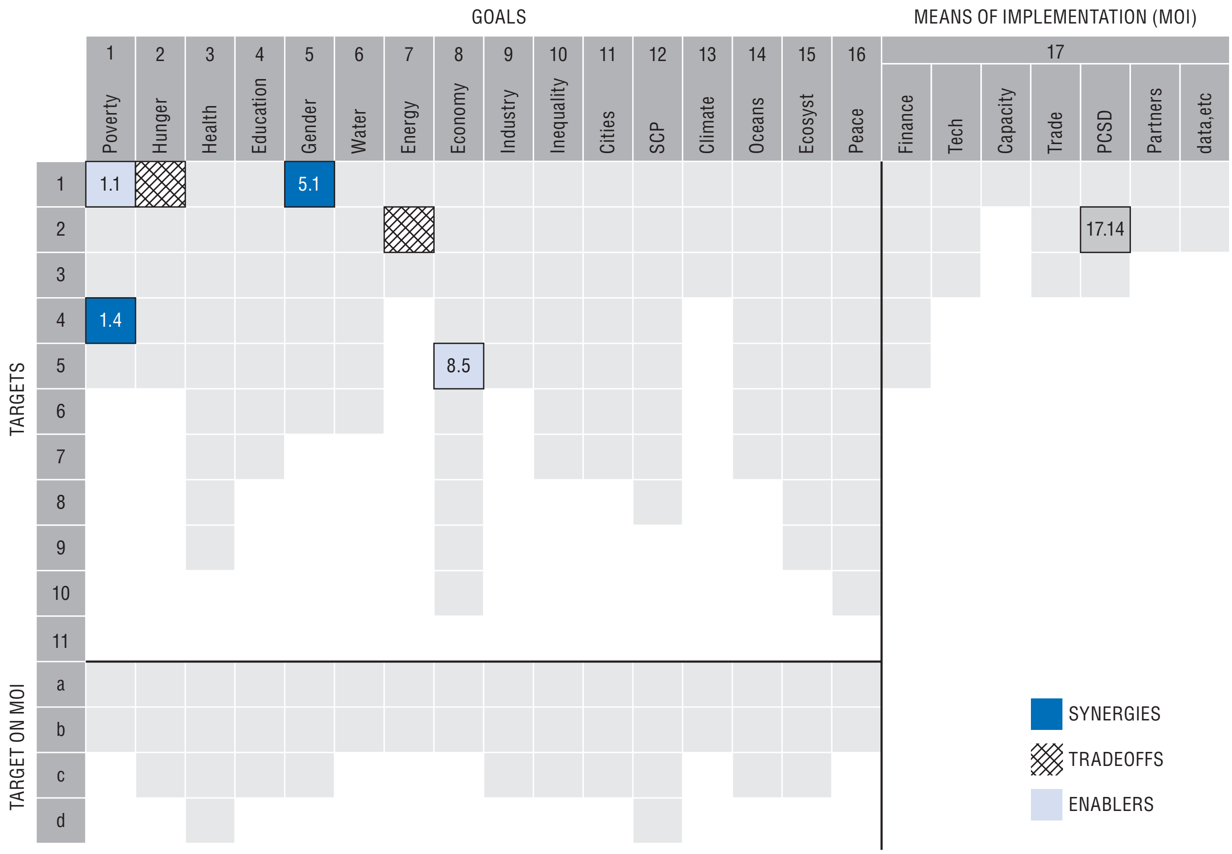
The new goal aims to double agricultural productivity and the incomes of small-scale food producers, and to implement resilient agricultural practices that help maintain ecosystems and strengthen our capacity for climate change adaptation. It also aims to maintain the genetic diversity of seeds, cultivated plants, and farmed and domesticated animals, as well as their related wild species by 2020. At the same time, it will be important to improve agricultural value chains and reduce food waste.

Meeting this goal will require action on many fronts and simultaneous consideration of numerous targets across the SDGs. It will require identifying the synergies with other goals (e.g. on poverty, health, education, gender and sustainable consumption and production patterns), as well as the trade-offs with some goals (e.g. on water, energy, climate, oceans and ecosystem). This is illustrated in Table 4.1, which lists all 17 goals and their respective targets. The purpose of this diagram is to highlight examples of potential policy interactions, thereby raising awareness and stimulate dialogue. It should not be interpreted as attempting to illustrate proven linkages between goals and targets, or to monitor the implementation of the SDGs. Examples of policy interactions related to global food security include:

- *Synergies:* Ending all forms of discrimination against all women and girls everywhere (5.1) would ensure that men and women have equal ownership and control over land and other resources (1.4).
- *Tradeoffs:* Increasing the share of renewable energy (7.2) could potentially conflict with ending hunger (2.1) if food crops and biofuel crops compete for the same land and/or irrigation water.
- *Enablers:* Achieving full and productive employment for all (8.5) would increase incomes and reduce poverty (1.1), enabling people to afford buying food.

Policy coherence for sustainable development (17.14) cuts across all goals and targets.

Table 4.1. **Global food security: Examples of policy interactions across the Sustainable Development Goals and Targets**



Source: OECD Policy Coherence Unit (2015), inspired by Kőrösi (2014).

Indicators to inform coherent policy making

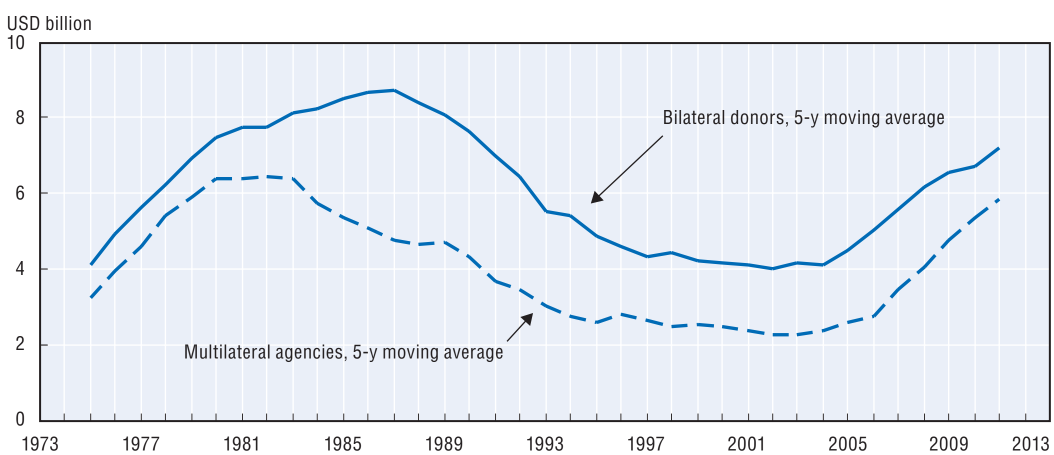
A selection of data and indicators that can inform the post-2015 agenda in the area of global food security are outlined in Table 4.2. The indicators, as identified in the Organisation-wide mapping exercise, are listed in the left-hand column and their relation to global food security (i.e. as an enabler, disabler, potential tradeoff, effect) is listed in the right-hand column. The degree of policy coherence can be gauged by checking, for example, if the indicator for import and export restrictions on agricultural products is moving in a direction that is consistent with that of the indicator for aid to the agriculture and rural development sector. For a number of indicators, charts are provided to illustrate country performance and/or change over time.

Table 4.2. **Global food security: A selection of indicators and data compilations**

Indicator/data compilation	Relation to global food security (enabler; disabler; potential trade-off; effect)
Enablers (indicators which measure factors that can contribute to building global food security)	
R&D expenditure on agriculture, hunting and forestry	Enabler: Innovation Effect: Here and now
Aid for food and nutrition security	Enabler: Reduce hunger Effect: Elsewhere
Aid to the agriculture and rural development sector (Figure 4.2)	Enabler: Capacity building Effect: Elsewhere
R&D spending on energy efficiency	Enabler: Increased energy efficiency Effect: Here and now; later
Agricultural nutrient balances	Enabler: More productive soil Effect: Here and now
Potential tradeoffs (indicators that may be used to illustrate the possibility of unintended spillover effects)	
Support to agriculture that is most production- and trade distorting (Figure 4.3)	Potential trade-off Effect: Here and now; elsewhere
Support to agriculture that is most environmentally harmful (Figure 4.4)	Potential trade-off Effect: Here and now; elsewhere; later
Import and export restrictions	Potential trade-off Effect: Here and now; elsewhere
Government financial transfers to fisheries	Potential trade-off: Increased fisheries capacity can harm the environment Effect: Here and now; elsewhere; later
Support to fertilisers and biofuels	Potential trade-off: water-energy-food nexus; land use Effect: Here and now; later
Production of renewable energy	Potential trade-off: water-energy-food nexus; land use Effect: Here and now; later
Effects (indicators that may be used to deduce the impact of certain policies)	
Households experiencing food insecurity (share of all households)	Effect: Here and now
Households unable to have a healthy diet (share of all households)	Effect: Here and now
Overweight/obese population	Effect: Here and now
People living in areas of water stress; freshwater resources; water productivity	Effect: Here and now; later
Crop yields	Effect: Here and now
GHG emissions from agriculture (Figure 4.5)	Effect: Later

Figure 4.2. **Trends in aid to agriculture and rural development (ARD)**

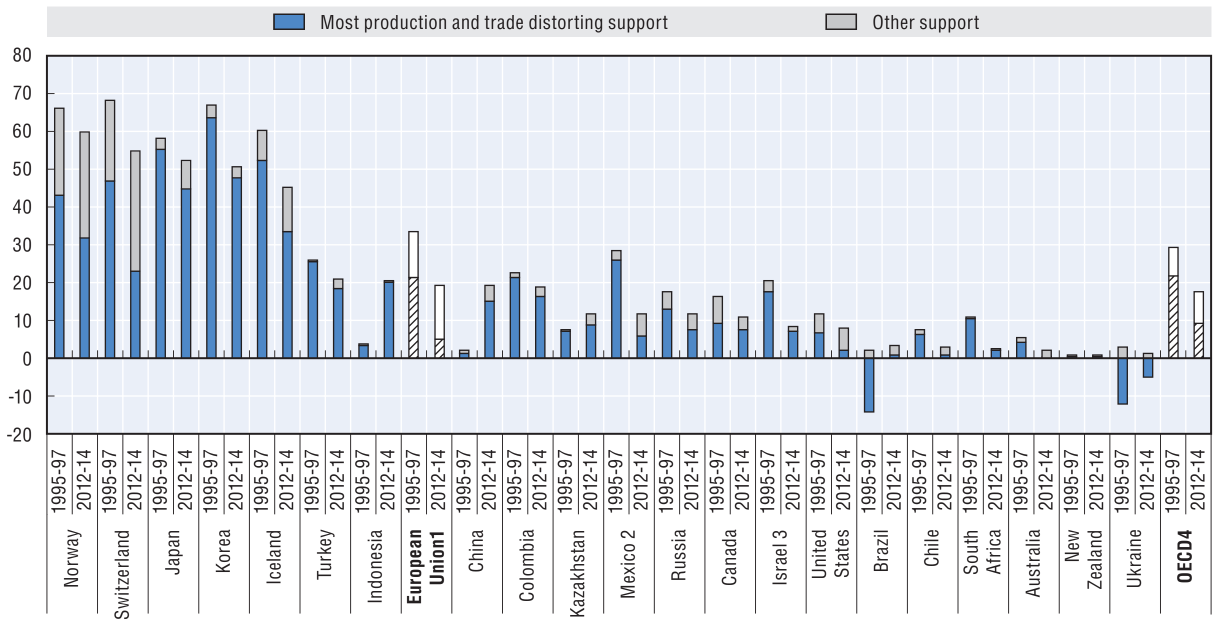
1973-2013, 5-year moving average ODA commitments, constant 2013 prices



Source: (OECD, 2015), Aid to Agriculture and Rural Development.

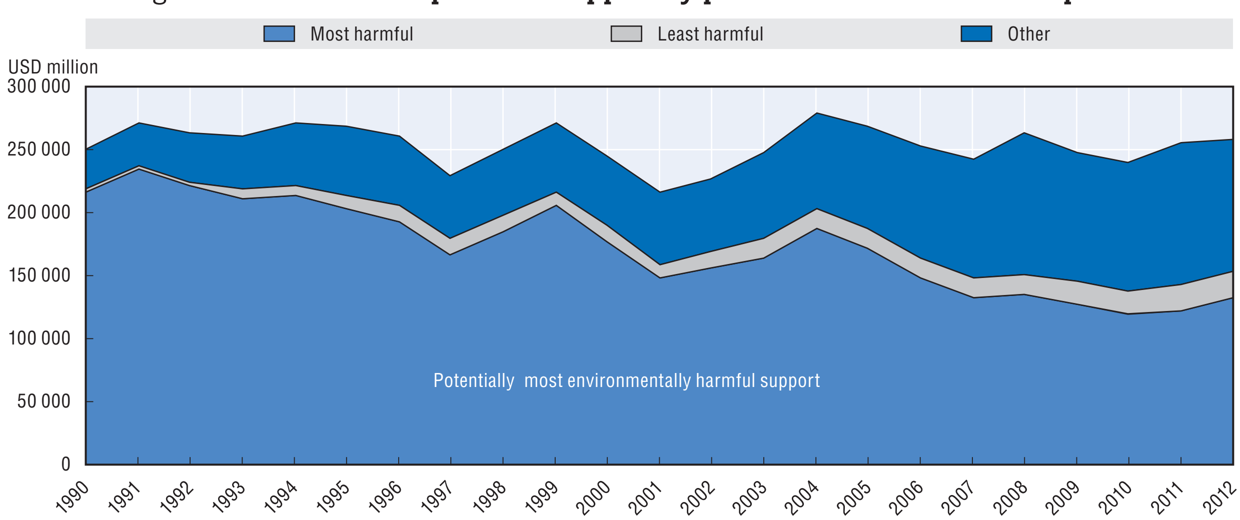
Figure 4.3. **Composition of support to agricultural producers in selected OECD countries and emerging economies**

Percentage of gross farm receipts



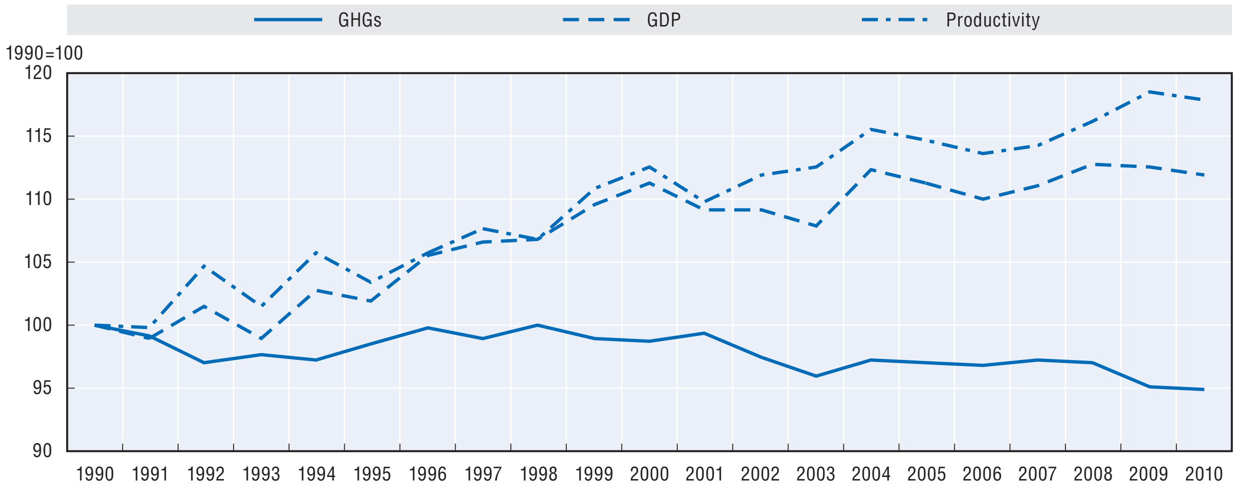
Source: OECD (2015), «Producer and Consumer Support Estimates», OECD Agriculture statistics (database).

Figure 4.4. **Evolution of producer support by potential environmental impact**



Source: OECD (2014), *Green Growth Indicators for Agriculture: A Preliminary Assessment*, OECD Green Growth Studies, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264223202-en

Figure 4.5. **GHG emissions, GDP and productivity for agriculture in the OECD area**



Note: Excluding LULUCF (land use, land use-change and forestry).

Source: UNFCCC Greenhouse Gas Inventory Data, http://unfccc.int/ghg_data/items/3800.php; FAO, FAOSTAT (database), http://faostat.fao.org/.

Policy instruments and dialogue platforms

This section provides a list of OECD policy instruments and dialogue platforms that can be used to inform national efforts to build global food security. The list, which is not exhaustive, is based on inputs provided to the recent Organisation-wide mapping exercise for informing the implementation of the Sustainable Development Goals.

Policy instruments

Agricultural Policy Monitoring and Evaluation and *Country Reviews of Agricultural Policies:* The Agricultural Policy Monitoring and Evaluation report covers OECD member countries and eight emerging economies that are major agricultural producers and consumers. It is a unique source of up-to-date estimates of support to agriculture in the OECD area. It is complemented by country profiles on agricultural policy developments in OECD countries. The analysis is based on data for the calculations of support and supplemented by the *OECD Producer Support Estimate (PSE) database*.

Agricultural Outlook: The Agricultural Outlook, 2014-2023, is a collaborative effort of the OECD and the Food and Agriculture Organization (FAO) of the United Nations. It brings together the commodity, policy and country expertise of both organisations and input from collaborating member countries to provide an annual assessment of prospects for the coming decade of national, regional and global agricultural commodity markets.

Policy Framework for Investment in Agriculture: The PFIA is a flexible tool which helps governments to evaluate their investment policies in the ten areas essential to creating an attractive environment for investors and in enhancing the development benefits of agricultural investment.

Agricultural Market Information System: AMIS is an inter-Agency Platform to enhance food market transparency and encourage coordination of policy action in response to market uncertainty. The initial focus of AMIS is on four crops that are particularly important in international food markets, namely wheat, maize, rice and soybeans. AMIS seeks to strengthen collaboration and dialogue among main producing, exporting and importing countries.

Rules and Regulations of the Seed Schemes: The objective of the OECD Schemes for the varietal certification of seed is to encourage the use of seed of consistently high quality in participating countries. The Schemes authorise the use of labels and certificates for seed produced and processed for international trade according to agreed principles.

FAO-OECD Guidance for Responsible Agricultural Supply Chains: The Food and Agriculture Organization of the United Nations and the OECD are developing guidance to help enterprises undertake risk-based due diligence to observe standards of responsible business conduct along agricultural supply chains and ensure that their operations can contribute to economic development and food security.

Aid to agriculture: The OECD Development Assistance Committee (DAC) collects aid flow data at activity level based on a standard methodology and agreed definitions. Aid to agriculture includes Agriculture, Forestry, Fishing and Rural Development. The definition of aid to agriculture excludes aid to other sectors which may have a direct or indirect effect on it such as food security, developmental food aid and emergency food aid.

Fisheries Manager's Handbook: The Handbook aims to aid policy makers develop and implement good policies and management tools in fisheries. Drawing upon years of OECD research, it demonstrates how an open policy design process with clear objectives, using market-based instruments and focussed on effective stock management can benefit all those involved in or concerned about the fisheries sector.

OECD Multi-Dimensional Country Reviews: The MDCRs offer a tool for tailoring broad OECD expertise to the realities of developing economies. Policy makers need to reconcile economic, social and environmental objectives to ensure that their country's development path is sustainable and that the lives of citizens improve. To support this need, the MDRCs aim to design policies and strategies which do not simply promote growth but rather development in this more comprehensive sense.

Dialogue platforms

Global Forum on Agriculture: The OECD Global Forum on Agriculture fosters an informed dialogue between OECD member and non-member economies on agricultural policies issues. This dialogue is based on regular monitoring and analysis to evaluate and strengthen the process of policy reform and trade liberalisation through forward-looking analysis, and addresses emerging agricultural policy issues. Participants include government officials from OECD countries and a wide range of non-member economies, agricultural experts from intergovernmental organisations, NGOs, producer groups and agribusiness, and researchers.

Food Crisis Prevention Network: Created in 1984, the RPCA (Le Réseau de Prevention des Crises Alimentaires) is an international network for co-operation and coordination under the political leadership of Economic Community Of West African States (ECOWAS) and West African Economic and Monetary Union (UEMOA) and co-animated by the Permanent Interstates Committee for Drought Control in the Sahel (CILSS) and the SWAC/OECD Secretariat. It brings together Sahelian and West African countries, bilateral and multilateral co-operation agencies, humanitarian agencies and international NGOs, agricultural professional organisations, civil society and the private sector and regional and international information systems, with ECOWAS, UEMOA and CILSS at the centre.

Reducing illicit financial flows

The role of policy coherence for sustainable development

Illicit financial flows (IFFs) and measures to combat them are a complex and multi-dimensional area of policy. *Better Policies for Development 2014* provided an overview of OECD countries' performance against the main international standards for countering illicit financial flows in five areas: money laundering; tax evasion; foreign bribery; asset recovery; and the role of development co-operation (OECD, 2014a). This overview was based on analysis presented in the report *Measuring OECD Responses to Illicit Financial Flows from Developing Countries*, which showed that IFFs relate to a range of social, political and economic phenomena that can only be dealt with through actions taken in a coordinated manner at the domestic and international levels and across different sectors (OECD, 2014b).

The *OECD Framework for Policy Coherence for Sustainable Development* (forthcoming) identifies the following fundamental obstacles (disablers) that hamper governments efforts to effectively use and mobilise their own resources for sustainable development: crime; corruption; terrorism; conflict; weak domestic resource mobilisation; poor governance and weak institutions; uncontrolled exploitation of natural resources; and inequality and exploitative elites. Consequently, IFFs present issues where governments might need to compromise between the objective of combatting such flows and other domestic or international policy objectives. In this context, policy coherence for sustainable development provides a tool for informing a holistic and integrated policy making process, for taking account of the political economy factors that may prevent effective action, and for involving the whole range of actors that can contribute to greater impact on the ground.

Illicit financial flows in the Sustainable Development Goals

Illicit financial flows are considered a major disabler for sustainable development in the SDG framework. The UN OWG has adopted target 16.4 to "by 2030, significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organised crime", as part of Goal 16 – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective accountable and inclusive institutions at all levels. This provides political momentum to take co-ordinated and collective action to tackle these detrimental flows more effectively.

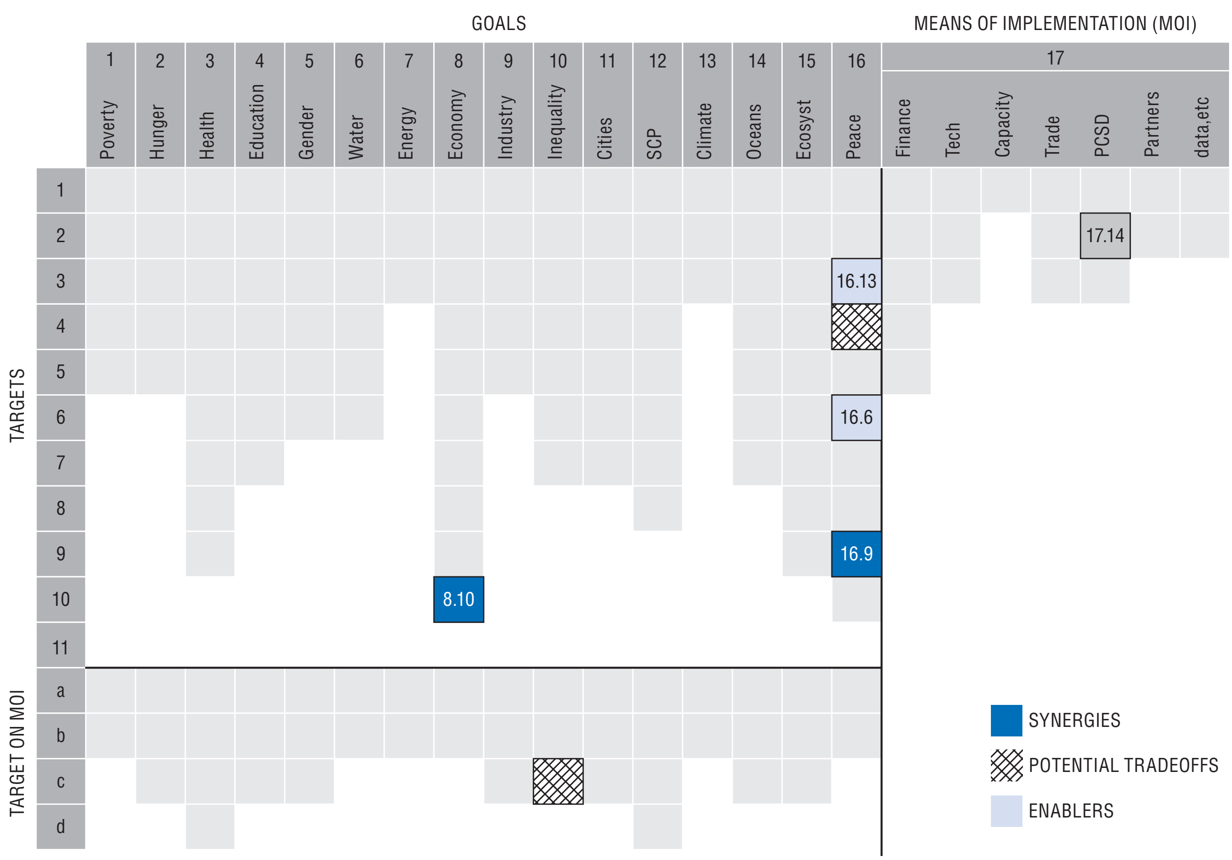
Ensuring an integrated agenda also requires identifying and considering the interactions between the IFFs target and other targets, which are critical for addressing the drivers behind IFFs. These include, for example, targets to: end overfishing and illegal, unreported and unregulated (IUU) fishing and eliminate subsidies that may contribute to such practices; address both demand and supply of illegal wildlife products; and substantially reduce corruption in all its forms.

Similarly, one could also identify the interactions with those targets that could help create the conditions for discouraging IFFs, such as to: improve regulation and monitoring of global financial markets and institutions; develop effective, accountable and transparent institutions at all levels; strengthen national institutions for preventing violence and combating terrorism and crime; and strengthen domestic resource mobilisation. This is illustrated in Table 4.3, which lists all 17 goals and their respective targets. The purpose of this diagram is to highlight examples of potential policy interactions, thereby raising awareness and stimulate dialogue. It should not be interpreted as attempting to illustrate proven linkages between goals and targets, or to monitor the implementation of the SDGs. Examples of policy interactions related to illicit financial flows include:

- *Synergies:* Providing legal identity and birth registration for all (16.9) would contribute to expanding access to banking, insurance and financial services for all (8.10)
- *Tradeoffs:* De-risking measures contribute to reducing IFFs (16.4), but could unintentionally limit remitters' access to financial systems and increase transaction costs of migrant remittances (10.c).
- *Enablers:* Promoting the rule of law (16.3) and developing effective, accountable and transparent institutions at all levels (16.6) are necessary preconditions for reducing IFFs.

Policy coherence for sustainable development (17.14) cuts across all goals and targets.

Table 4.3. **Illicit financial flows: Examples of policy interactions across the Sustainable Development Goals and Targets**



Source: OECD Policy Coherence Unit (2015), inspired by Kőrösi (2014).

Indicators to inform coherent policy making

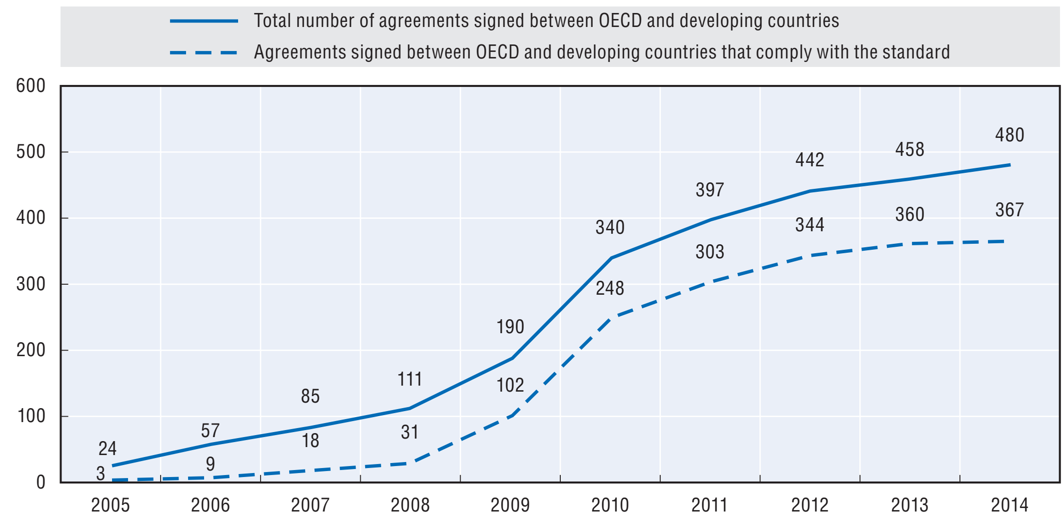
A selection of data and indicators that can inform the post-2015 agenda in the area of illicit financial flows are outlined in Table 4.4. The indicators, as identified in the

Organisation-wide mapping exercise, are listed in the left-hand column and their relation to illicit financial flows (i.e. as an enabler, disabler, potential tradeoff, effect) is listed in the right-hand column. The degree of policy coherence can be gauged by checking, for example, if the indicator for aid to tax related activities is consistent with policies to promote the exchange of information agreements between OECD countries and developing countries. For a number of indicators, charts are provided to illustrate country performance and/or change over time.

Table 4.4. **Illicit financial flows: A selection of indicators and data compilations**

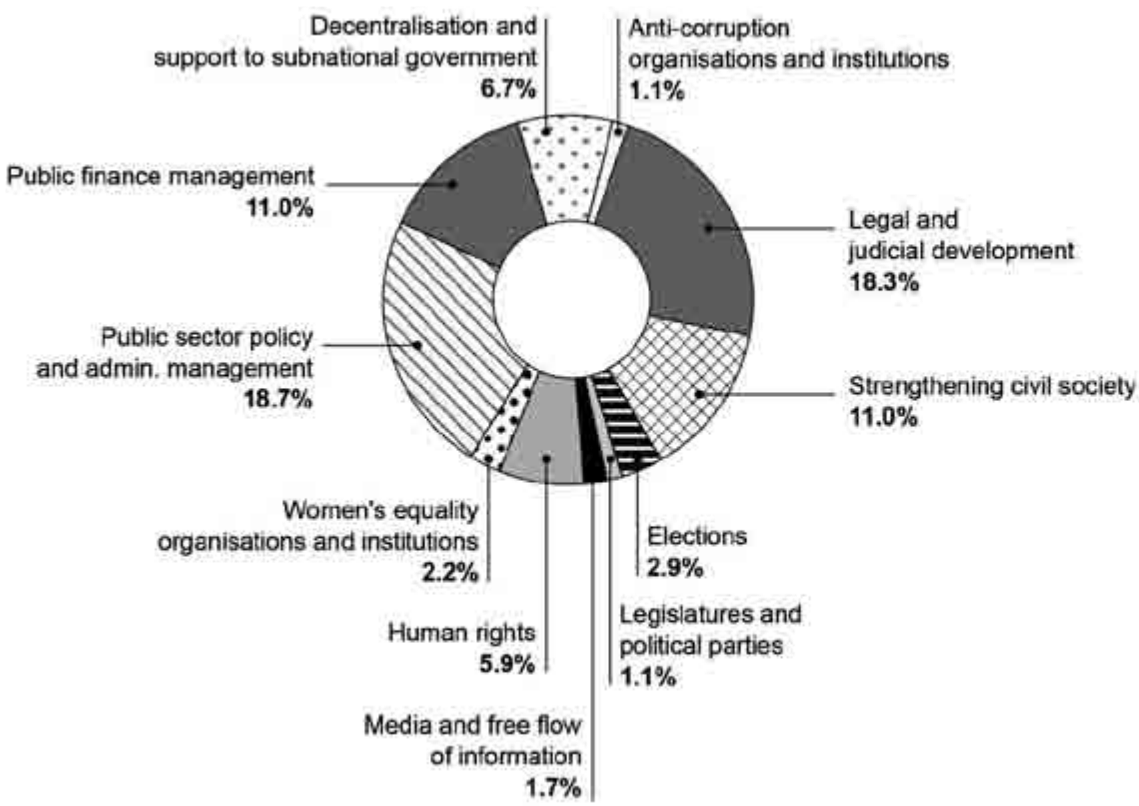
Indicator/data compilation	Relation to IFFs (enabler; disabler; policy potential trade-off; effect)
Enablers (indicators that may be used to assess factors that can contribute to reducing IFFs)	
Data on rule and law of transparency	Enabler: Increase transparency Effect: Here and now
Level of disclosure of private interests and publicly available information	Enabler: Increase transparency Effect: Here and now
Formal and open consultation processes on rule making	Enabler: Increase transparency Effect: Here and now
Counties rated as compliant with the core components of the Global Forum on Tax Transparency's TORs	Enabler: Reduce tax crimes Effect: Here and now
Number of exchange of information agreements between OECD countries and developing countries (Figure 4.6)	Enabler: Improve international tax co-operation Effect: Here and now; elsewhere
Aid to tax-related activities	Enabler: Support capacity building to combat tax crimes Effect: Elsewhere
Aid to conflict, peace and security – Government and civil society sector (Figure 4.7)	Enabler: Strengthen governance mechanisms Effect: Elsewhere
Countries rated as compliant with the OECD Anti-Bribery Convention	Enabler: Reduce bribery Effect: Here and now
OECD average compliance by FATF sub-category (Figure 4.8)	Enabler: Reduce money laundering Effect: Here and now
Potential tradeoffs (indicators that may be used to illustrate the possibility of unintended spillover effects)	
Government financial transfers to fisheries	Potential trade-off: Increased fisheries capacity can undermine efforts to reduce IUU fishing Effect: Here and now; elsewhere; later
Remittances	Potential trade-off: De-risking measures to combat IFFs can reduce remittance flows unintentionally Effect: Elsewhere
Effects (indicators that may be used to deduce the impact of certain policies)	
Total number of convictions for offences related to bribery and corruption, and amounts confiscated in such cases	Effect: Here and now
Total number of individuals and legal persons sanctioned and acquitted related to foreign bribery (Figure 4.9)	Effect: Here and now
Assets (proceeds of corruption) frozen and returned to foreign jurisdictions as reported by countries	Effect: Here and now, elsewhere
Total number of convictions related to money laundering	Effect: Here and now
Number of criminal convictions for offences related to tax evasion	Effect: Here and now
Tax revenues (share of GDP) (Figure 4.10)	Effect: Here and now

Figure 4.6. **Number of exchange of information agreements between OECD and developing countries which meet the Global Forum Standard, signed between 2005-2014**



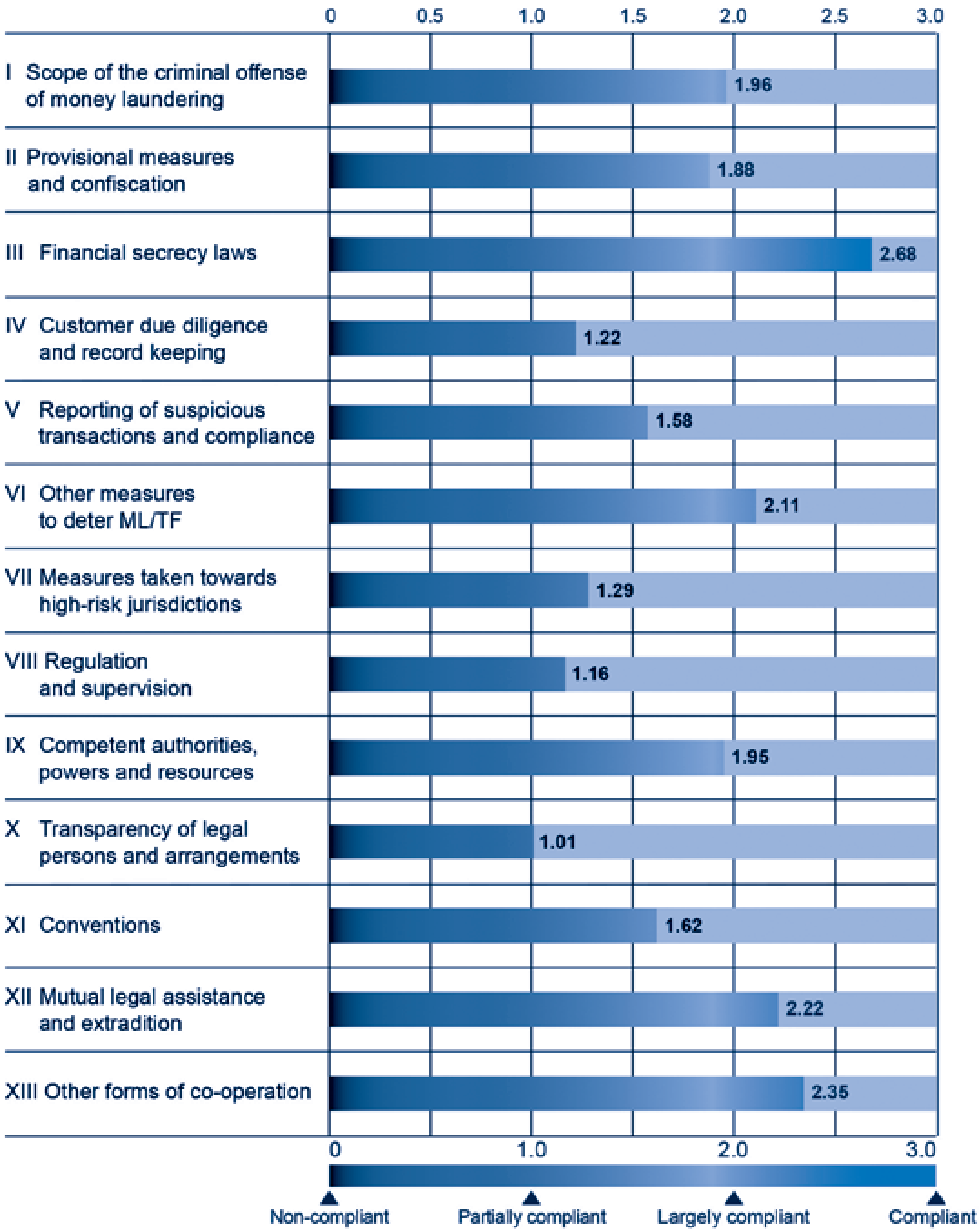
Source: Global Forum on Tax Transparency ©OECD 2014.

Figure 4.7. **Official development assistance to the sector «Government and civil society» in the DAC sector classification**



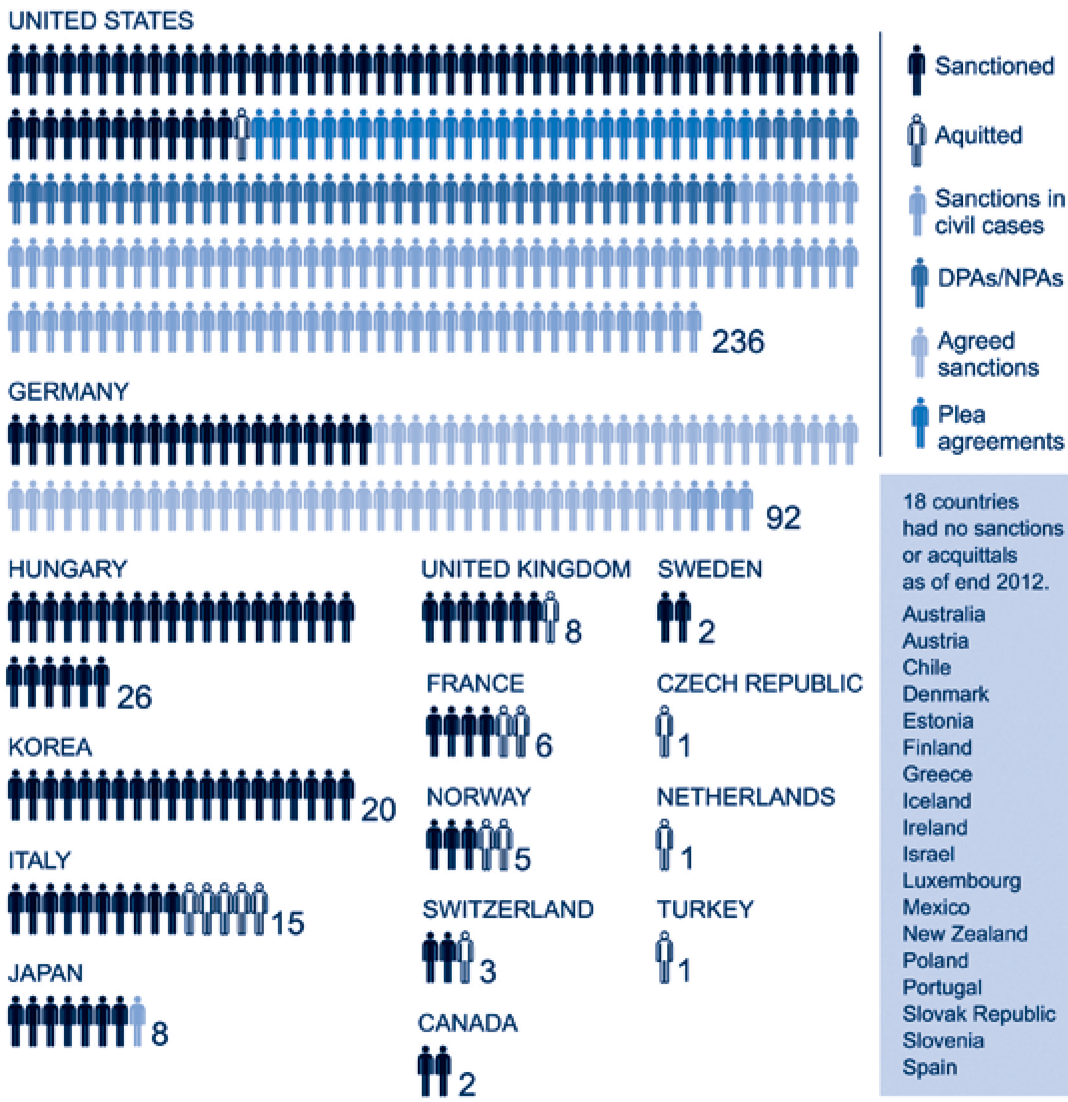
Source: OECD (2014), Illicit Financial Flows from Developing Countries: Measuring OECD Responses,

Figure 4.8. **OECD average compliance by FATF sub-category**



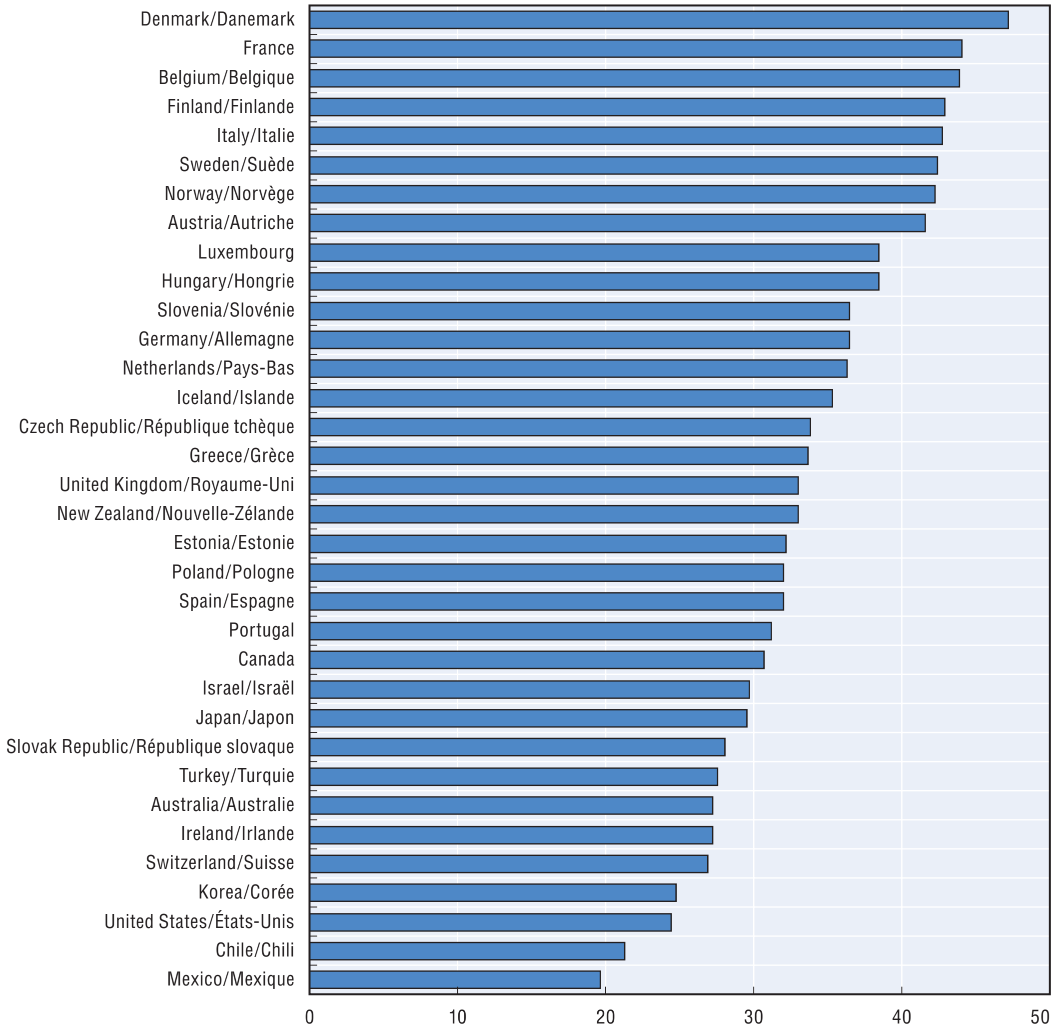
Source: OECD (2014), Illicit Financial Flows from Developing Countries: Measuring OECD Responses.

Figure 4.9. **Total number of individuals and legal persons sanctioned or acquitted related to foreign bribery, 1992-2012**



Source: OECD (2014), Illicit Financial Flows from Developing Countries: Measuring OECD Responses.

Figure 4.10. **Total tax revenue as percentage of GDP, 2012**



Source: OECD (2014) Revenue Statistics 2014.

Policy instruments and dialogue platforms

This section provides a list of OECD policy instruments and dialogue platforms that can be used to inform national efforts to reduce illicit financial flows. The list, which is not exhaustive, is based on inputs provided to the recent Organisation-wide mapping exercise for informing the implementation of the Sustainable Development Goals.

Policy instruments

Anti-Bribery Convention: The OECD Anti-Bribery Convention establishes legally binding standards to criminalise bribery of foreign public officials in international business transactions and provides for a host of related measures that make this effective. It is the first and only international anti-corruption instrument focused on the ‘supply side’ of the bribery transaction. The 34 OECD member countries and seven non-member countries - Argentina, Brazil, Bulgaria, Colombia, Latvia, Russia, and South Africa - have adopted this Convention

CleanGovBiz Toolkit: The Toolkit offers practical guidance on how corruption can best be tackled in multiple domains. It draws together relevant instruments to support the establishment of healthy systems of governance, prevent corrupt practices, detect corruption, prosecute delinquencies and remedy the consequences of corruption.

OECD Principles of Corporate Governance: First released in May 1999 and revised in 2004, the OECD Principles are one of the 12 key standards for international financial stability of the Financial Stability Board and form the basis for the corporate governance component of the Report on the Observance of Standards and Codes of the World Bank Group. The OECD Principles are currently under review.[5]

Policy Framework for Investment, 2015 edition: The PFI is the most comprehensive and systematic approach for improving investment conditions ever developed. It helps governments and regions to design and implement policy reforms to create an attractive, robust and competitive environment for domestic and foreign investment. It looks at policies from an investor perspective, but its aim is to maximise the broader development impact from investment and not simply to raise corporate profitability. Since the PFI was agreed in 2006, numerous lessons have been learnt, particularly in developing and emerging economies. The 2015 edition of the PFI reflect these new global economic fundamentals (OECD, 2015).

OECD Task Force on Tax and Development: The Task Force, which includes members from OECD and developing countries, international and regional organisations, civil society and business, aims to improve the enabling environment for developing countries to collect taxes fairly and effectively. It has identified four areas of work as key for developing countries efforts to mobilise domestic resources: state building, accountability and effective capacity development; more effective transfer pricing regimes in developing countries; increased transparency in the reporting of financial data by MNEs; and countering international tax evasion/avoidance and improving transparency and exchange of information by supporting the Global Forum on Transparency and Exchange of Information.

OECD International Academy for Tax Crime Investigation: A key pillar of the Oslo Dialogue is strengthening the capacity of criminal tax investigators to tackle illicit financial flows and the OECD International Academy for Tax Crime Investigation is a critical part of this initiative. The programme greatly improves the ability of developing countries to detect and investigate financial crimes, and recover the proceeds of those crimes, by developing the skills of tax and financial crime investigators through intensive training courses.

Base Erosion and Profit Shifting Project: The BEPS measures will give countries the tools they need to ensure that profits are taxed where economic activities generating the profits are performed and where value is created, while at the same time give business greater certainty by reducing disputes over the application of international tax rules, and standardising requirements. The OECD/G20 BEPS Project is leading to concrete change and is now strengthening the engagement and participation of developing countries.[6]

Methodology for Assessing Procurement Systems: MAPS provides a common tool which developing countries and donors can use to assess the quality and effectiveness of procurement systems.

Principles for Good International Engagement in Fragile States and Situations: While international engagement will not by itself put an end to state fragility, these Principles can help maximise the positive impact of engagement and minimise unintentional harm. They are intended to help international actors foster constructive engagement between national and international stakeholders in countries with problems of weak governance and conflict, and during episodes of temporary fragility in the stronger performing countries. They are designed to support existing dialogue and coordination processes, not to generate new ones. While the Principles do not target IFFs *per se*, they may contribute indirectly to reduce such flows by improving governance.

OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractives Sector: To address the challenges raised when engaging with stakeholders, this Guidance provides practical help to mining, oil and gas enterprises. It focuses on how to undertake due in engaging with stakeholders in order to prevent and mitigate adverse impacts, and maximise positive impacts of extractive industry activity (it does not target IFFs *per se*). It also provides guidance on monitoring and evaluating stakeholder engagement processes to assure they have been implemented and are achieving their intended objectives.

Dialogue platforms

Global Forum on Transparency and Exchange of Information for Tax Purposes: The Global Forum currently has 126 members on equal footing and is the premier international body for ensuring the implementation of the internationally agreed standards of transparency and exchange of information in the tax area. Through an in-depth peer review process, the restructured Global Forum monitors that its members fully implement the standard of transparency and exchange of information they have committed to implement. It also works to establish a level playing field, even among countries that have not joined the Global Forum.

International Dialogue on Peacebuilding and Statebuilding: The Dialogue is the first forum for political dialogue to bring together conflict-affected and fragile countries, international partners and civil society to catalyse successful transitions from conflict and fragility. This forum drives political momentum for change through strong partnership, innovation and mutual accountability for results. It provides support to the global voice of fragile states – such as the g7+ group of fragile states -– and promotes solutions based on country-ownership and a comprehensive approach to development and security issues.

Oslo Dialogue: Countering financial crimes requires greater transparency, more effective intelligence gathering and analysis, and improvements in co-operation and information sharing between government agencies and between countries to prevent, detect and prosecute criminals and recover the proceeds of their illicit activities. The Oslo Dialogue, launched by the OECD at the first global tax and crime event held in Oslo in March 2011, aims to achieve these objectives.

High Level Risk Forum/Task Force on Charting Illicit Trade: The Task Force aims to co-ordinate international expertise in the quantification and mapping of illicit markets to enable a fuller understanding of the connections between different forms of trafficking, and underpin analysis of the public policies that successfully increase economic and societal resilience to this threat.

Promoting green growth

The role of policy coherence for sustainable development

Green growth is about fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which wellbeing relies. The OECD Green Growth Strategy provides a clear framework for how countries can achieve economic growth and development while preventing costly environmental degradation, climate change and inefficient use of natural resources.

The transition towards greener growth will require policy action on many fronts: green technologies; energy and resource efficiency; sustainable transport; water management; green buildings and green industrial policies. The policies needed are diverse and, in order to be successful, they need to be implemented coherently across countries and sectors. In particular, strategies to promote green growth need to align growth, environmental and social objectives so that they are mutually reinforcing and not working at cross-purposes. Policy coherence for sustainable development can provide a tool for identifying and strengthening policy synergies, while at the same time minimising policy trade-offs.

Green growth in the Sustainable Development Goals

The importance of green growth strategies to the global development agenda is underscored in the SDGs. The post-2015 framework will require approaches to water, energy, infrastructure, cities, climate change, oceans, biodiversity and economic growth and development that successfully integrate domestic and global economic, environmental and social objectives.

A "green implementation" of the SDGs will require individual countries to mainstream environmental sustainability into existing planning processes and strategies, including at sector level; design, reform and implement policies that value natural assets and align incentives with policy goals that promote environmental sustainability; and strengthen governance and institutions to develop the capacity, engagement and resources needed for learning and sound decision-making (OECD, 2013b).

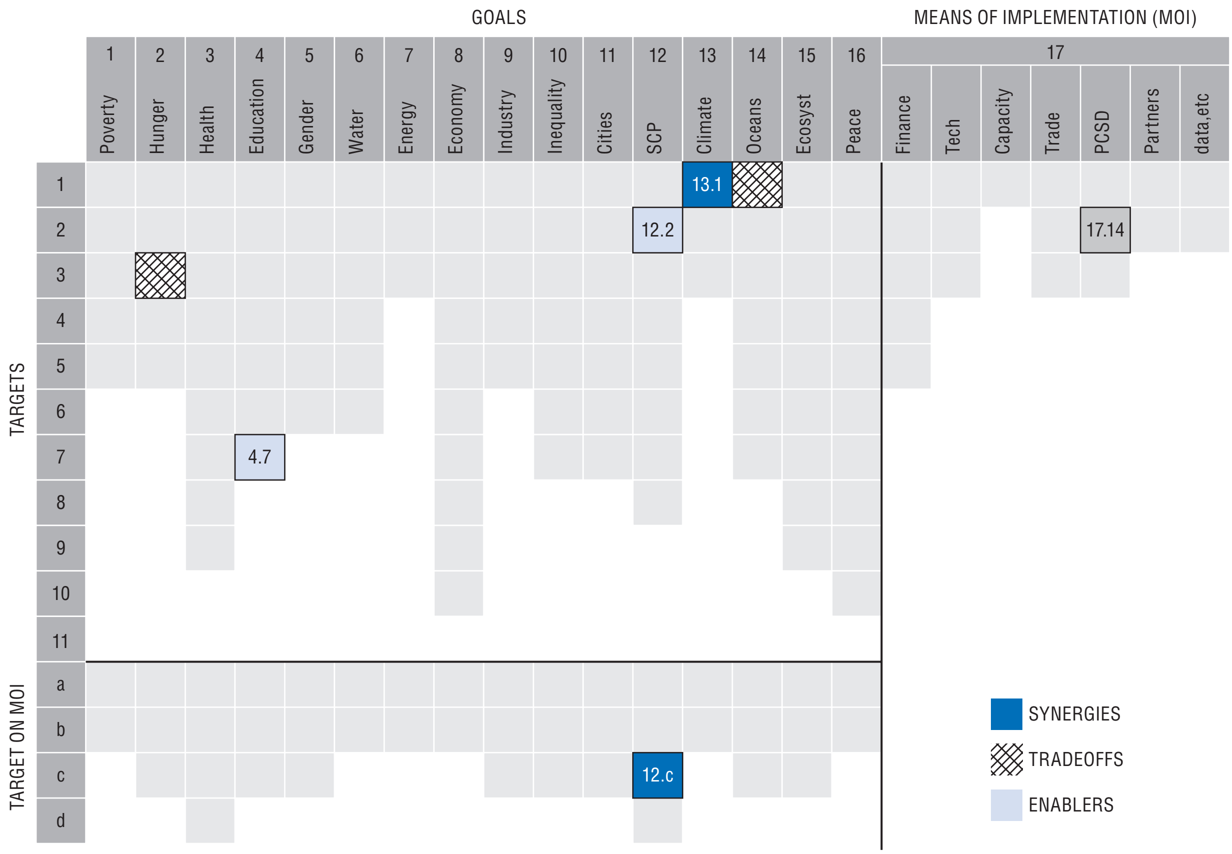
Policy makers need to recognise and promote the synergies between some goals and targets (e.g. combat climate change and its impacts, and sustainably manage forests and halt desertification), while at the same time minimising potential conflicts between others (e.g. increase agricultural productivity, and reduce marine pollution from land-based activities). This is illustrated in Table 4.5, which lists all 17 goals and their respective targets. The purpose of this diagram is to highlight examples of potential policy interactions, thereby raising awareness and stimulate dialogue. It should not be interpreted as attempting to illustrate proven linkages between goals and targets, or to monitor the implementation of the SDGs. Examples of policy interactions related to green growth include:

- *Synergies:* The rationalisation of inefficient fossil-fuel subsidies to reflect their environmental impact (12.c) will help strengthening resilience and adaptive capacity to climate change (13.1).
- *Tradeoffs:* Doubling agricultural productivity (2.3) could induce increased use of fertilisers, which might lead to marine pollution (14.1).

- *Enablers:* Ensuring that all acquire knowledge and skills to promote sustainable development (4.7) will contribute to achieving sustainable management and efficient use of natural resources (12.2)

Policy coherence for sustainable development (17.14) cuts across all goals and targets.

Table 4.5. **Green growth: Examples of policy interactions across the Sustainable Development Goals and Targets**



Source: OECD Policy Coherence Unit (2015), adapted from Kőrösi (2014).

Indicators to inform coherent policy making

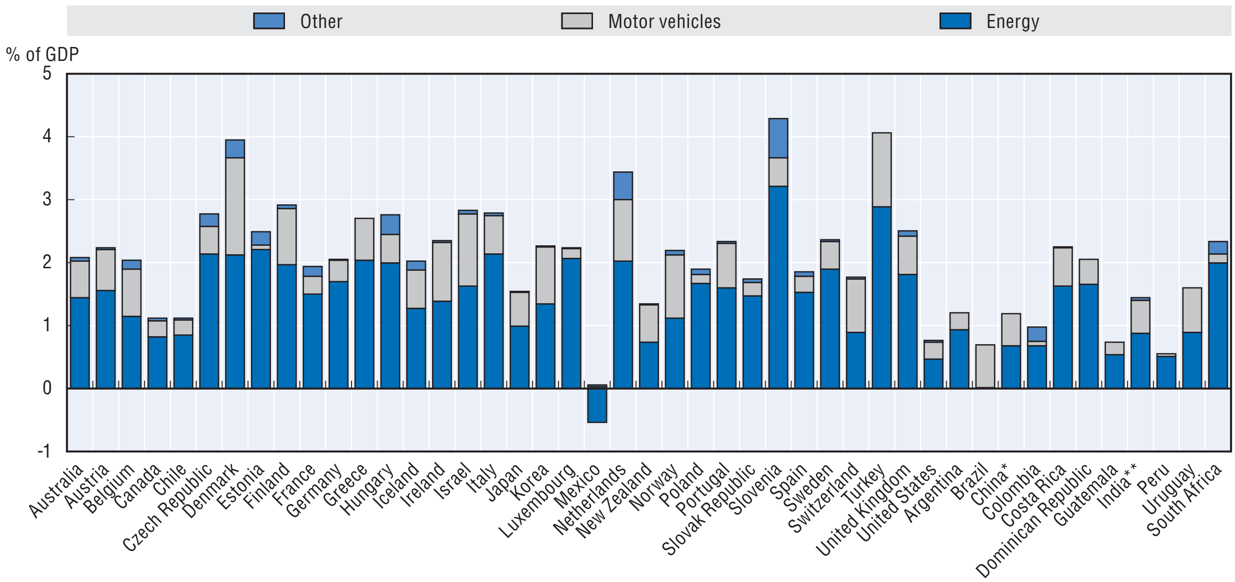
Existing OECD data and indicators that can inform the post-2015 agenda in the area of green growth are outlined in Table 4.6. The indicators, as identified in the Organisation-wide mapping exercise, are listed in the left-hand column and their relation to green growth (i.e. as an enabler, disabler, potential tradeoff, effect) is listed in the right-hand column. The degree of policy coherence can be gauged by checking, for example, that the indicator for support to fossil fuels is moving in a direction that is consistent with that of the indicator for aid targeting environmental objectives. For a selection of indicators, charts are provided to illustrate country performance and/or change over time.

Table 4.6. **Green growth: A selection of indicators and data compilations**

Indicator/data compilation	Relation to green growth (enabler; disabler; potential trade-off; effect)
Enablers /disablers (indicators that may be used to assess factors that contribute to/undermine green growth)	
Environmentally related taxes (share of GDP) (Figure 4.11)	Enabler: Can help reduce other more distortive taxes or fund public expenditures Effect: Here and now; elsewhere; later
Effective tax rates on energy use	Enabler: Tool to internalise the cost of environmental damage into prices; source of government revenues Effect: Here and now; elsewhere; later
ODA targeting environmental objectives (sustainable development; climate; biodiversity)	Enabler: Support partner country efforts to promote green growth Effect: Elsewhere
Environmental protection expenditure for conservation of biodiversity and landscapes	Enabler: Control, reduce or prevent environmental degradation Effect: Here and now; later
Private investment in water infrastructure	Enabler: Replace ageing water infrastructure and comply with water regulations (as a complement to public investment) Effect: Here and now
Estimated budgetary support and tax expenditures for fossil fuels (Figure 4.12)	Disabler: Inefficient use of resources; harmful to the environment Effect: Here and now; later
Potential tradeoffs (indicators that may be used to illustrate the possibility of unintended spillover effects)	
Renewable energy (share of total) (Figure 4.16)	Potential trade-off: Water-energy-food nexus; land use
Land use and land cover charge	Potential trade-off: land use, agriculture, forestry, climate change
Government financial transfers to fisheries	Potential trade-off: Increased fisheries capacity can harm the environment Effect: Here and now; elsewhere, later
Effects (indicators that may be used to deduce the impact of certain policies)	
Resource productivity	Effect: Here and now
Water productivity	Effect: Here and now
Production-based CO2 emissions from energy (intensity)	Effect: Later
Demand-based CO2 emissions from energy (intensity)	Effect: Later
Exposure of urban population to air pollution, level of PM2.5	Effect: Later
Emissions of nitrates and phosphorus from agriculture to coastal water (percent)	Effect: Later
Primary waste by sector	Effect: Here and now
Municipal waste generation per capita (kg); recycling; treatment; and disposal	Effect: Here and now
Forest resources (net change, intensity of use)	Effect: Later
Threatened species	Effect: Later
Water stress (Figure 4.14)	Effect: Here and now; later
Lake and river quality	Effect: Here and now
Freshwater resources (intensity of use)	Effect: Here and now; later

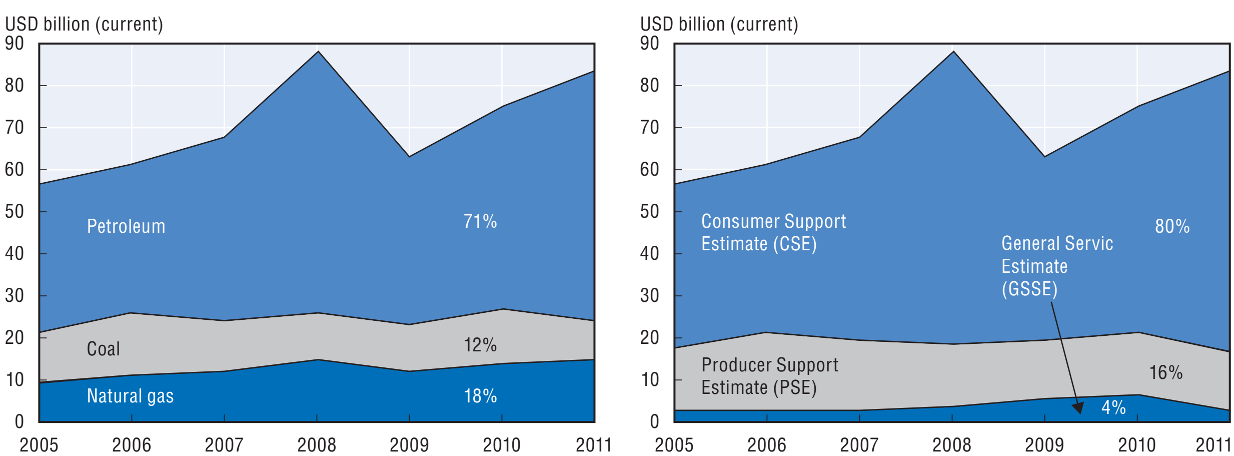
Note: See chapter 3 (in particular Box 3.6) for more details on OECD's Green Growth Indicators.

Figure 4.11. **Environmentally related taxes in OECD countries and selected non-member economies**



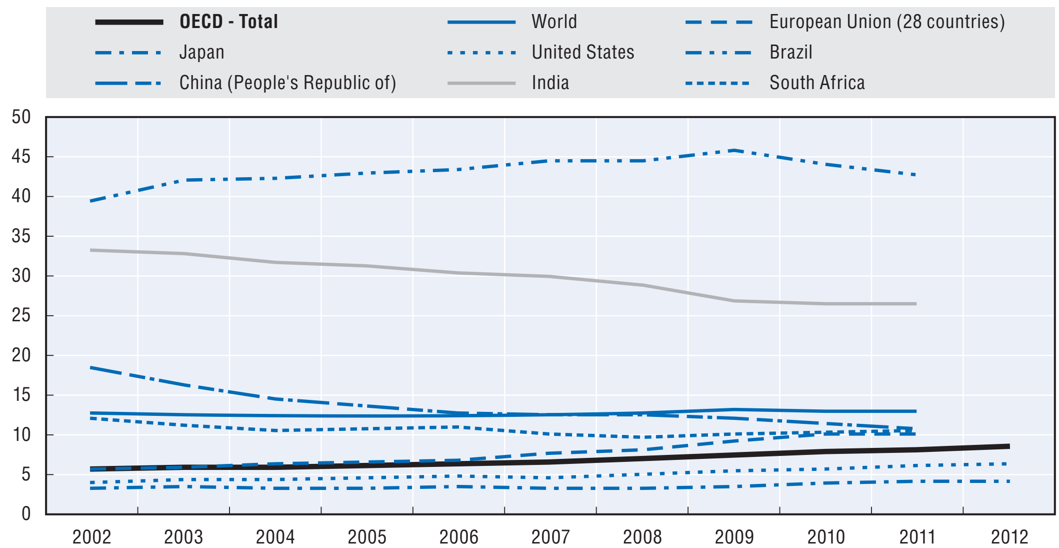
Source: OECD (2015), Database on instruments used for environmental policy 2015.
* 2012 figure; ** 2011 figure.

Figure 4.12. **Total support to fossil fuels by fuel type and by support type, OECD**
(Billions of current USD)



Source: OECD (2013), Inventory of Estimated Budgetary Support and tax Expenditures for Fossil Fuels 2013.
DOI: http://dx.doi.org/10.1787/9789264187610-en

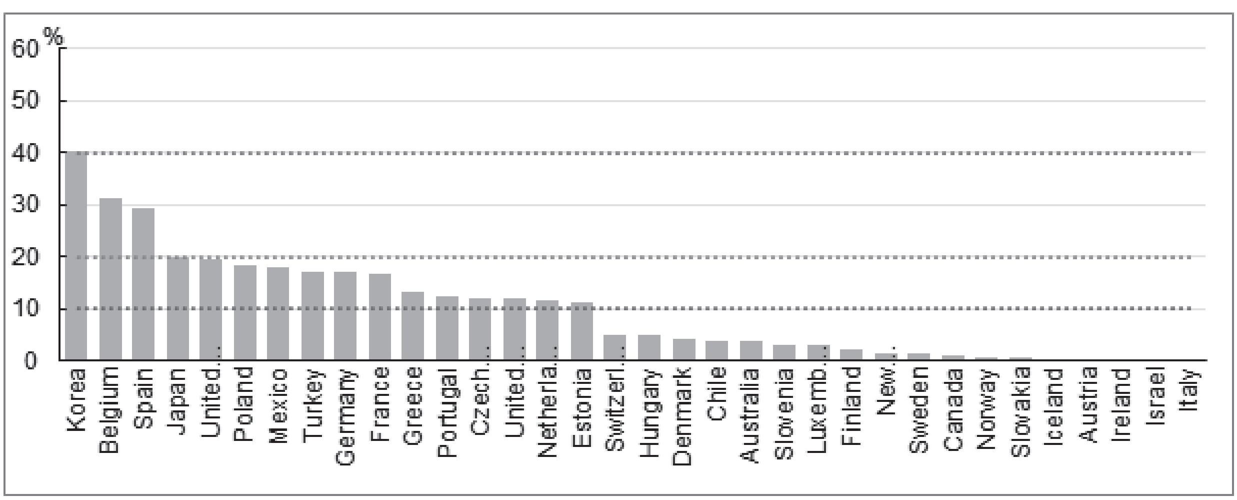
Figure 4.13. **Renewable energy in a selection of countries, Total, % of total energy generation, 2002-2012**



OECD (2015), Renewable energy (indicator). doi: http://dx.doi.org/10.1787/aac7c3f1-en

Figure 4.14. **Water stress, OECD countries**

2009 or latest year available, water abstractions as a percentage of renewable resources



Note: Water stress: below 10% = no stress; 10-20% = low stress; 20-40% = medium stress; above 40%: severe stress.

* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

OECD (2012), OECD Environmental Outlook to 2050, OECD Publishing. DOI: http://dx.doi.org/10.1787/9789264122246-en

Policy instruments and dialogue platforms

This section provides a list of OECD policy instruments and dialogue platforms that can be used to inform national efforts to promote green growth. The list, which is not exhaustive, is based on inputs provided to the recent Organisation-wide mapping exercise for informing the implementation of the Sustainable Development Goals.

Policy instruments

OECD Green Growth Strategy: The Green Growth Strategy provides concrete recommendations and measurement tools to support countries' efforts to achieve economic growth and development, while at the same time ensure that natural assets continue to provide the ecosystem services on which our wellbeing relies. The strategy proposes a flexible policy framework that can be tailored to different country circumstances and stages of development.

Country Environmental Performance Reviews: The Environmental Performance Review (EPR) programme was launched in 1992. To date, the OECD has conducted about 70 country reviews, including reviews of key partner countries like Brazil, China and South Africa. The reviews occur in cycles, and OECD countries are now being reviewed for the third time. Common elements in this round include key environmental trends; policy-making environment; and efforts to mainstream environment into the country's economic policy ('towards green growth').

Sustainable Manufacturing Toolkit: The OECD Sustainable Manufacturing Toolkit provides **a practical starting point for businesses around the world** to improve the efficiency of their production processes and products in a way to contribute to sustainable development and green growth. The key instrument of this toolkit is an **internationally applicable common set of indicators** to measure environmental performance at the level of facilities.

OECD Due Diligence for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas: The Guidance provides detailed recommendations to help companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions and practices. The Due Diligence Guidance is for use by any company potentially sourcing minerals or metals from conflict-affected and high-risk areas. It is one of the only international frameworks available to help companies meet their due diligence reporting requirements.

Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels 2013: The Inventory is concerned with direct budgetary transfers and tax expenditures that relate to fossil fuels, regardless of their impact or of the purpose for which the measures were first put in place. It has been undertaken as an exercise in transparency, and to inform the international dialogue on fossil-fuel subsidy reform. For each of the 34 OECD countries covered, the *Inventory* provides a succinct summary of its energy economy, and of the budgetary and tax-related measures provided at the central-government level (and, in the case of federal countries, for selected sub-national units of government) relating to fossil-fuel production or consumption.

Energy Country Reviews: Approximately every four years, the policies of individual member countries are reviewed in-depth by a team of peers led by the IEA. The reviews analyse the energy-policy challenges facing countries and provide recommendations for further policy improvements. They are intended to help guide countries towards a more secure and sustainable energy future.

Technology Roadmaps: There is a pressing need to accelerate the development of low-carbon energy technologies in order to address the global challenges of energy security, climate change and economic growth. To achieve this ambitious goal, the IEA is developing a series of global low-carbon energy technology roadmaps covering the most important technologies. Each roadmap represents international consensus on milestones for technology development, legal/regulatory needs, investment requirements, public engagement/outreach and international collaboration. Policy makers are guided in this process by so-called *How2Guides*.

OECD Principles on Water Governance: The principles help governments navigate the tenets of good public policy on water, and distil what they need for their own challenges. They promote efficiency and effectiveness in water management.

Private Sector Participation in Water Infrastructure: OECD Checklist for public action: Organised around the 24 OECD Principles for Private Sector Participation in Infrastructure, the Checklist for Public Action aims to help governments wishing to engage the private sector in the development and management of water and sanitation infrastructure.

Dialogue platforms

OECD Green Growth and Sustainable Development Forum: The Forum is an OECD initiative aimed at providing a dedicated space for multi-disciplinary dialogue on green growth and sustainable development. It provides a meeting point for policy makers and experts from OECD and partner countries to exchange experiences and identify policy tools and best practices that respond to their specific country circumstances.

Global Forum on Environment: The Forum brings together international experts from OECD and partner countries to share experiences and explore common policy issues focusing principally on the environmental dimension of sustainable development and its linkages with economic and social policies.

Water Governance Initiative: The OECD Water Governance Initiative is an international multi-stakeholder network of members from the public, private and non-for-profit sectors gathering twice a year to share good practices in support of better governance in the water sector.

OECD Green Investment Financing Forum: The Forum is an initiative aimed to promote dialogue, and to enhance understanding between a wide range of countries and institutions interested in mobilising private investment financing for low carbon and climate-resilient infrastructure.

OECD Policy Dialogue on Natural Resource-based Development: The Dialogue offers an intergovernmental platform for peer learning and knowledge sharing where OECD and non-OECD producing countries, in consultation with extractive industries, civil society organisations, and think tanks, can craft innovative and collaborative solutions for resource-based development.

Global Forum on Responsible Business Conduct: The Forum aims to strengthen international dialogue on RBC and provide a views on how to do well while doing no harm in an effort to contribute to sustainable development and enduring social progress.

DAC Network on Environment and Development Co-operation: The Network supports developing countries' policies and efforts to promote environmentally-sustainable, resource-efficient livelihoods, and economies that are resilient to climate change.

The Partnership for Climate Finance and Development: This is a Global Partnership Initiative promoting the deployment of climate finance through coherence and collaboration among climate change, finance and development co-operation communities at the country, regional and global levels. It stems from the Busan Partnership for Effective Development Co-operation.

In my view: A policy coherence for development index

By Pablo José Martínez Osés, Plataforma 2015 y más

Since the 1990s, the concept of Policy Coherence for Development (PCD) has gradually acquired a greater analytic space in academic areas concerning development studies. The increasing importance of the PCD approach lies in the fact that, in order to fully understand the potential contribution of a State to a fairer and more equitable world, it is necessary to evaluate all its public policies and their consequences for other countries and people. However, we have been slow to develop methodologies for multi-dimensional research on the integration of development in public policies. Plataforma 2015 y más is developing a PCD research programme that aims to create theoretical and practical tools for evaluating the mainstreaming of human development in public policies of all countries. The research programme rests on two pillars: a qualitative research area about the design, implementation and impact of public policies in the promotion of development and human rights for a cosmopolitan citizenship; and a quantitative area based on the construction of a PCD Index. Currently Plataforma 2015 y más is finalising the theoretical and methodological foundations on which the PCD index is based. We hope the PCD Index will become an important tool in three respects:

- to improve citizen knowledge about the role of their country's policies in promotion of human development;
- to foster better advocacy actions from civil society organisations; and
- to develop a monitoring system for all policies in the SDGs framework.

With this goal, the PCD Index will be able to analyse 21 public policies (divided into six blocks), assessing their impacts in global citizenship (without distinguishing between nationals and foreigners) and studying their impact in every country (both developed and developing).

Based on the principle of "common but differentiated responsibilities", the policies of both developing and developed countries will be analysed within the same approach, although groups or "clusters" of countries will be established based on their relative development position in order to recognise different responsibilities. The PCD Index will assess both domestic and international policies, because when a policy integrates sustainable development principles, it contributes to a better world in different ways and, therefore, it fosters development, regardless of whether it is domestic or internationally focused. In this way, the PCD Index goes beyond traditional assessments which focus their PCD analysis only on synergies between aid and other international or external policies, constraining the understanding of development and international relations to an old division based on North and South (donors and partners). In contrast, the PCD Index is based on evidence of the increasing interdependence of development issues and challenges, which are challenging states to promote a cosmopolitan vision and overcome the limits of their political boundaries.

The construction of the PCD Index has the multidimensional sustainable development approach as starting point. It aims to evaluate policies based on four inter-related dimensions: economic, environmental, social and good governance. The PCD Index will evaluate policies through each of these four dimensions, to provide an integrated and comprehensive understanding of the trade-offs and linkages associated to different policies and their effect on development. Policy linkages are crucial to show the overall performance of countries in PCD, avoiding one-dimensional statements or self-justification.

In my view: A policy coherence for development index *(cont.)*

The next step is to aggregate the scores of all the policies in a unique composite index for each country. This will allow each country to be evaluated from the "whole of government" perspective, which is an essential dimension of the PCD approach. At the same time, the PCD Index will show the main failures, contradictions and trade-offs in each country, and identify the best routes to improve PCD. In this way, each country will know their main failures and successes, as well as their challenges and threats. In addition, the PCD Index takes into account two cross-cutting issues when defining and selecting the indicators to assess each policy: the human rights approach and the gender approach. In this regard, all policies directly related to a specific human right are examined according to a set of criteria, and the results of this analysis integrated in the unique scheme mentioned above. Gender gaps are given special attention when selecting the relevant issues to be measured in each dimension for each policy. Furthermore, one of the 21 policies assessed is gender equality policy. The PCD Index will be launched at the end of 2015 as a relevant tool for civil society, institutions and governments for accountability and monitoring PCD within the post 2015 Agenda.

The PCD Index will help provide access to the information needed in order to identify actions governments can take to improve their policy coherence - helping to ensure that PCD is not ignored by decision-makers. At the same time, it will help to foster a cosmopolitan and responsible vision in citizens and governments. The PCD Index speaks not only about means of implementation of the post-2015 agenda (i.e. the 17th goal of the proposed SDGs), but it also proposes a comprehensive mapping of policy behaviour of countries in relation to their duties towards global citizens.

Notes

1. See Chapter 2 for more information on policy coherence for development in the context of the OECD Strategy on Development.
2. See *http://www.oecd.org/development/peer-reviews/*
3. The Brundtland Report (1987) distinguishes between three conceptual dimensions of sustainable development: (i) human wellbeing of the present generation in one particular country – 'here and now'; (ii) the wellbeing of future generations – 'later'; and (iii) the wellbeing of people living in other countries – 'elsewhere'.
4. This exercise also contributed to an international effort led by the UN Statistical Commission Friends of the Chair Group on Broader Measures of Progress (UNSC FOC).
5. Review of the OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises: Progress Report, C(2015)64/REV1.
6. Building a more resilient international tax system to support sustainable growth: An update on BEPS, Exchange of Information and the Tax and Development Programme, C/MIN(2015)8.

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Better Policies for Development 2015
Policy Coherence and Green Growth

Chapter 5

How are countries adapting to the new development agenda?

The new agenda offers opportunities for countries to adjust their domestic policies, institutions and mechanisms to promote policy coherence for sustainable development in a post-2015 context. This chapter provides an overview of recent or ongoing national efforts to this end. Some countries showcase the institutional mechanisms they have in place (or are developing) in order to implement the new agenda, while others highlight specific sectors in which coherent policy making has contributed to improved development outcomes. Recognising that policy coherence for development has its origin in civil society, this chapter also includes important contributions from civil society organisations (CSOs) in different countries.

AUSTRALIA

Domestic Resource Mobilisation (DRM) a long-term agenda that requires sustained effort across a range of intersecting areas. It is a key priority for Australia, and a good example of our approach to policy coherence for development (PCD). Australia's extensive activity in this area is outlined in more detail in Box 5.1.

As part of the G20 presidency, Australia used a range of institutional and governance mechanisms to strengthen the policy coherence for development approach to Domestic Resource Mobilisation, which aimed to ensure that developing country perspectives and needs could be reflected in G20 decisions on its tax agenda, and that different members, organisations and areas of government could co-ordinate effectively to achieve this. These include the use of formal and informal mechanisms and inter-sessional work to structure co-ordination through practical steps, for example:

- Australia co-chaired the G20 Development Working Group with Turkey, South Africa and Russia to ensure that work on development was integrated into the G20's broader growth agenda.
  - Australia helped lead the G20's work on tax and development by co-facilitating the domestic resource mobilisation pillar alongside South Africa, Spain and the United Kingdom.
  - A concerted effort was made to formally consult with developing countries, increasing the legitimacy of the Working Group products on tax. These include consultations undertaken by the OECD with developing countries in regional forums; the Global Forum on Transfer Pricing; a special meeting on base erosion and profit shifting (BEPS) of the OECD Task Force on Tax and Development; and engagement during the G20 International Tax Symposium held in Tokyo. Australia and New Zealand have also worked together to consult bilaterally with Pacific island countries on BEPS issues in small island developing countries.
  - The domestic resource mobilisation and financial inclusion work was reported to the Sherpas and Finance Deputies who convened in Melbourne in June 2014.
- Inter-sessional whole-of-government co-ordination at all levels within Australia's G20 Taskforce. The Department of Foreign Affairs and Trade (DFAT) steered engagement of the Development Working Group meetings and the G20 Trade Ministers meeting. On taxation issues, DFAT closely engaged with technical experts in the Australian Taxation Office.
- Joint representation of development and finance officials at international engagement opportunities, including various side events at World Bank Spring and Annual meetings.
- Requesting the IMF, OECD, UN and World Bank Group to work jointly to present a report to the DWG in 2015 on options for low income countries on the efficient and effective use of tax incentives for investment.

The success of the domestic resource mobilisation agenda requires engagement from all countries. Through the G20, Australia has championed an agenda that enables greater cohesion between members of the G20, the OECD and other developing countries. In relation to BEPS, the G20 has called on the OECD to put in place a new structured dialogue process, with clear avenues for developing countries to work together and directly input into the OECD/G20 BEPS Project. This enabled the G20 to deliver stronger outcomes for low income and other developing countries.

The effectiveness of this approach in drawing greater attention to the perspectives of developing countries was seen in the consideration by Leaders in G20 Leaders' communiqué, which states, "*We welcome deeper engagement of developing countries in the BEPS project to address their concerns. We will work with them to build their tax administration capacity and implement AEOI. We welcome further collaboration by our tax authorities on cross-border compliance activities*" and in the G20 actions related to the BEPS Action Plan and Automatic Exchange of Information (AEOI) Roadmap.

Policy coherence also means coherence between Australia's domestic tax policies and its development policies. It is important that Australia's aid programme supports developing-country efforts to participate in the domestic resource mobilisation agenda, to enhance efforts to build a more effective global system. As part of this, DFAT is building institutional linkages with the Australian Treasury and Taxation Office and their counterpart authorities, with a focus on providing targeted capacity building assistance in the Indo-Pacific region. For example:

- In Papua New Guinea, Australia is working to build institutional tax capacity, implement new automated tax systems, increase tax compliance and strengthen audit capacity. This includes assistance through the Australian Treasury, in partnership with Papua New Guinea, to undertake a General Tax Review in 2014.
- In Indonesia, Australia is providing assistance to strengthen capacity in transfer pricing as part of a long-term partnership in support of economic governance.
- Australia will partner with the Philippines to pilot the implementation of the automatic exchange of information roadmap, as announced by the Prime Minister at the 2014 G20 Leaders' Summit.

Australia is also making efforts to support coherence between this G20 work and other international processes. For example:

- Ongoing participation in the Global Partnership for Effective Development Co-operation (GPEDC). At the first GPEDC High Level Meeting in Mexico, Australia signed onto voluntary initiatives, including a commitment to increasing aid targeted at tax matters by the next GPEDC High-Level Meeting in 2016; endorsing the OECD "Principles for International Engagement in Supporting Developing Countries in Revenue Matters" to partner with developing countries to perform self-assessments in revenue matters.
- Engaging in consultations with the UN Committee of Experts on International Cooperation in Tax Matters.
- Co-hosting with Mexico and the OECD, a side event during the 69th session of the United Nations General Assembly on 'Curbing Illicit Financial Flows for Domestic Resource Mobilisation and Sustainable Development in the post-2015 era' in September 2014.

- Helping to shape a new global development finance framework to support the implementation of the post-2015 development agenda, including the role of domestic resource mobilisation at the Third International Conference on Financing for Development in Addis Ababa in July 2015.

But challenges remain, and while PCD results in stronger development outcomes, it can involve some trade-offs. In recognising that low income countries will face significant capacity constraints in implementing the new global standard of AEOI; G20 and OECD members also then accept that some countries will require longer timeframes than others, and potentially an incremental approach based on development of specific capabilities, to participate in the automatic exchange of information. This is especially the case in the Indo-Pacific region, where the domestic resource mobilisation implementation capacity of developing countries is expected to vary considerably.

Box 5.1. **Australia: policy coherence in domestic resource mobilisation**

Domestic Resource Mobilisation (DRM) is a long-term agenda that requires sustained efforts across a range of intersecting areas. A country's ability to mobilise its resources to pay for essential services is a crucial aspect of promoting sustainable development. With many developing countries in the midst of rapid economic growth, the challenge remains translating strong economic growth to a corresponding increase in domestic resources.

Domestic Resource Mobilisation encompasses a large range of issues related to raising revenue from domestic sources in developing economies, including building and maintaining a sustainable tax base (through both domestic and international reforms), formalising the informal sector, and combatting corruption including through tackling of illicit financial flows. Engagement of developing countries in the international tax agenda, including on base erosion and profit shifting (BEPS), and on the automatic exchange of information (AEOI), is important to ensure developing countries receive the revenue to which they are entitled from both companies and citizens.

Many developing countries face significant constraints to collecting revenue and domestic resource mobilisation. The tax administration capacity of most governments in developing countries remains weak, physical infrastructure is old or lacking and tax avoidance is common. Structural changes in the global economy, such as the rise of the 'global supply chain', increased trade liberalisation, technological developments and the increasing importance of intangibles in the digital age, have put pressure on the international tax rules that were designed in the early 20th Century. The result has been that multinational corporations and citizens are not necessarily taxed appropriately. Estimates from academics and civil society suggest developing countries lose between USD 35 billion and USD 160 billion in revenue per year due to corporate profit shifting.

Solutions to these problems are in many cases beyond the ability of any one country to implement. A global solution involving both developed and developing countries is needed to address problems in the international tax system. For developed countries, this means ensuring domestic tax policies and practices promote a better global system that supports global development, and helping developing countries to improve their domestic resource mobilisation.

Under Australia's 2014 G20 presidency, the G20 promoted policy coherence through its efforts to create a global tax system that benefits the developed and developing world alike. To achieve this, the G20 worked to support developing countries participation in the international tax agenda, and to ensure the agenda reflected the specific contexts of these countries. This included efforts to make the international tax system more coherent and transparent. The G20 is strongly committed to international co-operation to strengthen the integrity of national tax systems. In 2014, the G20 Development Working Group (DWG) focused its Domestic Resource Mobilisation efforts on strengthening the integration of development considerations into a broader G20 tax agenda shaped around three main elements. These include:

Box 5.1. **Australia: policy coherence in domestic resource mobilisation** *(cont.)*

Addressing tax base erosion and profit shifting – By working with the OECD to enact a 15-point BEPS Action Plan. At the request of the G20, the OECD consulted with developing countries and international organisations and reported on the impacts of BEPS; how these relate to the Action Plan; and what the G20 could do to assist.

Enhancing tax transparency through the automatic exchange of information for tax purposes – A significant achievement for the G20 tax agenda during Australia's presidency has been in the area of increasing international tax transparency. At the request of the G20, the Global Forum on transparency and exchange of information for tax purposes led the production of a roadmap for developing countries participation in AEOI.

Strengthen capacity in low income and developing countries – Australia recognises the acute consequences tax avoidance and evasion have for developing countries, and that developing countries face unique challenges in implementing the BEPS and AEOI reforms. Support for capacity development efforts will focus on the fundamental building blocks of tax policy and administration, to ensure developing economies can reap the full benefits of international tax reforms and mobilise domestic resources for development.

AUSTRIA

In Austria, national implementation of the post-2015 Agenda with its Sustainable Development Goals can build on a number of existing laws, policies and mechanisms which try to address issues covered by the post-2015 Agenda in a co-ordinated manner.

National Sustainable Development Strategy

During the 2000s, broad public demand for environmental quality and for better integration of environmental, social and economic policies led to the adoption of two strategies for sustainable development. In 2002, the first of these strategies established the principle of sustainability in policies and actions at the level of the Federal Republic; the second, adopted at the level of the federal provinces (Bundesländer) in 2010 and reaffirmed at federal level in 2011, provided a common framework for actions at both the federal and provincial levels. Austria was the first federal state in Europe to adopt such an approach. The initiatives have been accompanied by Local Agenda 21 processes.

The main institutional arrangement for co-ordinating sustainable development policies at national level is the Committee for a Sustainable Austria, in which provinces are invited to participate. It was established in 2002 as an interministerial body to steer implementation of the National Strategy for Sustainable Development and consists of about 30 high-level representatives drawn from federal ministries, the social partners and the provinces. The committee is jointly co-chaired by the Federal Chancellery and the Federal Ministry for Agriculture, Forestry, Environment and Water (BMLFUW). A National Sustainable Development Steering Group co-ordinates sustainable development activities among federal ministries.

Austria has been increasingly committed to mainstreaming environment and climate in its development co-operation. The 2003 Federal Development Co-operation Act indicates that "preserving the environment and protecting natural resources to ensure sustainable development" forms one of three key objectives of development co-operation (the others being poverty reduction and the promotion of peace and security).

Environment and development co-operation policies

In 2009, the Federal Ministry for Europe, Integration and Foreign Affairs (BMEIA) and the BMLFUW, in consultation with NGOs, approved Strategic Guidelines on Environment and Development in Austrian Development Policy, which provide the reference framework for mainstreaming environmental objectives in development co-operation activity at federal level. The guidelines are a step towards improving coherence between the development agendas of the various ministries. They include an analysis of environment-related challenges; set out operating principles; outline a common implementation strategy; and summarise planned activities of all ministries involved by means of an "implementation matrix".

As a cross-cutting theme, environment is treated as an integral component of development activities rather than in stand-alone programs. Project screening is the main tool for ensuring mainstreaming. All applicants for funding by the Austrian Development Agency (ADA) (including NGOs and partner governments) must answer a set of environment-related questions. ADA then assesses environmental threats and opportunities of project proposals as well as their relevance to the Rio Conventions. A strategic evaluation of Austria's development co-operation in the environment sector is planned in 2015.

In the framework of designing a new Three-year Work Program of the Austrian Development co-operation, Sustainable Development Goals are fully incorporated in policy planning activities. The finalisation of this new Work Program is planned for mid-2015.

Due to Austria's long-lasting membership to the Food Assistance Convention (FAC), food aid is a strong pillar of our humanitarian aid policy. The minimum annual commitment, which is linked to the FAC, strengthens Austria's international credibility in acting against hunger and malnutrition, especially in emergency situations. For this reason the main actors, like the Federal Ministries of Agriculture, Foreign Affairs and the Austrian Development Agency (ADA), allocate funds to selected focal regions and countries while simultaneously keeping in mind global humanitarian emergencies and priorities. General budgetary constraints and rising public expectations in good governance entail strong policy coherence between all relevant stakeholders.

Accountability

Transparency and accountability will be key factors for the successful implementation of the post-2015 Agenda.

In order to improve transparency and accountability in programming and of the utilisation of public funds for sustainable development, Austria supports the strengthening of the role of Supreme Audit Institutions. Austria co-sponsored UN-Resolution 69/228 "*Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions*", which was adopted by the 69th United Nations General Assembly on 19 December 2014. Through the International Organization of Supreme Audit Institutions (INTOSAI), Austria, which hosts its permanent Secretariat, seeks to support the independence of Supreme Audit Institutions (SAIs), capacity building of SAIs and the improvement of accounting systems as crucial elements in the post-2015 Development Agenda.

In my view: Fixing the problems that hold back coherence policy making

by Justin Moore, UK-based Policy Advisor. He is writing in a personal capacity and currently working to establish a study on the barriers to coherent policy making

Many people in rich countries seem to place value on reducing poverty and conflict in poorer ones. Citizens give money to charities working on international poverty alleviation and support political parties that are committed to continued spending on official development aid. Unfortunately, their governments do not always tackle poverty reduction in the most effective and efficient way, tending to emphasise aid, with less progress on improving policies and regulations that affect poor countries. Two examples below illustrate this problem, but there are many others.

Funding conflict

Companies based in developed countries buy goods containing 'conflict resources', for example minerals that fund armed groups, in the very countries where their governments spend billions on aid. Take the Democratic Republic of Congo (DRC), where donors gave USD 2.6 billion in official development assistance in 2013, and armed groups are funded by trade in tin, tantalum, tungsten and gold. Companies import large amounts of goods that contain these minerals without undertaking adequate checks to ensure they are not funding conflict.

According to UN trade data, the EU imported USD 20 billion of mobile phones (which contain tantalum and tin) from China in 2012. China sourced 36% of its tantalum ore imports, and 19% of its tin ore imports, from DRC and neighbouring countries. In the absence of any regulatory requirement, only 4% of EU companies say they undertake due diligence on their supply chains to check that they are not funding conflict. The use of these conflict minerals has been a known problem for over a decade and there are established ways for companies to check their supply chains. However, regulation to require companies to do these checks has been resisted for many years.

Money flowing out of poor countries

A report by the African Development Bank and Global Financial Integrity found that between USD 1.2 trillion and USD 1.4 trillion left Africa in illicit financial flows between 1980 and 2009, far in excess of the money Africa received from outside over the same period. Another report by a coalition of UK and African NGOs estimates that while aid to Africa from OECD countries averaged USD 29.1 billion per year 2009-2011, the continent loses USD 192 billion annually in other resource flows, mainly to the same countries providing that aid. Money leaving the continent includes debt payments, illicit financial flows and profits made by multinational companies.

The work of the OECD and various NGOs has made plenty of evidence available to policy makers on the policies that can help, for example by cracking-down on tax havens and the use of anonymous companies. However the introduction of better regulation in developed countries has been slow and patchy, despite years of international institutions and NGOs promoting policy coherence for development. The Center for Global Development's Commitment to Development Index, which tracks 27 of the world's richest countries on their policies that affect poorer nations, shows almost no overall improvement in policies over the last ten years.

A crucial question therefore seems to be: Why do developed countries adopt policies that seem to be at odds with their development spending?

Policy incoherence cannot be simply explained by domestic objectives outweighing overseas development ones. If that were the case, rich countries would divert their international aid to domestic spending, for example to build more schools and hospitals at home. Nor are policy changes necessarily more costly than aid spending. For example, the European Commission estimated that the cost of around 400 EU importers of conflict minerals all undertaking due diligence on their supply chains would be EUR 1.1 million per year.

Part of the problem may be that for many people international development policy is all about how much is spent on aid. That perception may be reinforced by media reporting on aid spending, and even NGOs who promote charitable donations to alleviate poverty.

In my view: Fixing the problems that hold back coherence policy making *(cont.)*

But the reality is that policy coherence for development is not the only area where good policy making is difficult. Research by the Institute for Government indicates a number of factors that can contribute to failures in policy making. These include: future generations not having a say in today's political process; distortions caused by politicians targeting swing voters; rent seeking by special interest groups trying to influence policy and regulations to their benefit; and information imperfections (for example politicians only targeting outcomes for which information is available to citizens, even if that runs against their best interests). Understanding how these problems affect policy making in practice – both in general and policies affecting poor countries in particular - and then promoting reforms that reduce their impact (e.g. making lobbying more transparent) could have important benefits.

Perhaps most significantly, reforms in rich countries could improve policy making in general, directly benefiting citizens in those countries. In addition, they could lead to policies that more coherently support development. This would lead to better development outcomes, improving the lives of citizens in poorer countries. Ultimately, this could reduce dependence on foreign aid, and so enable rich countries to lower their aid spending.

In conclusion, one of the best long-term investments for alleviating poverty in poor countries is to improve the policy-making environment in rich countries. It is likely that only then we will have policies and regulations that consistently support, rather than work against, development in poor countries.

Advocates of PCD have already started to move the development agenda beyond the aid debate. Even more could be achieved by working to fix the problems that hold back coherent policy making.

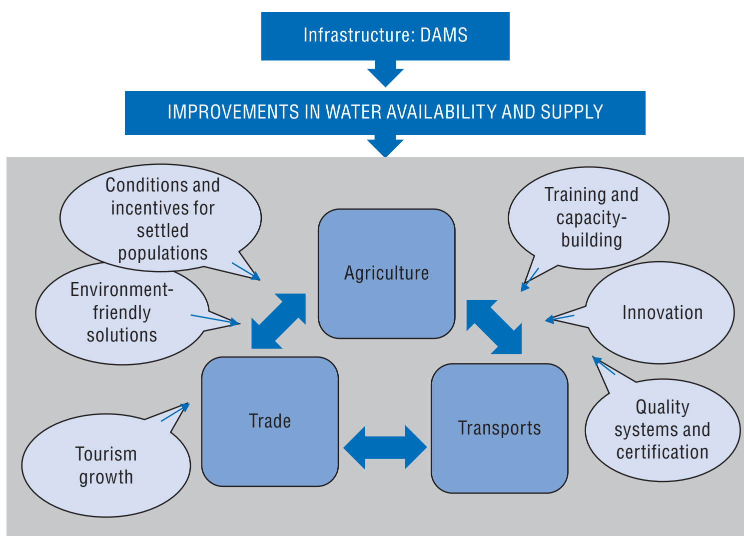
CAPE VERDE

Promoting PCD in Cape Verde is especially relevant in the country's current reality. Cape Verde is one of the three African countries that have graduated to Lower-Middle Income Country status. With graduation, the country faces new development challenges arising from the need for structural reform and innovative financing sources; in the context of rising debt, decreasing grants in external aid, and the negative impact of the Eurozone crisis. Several external partners are now moving from traditional aid to more strategic and comprehensive approaches, which can represent an opportunity to improve PCD. The environment, and particularly renewable energy, is an area with great potential for implementing integrated, coordinated, and coherent policies, with the participation of both external partners and Cape Verdean authorities. The frameworks provided by the EU-Cape Verde Special Partnership, which includes eight thematic areas, and the General Budget Support Group, are also opportunities for engaging in a fruitful multi-actor dialogue about synergies between policies, balancing different interests and positions, and minimising possible negative impacts of incoherences.

In recent years, there have been improvements in institutional co-ordination and monitoring of public expenditure, namely through the Poverty Strategy Document (DECRP III) and the introduction of new monitoring instruments (such as the SIGOF and other budgeting and management mechanisms). However, this result-based approach is still mainly focused on the financial aspects and on immediate results – outputs – rather than systematically analysing the impacts and outcomes of several sectoral policies/activities on development. Best use should be made of several existing multi-actor and multi-sector committees, in order to boost a more systematic dialogue with civil society actors and other relevant stakeholders, such as the municipalities or the Parliament. At local level, participatory budgets could provide an opportunity in the future for increasing democratic instruments, improving communities' participation and ownership, and implementing development policies at local level in a more coherent and effective manner.

As in most countries, raising the level of understanding and knowledge about policy coherence across several public policies and across different stakeholders is a major challenge. Civil society organisations are very active in Cape Verde, being widely recognised as fundamental development actors. Despite their institutional and financial weaknesses (which are similar to many developing countries) they play a crucial role in awareness raising, dialogue and training, providing major inputs to multiply positive development impacts in several areas. Public participation is insufficient, but people have strong opinions about what are the negative factors and about what they need to improve their livelihoods and their communities' development. In fact, several incoherencies have been identified and denounced by the community, but they frequently lack the appropriate channels to report and influence decision-making. For instance, the results of a survey for a case-study on environment and fisheries, held in Cape Verde in the framework of the project "*PCD: The Challenge of Active Citizenship in Cape Verde*", indicate that 78% of the respondents (fishermen, fishmongers and other fishery agents) are aware of the EU-Cape Verde Fisheries Agreement and 88% think it is negative for Cape Verde, in a context where 77.5% identifies a clear reduction in the fish catches in recent years.

Figure 5.1. **A multisectoral and comprehensive approach to dams in Cape Verde**



Source: Magalhães Ferreira (2015).

The construction of dams in Cape Verde is also a good example of the challenges and opportunities for promoting an effective PCD approach. Chronic water shortages have always been a major constraint to the country's development and there was a political consensus around the need to develop infrastructure, including dams. Seven new dams have already been built, with evident impacts in increasing the irrigated area and agricultural production, mainly in Santiago Island. This has given rise to other emerging issues, such as the need for adequate packaging and storage of products, quality systems and certification, training and co-ordination of small producers, transportation of agricultural products in order to supply the tourism sector, amongst others. The construction of dams is having positive effects in answering to a very immediate and specific concern - water shortages - but it can also have a sustainable impact on development, provided that it is fully integrated in a comprehensive strategy that includes several sectors and stakeholders, as shown in Figure 5.1.

Box 5.2. **Portugal's PCD Programme in Cape Verde**

Coherence for Development Policy - the challenge for active citizenship in Cape Verde, is the first project specifically designed to address the issues of Policy Coherence for Development in Africa, and therefore is closely monitored by the Portuguese co-operation. The project is funded by Portugal and the European Union, and implemented by the platform of the Cape Verde Non-Governmental Organisations (NGOs) in partnership with the Portuguese NGO "Instituto Marquês de Valle Flôr". The project brings together Members of the National Parliament and Municipal Assemblies, Cape Verde civil society (with particular emphasis on youth groups), and conducts awareness-raising and debates on PCD with different actors in Cape Verde. It also promotes workshops with Members of Parliament; establishes working groups on thematic areas, and will deliver three case studies on the sectors of environment, fisheries and agriculture. Finally, the project will prepare a Guiding Manual on PCD with recommendations on how to improve the participation of Cape Verdean civil society in public policies monitoring. Still in the framework of the bilateral relations between Portugal and Cape Verde, a Luso-Cape Verdean Standing Committee was recreated providing the opportunity to join at the same table, through thematic sub-committees, the leaders of the two countries in various governmental sectors.

CZECH REPUBLIC

There are two main instruments for policy coherence in the Czech Republic.

The first is the *Council on Development Cooperation*, an inter-ministerial coordinating body, administered by the Department of Development Cooperation and Humanitarian Aid of the MFA, chaired by the Deputy Minister of Foreign Affairs. The Council includes representatives of all line ministries; the Office of the Government; Czech Development Agency; Czech Forum for Development Cooperation (a platform of Czech NGOs dealing with development co-operation and humanitarian aid); Entrepreneurs' Platform for Development Cooperation; and the Association of Regions and Municipalities. This council acts as a regular consultation mechanism and has been working successfully since January 2008. It ensures participation of all line ministries and all relevant non-governmental actors in the government decision-making process. PCD has regularly been on the Council agenda.

The second is the *Council of the Government for Sustainable Development*, re-established in September 2014, administered by the Department of Sustainable Development of the Office of the Government and chaired by the Prime Minister. This is an advisory body to the Office of the Government. There are eight committees subject to the Council, responsible for: 1) socio-economic development; 2) strategic management, analysis and implementation of sustainable development; 3) landscape, water and biodiversity; 4) sustainable energy; 5) sustainable municipalities; 6) sustainable transport; 7) education for sustainable development; and 8) co-ordination of Czech positions on sustainable development at international level. The Council and its committees include representatives of central and local government bodies, social partners, academia, and non-government organizations.

The committees develop strategies for sustainable development of the Czech Republic in their respective fields, and work as consulting and external examination/peer review platforms.

In 2015 the Council, in co-operation with the committees and the Department of Sustainable Development, are expected to update and redefine the Strategic Framework for Sustainable Development in the Czech Republic.

After the agreement on global post-2015 Sustainable Development Goals (SDGs), universally valid for all countries, the biggest challenges will be to successfully and coherently integrate the SDGs into the future sustainable development strategy of the Czech Republic, and to set up a functional framework for their implementation and monitoring. The OECD's Development Assistance Committee (DAC) expertise and recommendations in this field can be very helpful.

DENMARK

In June 2014 the Minister for Trade and Development launched "A Shared Agenda – Denmark's Action Plan for Policy Coherence for Development". The Danish Government is committed to fighting poverty and promoting human rights, democracy, sustainable growth, peace and security. But development co-operation alone cannot fulfil these objectives. Policy choices in other policy areas also have a great impact on developing countries. The new Action Plan is the realisation of Denmark's commitment to Policy Coherence for Development (PCD).

Denmark's Action Plan for PCD

The Danish Action Plan is based on political objectives and targets. The approach is thematic, issue-based and forward looking. The efforts will mainly be on EU policies, as these rather than national policies will have the greatest impact on developing countries. Denmark has selected three strategic areas of priority within PCD on the EU level: 1) Trade and Finance; 2) Food Security and Climate Change; and 3) Peace and Security. Within these selected areas of priority, a limited number of political objectives are set for the next year, and concrete policy tracks are identified. The following political objectives have been articulated: *(i)* EU's free trade agreements lead to greater economic inclusion of LDC's; *(ii)* EU at the forefront of fighting tax fraud and tax evasion; *(iii)* EU-policies contribute to global food security; *(iv)* EU takes a leading role in promoting green transition and curbing climate change; and *(v)* EU applies coherent approaches to conflicts and stabilisation.

The Danish system for advancing PCD

In order to be as operational as possible the Danish Action Plan is built on the existing structures of the comprehensive and well-founded system for Denmark's EU Policy Coordination. The system is based on the principles of early internal policy co-ordination in the ministries as well as early involvement of Parliament. The PCD co-ordination is executed in the Special Committee for Development Policy Issues, which is one of the thematic Special Committees in the Danish EU decision-making process. The Special Committee is the platform for the inter-ministerial dialogue and co-ordination of PCD related issues and comprises all the relevant ministries[1]. The Special Committee identifies policy tracks that need to be pursued within the strategic priorities of the Danish Government and is thereby the forum for discussing PCD aspects in relevant EU proposals. As a part of the national procedure for EU Policy Coordination, line ministries are requested to inform whether new EU initiatives will have consequences for developing countries based on the European Commission's PCD screening of its work programme. This process is linked to the integrated dialogue with Parliament as a part of the standard procedure of informing Parliament ahead of Council Meetings. If relevant, other EU special committees, academia or civil society organisations can be engaged in specific issues. The efforts made through the PCD Action Plan are reported in Danida's annual report, which also will be at the root of further development of the Action Plan. The future Action Plan will among other issues incorporate the Post-2015 Agenda when agreed upon in New York, September 2015.

The Action Plan for PCD in relation to the Post-2015 Agenda

The objectives of the Action Plan are to foster positive synergies between other policy areas and development policy, as well as to address possible negative effects of other policy areas on developing countries and sustainable development. The Post-2015 Agenda must be able to manage the multi-faceted and complex challenges that lie ahead, which is what makes Policy Coherence for Development a crucial mean. PCD could facilitate an enabling environment for development in the Post-2015 Agenda.

One of the most significant challenges that Denmark foresee in the Post-2015 Agenda in relation to PCD are the issues of monitoring and creating the necessary ownership of PCD. Firstly, in relation to monitoring it is essential to develop mechanisms and indicators that can foster comparable data between countries worldwide. In this matter Denmark is currently in an initial dialogue with Statistics Denmark[2] on possibilities for enabling status reports on parts of the framework of the Post-2015 Agenda on a national level. Monitoring and reporting is a commonly known complex issue in the Post-2015 Agenda. Similar to other states the reporting from Statistics Denmark will not be able to cover all areas and indicators. Hence, the details of how Denmark can report are still work in progress as we await the final agreement on the Post-2015 Agenda. Secondly, as PCD calls for co-ordination and involvement across sectors and thereby a certain degree of ownership in the different offices, departments and sectors that deal with issues in relation to poverty eradication and sustainable development, it is of utmost importance to construct a system that can facilitate co-ordination between the different entities. By building on existing structures the system should advance PCD and safeguard the objectives of development collaboration in general. The Danish Action Plan for PCD is an attempt to create such a system and thereby foster the necessary ownership of international coherent policies.

FINLAND

In Finland, the Lisbon Treaty obligation to take into account the external impact of its different policies on developing countries is reflected in political commitments. The Government Programme (2011) states that in development policy *"the Government supports greater coherence as well as quality and effectiveness of aid"*. In line with the Government Programme, a new Development Policy Programme was adopted in 2012. PCD was identified as one of the guiding principles of the new Programme.

The Government Program and the Development Policy Program are approved by the Government and they are binding for every Ministry. Since the whole Government is responsible for development policy, there are different structures in place to ensure coherence. The Finnish PCD commitments and objectives are implemented partly through the EU co-ordination system, in matters falling under EU competence, and partly through the inter-ministerial PCD network and bilateral contacts between the MFA Department for Development Policy and other authorities.

Finland has an issues-based approach in addressing PCD, focusing on five priority areas: food security, trade, migration, security and taxation. In recent years, most progress has been made in areas of food security and taxation. The Government's high-level PCD network convenes biannually and it serves as a mechanism for exchanging information, awareness-raising, and feedback within the Government. It is not a formal part of the national EU policy co-ordination system, but it serves to promote PCD in general in a structured form.

Finland's EU co-ordination system provides a formal co-ordination and consultation mechanism and is organised on three levels. At political level, the Finnish positions on EU policies are decided in the Cabinet Committee on EU Affairs. At technical level, there are more than 30 EU Affairs sub-committees (or "sub-sections") dealing with different policy sectors. Their membership is comprised of civil servants (mostly desk officers) responsible for given sectors in the ministries, coordinating and representing the positions of their respective ministries. Each ministry has also an EU Affairs Coordinator. The Department for EU Affairs in the Prime Minister's Office is charged with the general co-ordination of EU affairs within the Government. The Parliament is also well integrated in EU decision-making.

The main responsibility for preparing and promoting development policy, including PCD, lies within the Department for Development Policy at the Ministry of Foreign Affairs (MFA), where the national focal point for PCD is located. The Department engages actively in regular co-ordination and consultation on Finnish policies with other ministries and authorities, as well as more informal dialogue.

The Finnish Parliament is involved in PCD in several ways. Parliament participates in the national-level preparation of decisions to be taken within the EU. In Parliament, the Grand Committee is responsible for the handling of EU matters and special committees submit opinions to the Grand Committee. Hearings of the Minister for International Development and MFA officials in Parliamentary Committees often include PCD issues. The Government Programme 2011 included a commitment to prepare a communication to the Parliament on the impact and coherence of development policy. The Communication *'Towards A More Just World Free of Poverty'* was issued in May 2014. The Parliament discussed it first in June and a final debate took place in Plenary session in September 2014, based on the opinion of the Foreign Affairs' Committee in consultation with other relevant Special Committees.

The post-2015 Sustainable Development Goals represent a truly integrated, transformative and universal agenda, which means that the goals will apply to all countries, developing and developed alike. Finland already reaches some of the proposed goals and targets, but there is plenty of work to reach the targets on issues like sustainable consumption and production patterns and use of resources, to name only a few. PCD has been identified as a key means of implementation of the Sustainable Development Goals.

To implement the agenda, a more integrated approach to policy making is clearly required also in Finland. There is also a need to raise awareness of the fact that the goals and targets not only apply to development policy issues, like reducing poverty and inequality, but have implications for all policy sectors. At the moment, the emphasis is still on the ongoing negotiation process in New York. Work on the preparation of the national program and possible new mechanisms to implement the agenda will start later this year. The implementation phase can provide a unique opportunity to make good use of the experience of the PCD-work so far and to promote this approach in a comprehensive way to the policy making process.

In my view: Civil society and policy coherence for development

By KEHYS, Finnish Non-Governmental Development Organisation (NGDO) Platform to the EU

Policy coherence is often seen only as an intra-governmental exercise – a sole responsibility of policy and decision makers. This view neglects the functions that non-governmental actors can perform in advancing policy coherence. A multi-stakeholder approach to PCD is not only recommended but is a prerequisite for a true policy coherence to occur. Civil society's role requires special recognition.

The OECD's previous annual PCD report, Better Policies for Development 2014 briefly presented the outcome of Finland's PCD Pilot on Food Security, which tested the OECD's Policy Framework for PCD. In practice the pilot consisted of a series of meetings that gathered different stakeholders to discuss institutional hurdles and catalysts to policy coherence as well as the linkages between food security and agriculture, fisheries and environment policies. Without going into details the Better Policies report stated that the pilot process proved useful and that the positive experiences could be applied further. From the civil society point of view, it is easy to agree with this assessment. The main achievement of the Pilot was to bring different stakeholders together and to recognise each other's respective roles and responsibilities in advancing policy coherence. Specific duties were assigned to each stakeholder in the follow-up and monitoring of the pilot.

The pilot process was led by the Ministry of Foreign Affairs of Finland and involved stakeholders from other line ministries, as well as research institutions, private sector and the civil society. Discussions during the pilot occurred in good spirit and in mutual respect for differences of perspective and opinion. These perspectives after all represent information that lies in the heart of PCD. For better policies we need to know the impacts of current policies on both development objectives and relevant stakeholders and how planned policies would affect these.

Different stakeholders contribute to the mass of data in their own individual ways. Research institutions for example can generate validated evidence on policy impact, yet often with some delay to allow for scientific rigor. Civil society can provide information faster, and more importantly information from vulnerable groups and remote areas which could otherwise be missing from the "formal knowledge" found in published academic studies or Government reports. The case is especially clear in developing countries, where local authorities, due to limited resources, are often unable to monitor and evaluate situations of marginalised populations and funnel their experiences to higher levels of administration.

Thus the role of civil society requires recognition at two stages. First, in OECD member states, civil society should participate in national co-ordination mechanisms to ensure pooling of knowledge and to allow fully informed policy decisions that take into account all different perspectives. Second, local civil society should be consulted in the partner countries to allow for first-hand experiences to be heard. The latter requires an enabling environment for civil society, which has recently come under serious threat in many countries all over the world, as access to information, and freedom of expression and association has been limited.

The post-2015 development agenda provides a crucial opportunity to address this negative trend. Space for civil society needs to be recognised as an important target in itself and as a means to achieve all SDGs. The framework should thus foresee mechanisms that catalyse a shift to more accountable and transparent governance at all levels, examples being national advisory councils and open budget initiatives that European civil society organisations have been advocating.

Failing to grant civil society a working space will undermine, or even endanger the whole process to achieve the SDGs. The issue is not only about truthful monitoring of quantifiable impacts, but allowing also the people to participate in defining the "D" of "PCD" in their local context. If the aim is to harness policies dynamically for sustainable development, then we cannot dictate the milestones from outside: we need to understand what development is at the grass-root level.

In my view: Civil society and policy coherence for development *(cont.)*

Some exaggerated examples can illustrate what is missing: An indicator that shows an increase in traded goods from fisheries will tell us nothing about the experiences of a small fisherman by the Atlantic who has lost his livelihood to large fleets overfishing the ocean, and lacks a social safety-net. A farmer in the Himalayas will struggle to see the benefits of foreign investment in renewable energy, if she has been forced to leave her tiny plot of land – and only source of income – to make way for a new hydro-power plant. In order to bring such experiences to the front, one can hardly stress enough the importance of giving a voice to civil society.

Finally, while the interests of civil society and private sector are sometimes opposed, we find the involvement of private sector is also vital for the PCD agenda. Similarly to civil society, the private sector has to be invited to the same table to facilitate balance between potentially competing interests and to make sure that everyone's voice is heard and that the hindrances and solutions to policy coherence are properly mapped.

GERMANY

At the international level (including the EU and OECD), the German government has committed itself to policy coherence. The 2013 Coalition Treaty states that policy coherence is to be improved, particularly through better co-operation between ministries.

Germany's tools for ensuring policy coherence for development build on established mechanisms for policy co-ordination. When necessary these are complemented by new committees or inter-ministerial agreements. The Federal Ministry for Economic Cooperation and Development (BMZ) is the German government's "lead institution" for development policy. With a government department exclusively responsible for development co-operation, Germany gives development issues a strong voice within the government as a whole. Furthermore, as part of the Cabinet, the BMZ is involved in all cabinet decisions and scrutinises all cabinet submissions with regard to their relevance to development policy.

Inter-ministerial co-ordination precedes all cabinet decisions and is also required for the development of position papers for international negotiations. This takes place in accordance with the policy co-ordination mechanism laid down in the Joint Rules of Procedure of the Federal Ministries. In this context, the BMZ is responsible for ensuring that policy-making across all relevant portfolios promotes, or at least does not impede, development.

An example of an additional co-ordination mechanism is the so called '*development and foreign policy jours fixes*'. In December 2013, the German government initiated regular meetings at the level of state secretaries in order to ensure policy coherence and an integrated a comprehensive approach in foreign, development and security policy. The Federal Chancellery, the Federal Foreign Office, and the BMZ are the core participants; and other ministries (in particular the Federal Ministry of Defence, Federal Ministry of Interior) are invited as appropriate. The agenda is agreed before each meeting, and meetings are chaired in rotation. The main purpose of this consultation mechanism is:

- Sharing information on activities and approaches; and
- Developing joint strategic assessments of current challenges, and comprehensive and coherent approaches to these challenges.

Embassies have a central role to play in ensuring a “whole-of-government approach” vis-à-vis their host country. In addition 97 positions in the Embassies are assumed by personnel from the BMZ. These colleagues bring their specific expertise of development policy to the work of their Embassy.

Issues-based approach to enhance PCD

For key tasks which require well-coordinated action, policy guidelines are agreed (e.g. the paper “*For a coherent German Government policy towards fragile states – Inter-ministerial Guidelines*” of September 2012), as necessary, between the various ministries and/or inter-ministerial committees are set up (e.g. the State Secretaries’ Committee for International Migration).

Another example is the negotiation on the post-2015 development agenda. In light of the agenda’s broad scope and given that implementation at the national level will require contributions from all sectors, the German position for the negotiations is agreed upon by all Ministries. This includes: ongoing government-wide inter-ministerial consultations; relevant decisions adopted by the State Secretaries’ Committee for Sustainable Development (chaired by the Head of the Federal Chancellery - most recently in September 2014); as well as Government position papers, such as the reports “*Key positions of the German Government*” of February 2014 and *“Report of the German Government. A transformative agenda for sustainable development worldwide. Germany’s position for negotiations on the post-2015 agenda for sustainable development*” of December 2014.

One practical example of support for interdepartmental approaches and for policy coherence for development is the *Inter-Sectoral Cooperation Fund*. Since 2012, this has provided EUR 11.2 million in funding for pilot projects jointly supported by the BMZ and other ministries, fostering inter-departmental co-operation and aiming to exploit positive synergies between policies across sectors. The latest pilot project aims at combating illicit financial flows (IFFs). This project will develop and implement tools for fighting IFFs upstream and downstream. Co-operation is envisaged with the Federal Ministry of Finance, Federal Ministry of Justice and Consumer Protection, Federal Criminal Police Office and the Federal Ministry of Foreign Affairs.

Development and foreign policy jours fixes (AEJF)

Responses to the dramatic increase of crisis and conflicts worldwide, the continuing fragility of states and conflict prevention have determined the agenda of the AEJF in the past year. The response to the political and military escalation in the Middle East, to the outbreak of Ebola in West Africa or the co-ordination of the German assistance to Ukraine have demanded extensive policy coherence and have been among the core issues of the AEJF. By giving guidance from a political level, the AEJF is providing important value-added to existing co-ordination mechanisms at other levels. The joint assessment of the ministries involved and the chancellery is that the AEJF is a highly effective mechanism.

Inter-ministerial Guidelines for a Coherent German Government policy towards fragile states

The Inter-ministerial Guidelines for a Coherent German Government policy towards fragile states describe common principles, approaches and instruments of the German government’s engagement in fragile states and contexts. They have been developed through a comprehensive discussion and drafting process by the Foreign Office, the Ministry of Defence and the Ministry for Economic Co-operation and Development and were approved by a cabinet decision in autumn 2012. The guidelines serve as a common conceptual reference point for the ministries.

The Inter-ministerial Guidelines introduced an innovative organisational component which fosters coherence: if required, inter-ministerial task forces can now be set up for a specific country or region. The task forces are headed by the Federal Foreign Office and pool the expertise of all the relevant ministries. At present, there are task forces working on the Sahel region/Mali; and on Syria and Yemen. Task Forces meet at different intervals, depending on the need for co-ordination (e.g. the task Force on Syria meets every second week). As a new structural element, the task forces were reviewed in early 2014, through an internal inter-ministerial process looking at the efficacy of their co-ordination. In general, all task forces were considered an added value, especially with regard to conflict analyses, information sharing and co-ordination between ministries.

Given the German government's guiding principle of sustainability, the national implementation of the post-2015 agenda for sustainable development is a very important task for the German government. Germany considers the new *Global Partnership* with its key characteristics of universality, shared responsibility, mutual accountability, and multi-stakeholder co-operation as the overarching political framework of the future agenda. In the spirit of the new Global Partnership, national implementation of the post-2015 agenda will call for joint efforts across all policy fields in line with the respective responsibilities, at national level and at regional and municipal levels. It will also call for the involvement of as many actors within society as possible.

Germany's national sustainability strategy provides an important framework for the implementation of the post-2015 agenda for sustainable development at national level. The German government will review the structure and management of the strategy, involving national and international experts, in light of the outcome of the Post-2015 Agenda and the SDGs at an early stage. There are also plans to further develop the goals and indicators as part of the 2016 progress report on the national sustainability strategy, which will also incorporate the goals of the post-2015 agenda.

Challenges in implementing the post-2015 SDGs

The post-2015 agenda for sustainable development offers a great opportunity to address some of the key global challenges facing the world today. Implementation of the SDGs calls for a new global partnership for sustainable development that is based on universality, shared responsibility, mutual accountability, and multi-stakeholder co-operation. The post-2015 agenda must take into account all three dimensions of sustainable development (economic, environmental and social) and the inter-linkages between them. The agenda should be global in coverage and universally applicable, while taking into account levels of development, national contexts and capacities and respecting national policies and priorities. This will mean new coherence challenges:

One challenge in this regard will be to reflect the international dimension of sustainable development in our national sustainability strategy, as its focus so far lies on the national dimension of sustainable development.

Successful implementation of the SDGs will also require contributions from all sectors. Policy coherence will therefore have to be strengthened. The comprehensive set of goals cannot be achieved by governments alone. Alongside governments, other actors, including civil society, the private sector and the academic and research community must play a vital role in implementation. Germany will continue involving civil society and raising awareness of the role it can play in implementing the SDGs.

The OECD can play a significant role in implementing the post-2015 agenda. OECD countries' credibility will depend on their contributions to implementing the agenda, both at home and at the international level. In promoting a global transformation of economies towards more sustainable patterns of consumption and production, OECD countries have to play a lead role.

ODA will remain a crucial part of international development co-operation. To support the coherent implementation of the SDGs in our partner countries we need to ensure that ODA is aligned with national priorities and policies and efficiently used.

As well as ODA, technology transfer and local capacity development will play an important part in the implementation of the SDGs. OECD countries should put in place and support partnerships to encourage the transfer of environmentally sound, pro-development technologies to developing countries. By creating incentives, making available appropriate financing instruments and putting in place the necessary framework conditions, access to technologies in developing countries can be improved.

The post-2015 agenda will require reliable, timely and comparable data, from both traditional and new sources. To ensure that countries are in a position to provide this data, appropriate strategies must be agreed, adopted and implemented at national, regional and global levels and national statistical systems must be strengthened. Initiatives and frameworks already exist to take this work forward, and the global community should build on these foundations.

Box 5.3. **Policy Coherence in Afghanistan**

Undertaking development programmes in fragile states such as Afghanistan poses additional and unique challenges for policy coherence:

- It requires the involvement of different actors - particularly Ministries of Defence.
- It requires programmes to place security issues at the centre of their planning and operations.
- It requires co-ordination with a very wide range of local and international actors which are also involved in defining and implementing development programmes in the country.

These challenges can put normal policy coherence mechanisms under pressure, and mean that a more flexible approach is needed. Two OECD member countries - Germany and Lithuania - have outlined the ways they have ensured policy coherence for development in the context of their development programmes in Afghanistan, and how they have adapted their PCD mechanisms to fit the particular challenges of working in a fragile state.

Germany

Germany draws on different mechanisms to ensure policy coherence in its whole-of-government approach in Afghanistan, mainly involving the Foreign Office, the Federal Ministry for Development and Economic Cooperation, the Federal Ministry of the Interior, as well as Federal Ministry of Defence.

The overall understanding of this approach was framed in 2012 in an inter-ministerial guideline on working in fragile states. For the context of Afghanistan, the German government developed overarching guidance in 2003, which was updated in 2008. Here, the "concept of networked security" emerged, which is guiding the understanding of collaboration and policy coherence today.

Box 5.3. **Policy Coherence in Afghanistan** *(cont.)*

The emergence of these concepts and their practical implementation in institutional arrangements and governance has been subject of a lessons-learned process by the ministries involved. Recommendations for further co-operation in Afghanistan as well as in other fragile contexts were developed through a series of workshops and discussions. These recommendations concern strategy development, policy coherence (e.g. with regards to civil reconstruction approaches, or military and humanitarian assistance), as well as principles of communication and development of joint approaches to personnel qualification and pre-mission preparation.

This guiding understanding is put into practice through different means, that complement the usual ways of coordinating engagement in developing countries (such as bilateral agreements, country review meetings at headquarter level as well as co-ordination at embassies). These include:

- In terms of policy, each ministry developed its own strategy as part of the overall guidance. While an effective distribution of labour and focal areas evolved in the course of the strategising process, it became clear in hindsight that a more synergetic strategising would have required a joint definition of objective and clear strategy right from the start.
- The German Government has nominated a Special Representative for Afghanistan and Pakistan (located in the Foreign Ministry) in order to facilitate coordination with international and regional partners. Coordination within the German Government at headquarters is guided by a monthly meeting at state-secretary level, regular meetings of the heads of division of the relevant ministries, as well as inter-ministerial working groups. The chair of inter-ministerial meetings rotates among the relevant actors.
- Collaboration and policy coherence in the field was practically ensured through joint management structures of the Provincial Reconstruction Teams (PRTs), as well as the German Embassy in Kabul and recently the General Consulate in Mazar-e Sharif. In hindsight, it was realised that despite an egalitarian understanding among the ministries at strategic level, the daily collaboration at the PRT level – as well as the overall engagement in Afghanistan – took time to develop the same understanding because relationships between key actors first had to be established. The lesson learned is that joint management structures "on the ground" which integrate all required stakeholders in the form of a comprehensive approach can achieve better results.
- Joint efforts are reported to Parliament in the form of weekly situation reports as well as in semi-annual progress reports of the government on developments in Afghanistan and German commitment.

Lithuania

The Provincial Reconstruction Team (PRT) in Ghor province of Afghanistan, led by Lithuania, is a good example of a successful implementation of PCD principles. During 2006-2013, Lithuania completed more than 200 development projects in Afghanistan, funded by Lithuanian Development Cooperation and Democracy Promotion Programme of the Ministry of Foreign Affairs. In addition, the significant investment was attracted from other PRT partner countries (USA, Denmark, Japan, Croatia and Greece) that helped to work together for common goals.

Several Lithuanian state institutions, farming and veterinary experts, medics, architects, engineers, civil aviation specialists, geologists, archaeologists and non-governmental organisations were involved in development co-operation with Afghanistan. By initiating development co-operation projects, Lithuania developed close co-operation with the Afghanistan Government, the Administration of Ghor province and with local communities.

The Lithuanian-led PRT served as a joint military and a civilian mission. It contributed to the efforts of international community to re-construct Afghanistan: it has supported stable and consistent development of national economy and infrastructure, improved living conditions of local population, promoted rule of law, fostered observation of human rights and freedoms. The Mission was the first and the most significant engagement by Lithuania as a member of the international donor community.

GREECE

Policy coherence is a primary prerequisite for effective implementation of the Millennium Development Goals and the expected Sustainable Development Goals. By following EU prospects, Greece focuses its efforts on enhancing coherence for development in the areas of *migration*, *climate change* and *the environment*.

Greece has already achieved significant progress in the above mentioned sectors, by reflecting the interests of developing countries in the relevant Greek policies. In particular, the competent Ministries of the "*Interior and Administrative Reconstruction*" and "*Reconstruction of Production, Environment and Energy*" have taken steps to adopt decisions and directives of the European Council that aim to support developing countries:

Migration policy

Greece faces multiple challenges in the areas of border management, reception of asylum seekers and vulnerable groups, as well as in the management of the immigrant population already residing in the country and its social integration. In dealing with these challenges, Greece aims to adopt a coherent approach that also takes into account development assistance priorities. In this respect, a number of initiatives have been taken to promote effective and rational management of mixed migration flows.

The "*Immigration and Social Integration Code*" was approved by the Parliament in April 2014 and entered into force on 1 June 2014 (Law 4251/2014). The Code regulates the entry, stay and social integration of third country nationals in Greece (EU citizens, refugees and asylum seekers are not covered by the provisions of the Code); it codifies previous legislation and introduces new elements aiming to rationalise the institutional framework and simplify the regulations. *Inter alia*, the Code classifies residence permits into seven main groups according to the purpose of stay, compiles all previous legislation that transposed the relevant EU directives into national law and further consolidates the policy on the entry and residence of foreign real estate owners and investors. The Code also secures the legal status of second-generation migrants and promotes EC long-term resident status.

Greece has signed bilateral agreements with Egypt (1984) and Albania (1997) to promote co-operation on employment issues and facilitate in particular co-operation on seasonal and temporary employment in agriculture and fisheries sectors. More recently (2011) Greece signed a bilateral agreement on youth mobility with Canada, which simplifies and facilitates the administrative procedures applied when young citizens of one country wish to enter, reside and work temporarily in the other.

Fifty-seven "*one-stop shops*" for migrants have been established throughout the country. These new structures contribute to improving the quality of services provided to immigrants (including the provision of reliable information on their rights and obligations), to avoiding delays in the issuance or renewal of residence permits, and to reducing related administrative costs; they also allow for the issuing of residence permits in the form of a stand-alone document and under terms of high security. Migrants Integration Councils have also been established within Municipalities, as advisory bodies aiming to enhance immigrants' integration and participation into local society.

As a follow up to the National Action Plan for the reform of the asylum system and the management of mixed migration flows, Greece adopted in early 2015 a *Roadmap* as concerns primarily the first-line reception and the reception of asylum seekers and other third-country nationals finding themselves in an irregular state. In June 2013, the new

Asylum Service started its operation, and by the end of February 2015 had received more than 16 000 applications for international protection. The main countries of origin in 2015 were Syria, Afghanistan and Pakistan, while the eligibility rate in 2015 was almost 50%.

Climate change and the environment

Kyoto Protocol. Having incorporated in its national law all relevant EU legislation, it is committed to gathering and sharing information on its greenhouse gas emissions (e.g. through annual National Inventory Reports) and to designing and implementing coherent strategic plans for reducing emissions levels and adapting to climate change, covering all related aspects and sectors, by setting concrete policies and measures to address climate change (including quantitative and qualitative targets).

Greece's climate change policy, strategy and programme plans are set out in the Second "*National Climate Change Programme*" for 2000-2010 (adopted in 2002 and revised in 2007). The Programme places heavy emphasis on achieving greenhouse gas emissions reduction commitments by:

- changing the fuel mix to include a higher percentage of natural gas and renewable energy sources
- improving energy efficiency and conservation in all sectors
- effecting structural changes in agriculture and transportation
- reducing emissions in waste management
- use of biodiversity resources
- expanding R&D efforts to serve longer-range needs.

Within this framework Greece can highlight successes and good practices:

The Mediterranean region is very vulnerable to climate change. Some Mediterranean countries are already undertaking efforts to alleviate the negative impacts of climate change, and increase the adaptive capacity of governance systems and institutions. The majority of the countries would need assistance in their efforts for adaptation to climate change. To meet these challenges a Regional Framework for Climate Change Adaptation is being developed under UNEP/MAP and the Barcelona Convention and is to be adopted during the *19th Meeting of the Contracting Parties of the Barcelona Convention* (to be held in Athens in early 2016). Greece, as a Contracting Party to the Barcelona Convention and a current member of the Bureau of the Convention, is actively involved in this process. Additionally, the *Protocol on Integrated Coastal Zone Management* under the Barcelona Convention also prioritises adaptation to climate change.

Another very important example of co-operation with developing countries in order to support their adaptation capacities is the Mediterranean Component of the EU Water Initiative (MED EUWI), with Greece as its lead country since its launch in 2003. MED EUWI seeks to make significant progress in poverty eradication and health, in the enhancement of livelihoods, and in sustainable economic development in the Mediterranean and Southeastern Europe; providing a catalyst for peace and security in the region. In terms of funding, the MED EUWI has managed to co-ordinate individual donors on a demand basis as well as to mobilise considerable additional funding (mainly from the EC) through DevCo's Service Contracts, complemented by core funding from the Greek Government to MED EUWI's 'horizontal activities'. Additional matching funds are secured on an annual basis from a wide range of donors such as the World Bank, the Global Environment Fund (GEF), Development Banks et. al.

In the context of the MED EUWI, increasing emphasis is being given to assisting the efforts of Mediterranean countries to build their adaptation capacities to the changing climate conditions in the region, e.g. through the elaboration of National Adaptation Plans. A Euro-Mediterranean Meeting of Ministers of Environment and Climate Change took place in Athens in May 2014. The aim of the meeting was to discuss the environmental and climate-related challenges facing the region, including the urgent need to address the impacts of climate change, and to define the future strategic directions to reduce pollution and increase resource efficiency.

Finally, Greece has signed and ratified numerous Memoranda of Understanding and agreements with neighboring countries, including Albania, Cyprus, Israel and Turkey, for co-operation in the field of environment and sustainable development. These emphasise capacity building and sharing of experiences covering, among other things, climate change, mitigation and adaptation. For example, co-operation to address climate change challenges is clearly stated in the Joint Declaration between Greece and Turkey signed in May 2010. Such activities also assist to increase the cohesion between national environmental and climate change goals and development assistance and co-operation objectives.

LITHUANIA

The principle of Policy Coherence for Development (PCD) was included into the Lithuanian Development Cooperation Policy as early as in 2006, and was reaffirmed in 2013 as the *new Law on Development Cooperation and Humanitarian Aid of the Republic of Lithuania* was adopted. The new law foresees policy coherence as one of the main principles of Lithuanian Development Policy, seeking to promote the commitment inscribed in the EU Lisbon Treaty as well as to foster and extend development co-operation activities of Lithuania.

In accordance with the new law, the inter-ministerial co-ordination body, the National Development Cooperation Commission, renewed its structure in 2014, seeking to ensure adequate co-ordination mechanisms for dialogue between stakeholders and to guarantee monitoring and assessment of policies and results. The Commission, led by the Ministry of Foreign Affairs, now includes officials from different ministries well as representatives from municipal institutions, agencies, and non-governmental organisations engaged in development co-operation. The primary responsibilities of the Commission is to submit proposals to the Ministry of Foreign Affairs on development co-operation policies and activities, to raise awareness among its members about possibilities for international co-operation, to discuss reports on development co-operation submitted by state and municipal institutions and agencies, and to consider other issues associated with development co-operation.

The Lithuanian Ministry of Foreign Affairs, as the national coordinator of Development Cooperation Policy, is firmly committed to strengthening the dialogue with local stakeholders, and it aims to achieve policy coherence at all levels of Lithuanian society. For this purpose, thematic stocktaking events on gender equality and women's empowerment, private sector involvement, etc. were organised, to engage Lithuanian civil society and the private sector in the EU's development co-operation activities.

Continuous commitment to policy coherence was demonstrated during the Lithuanian Presidency of the Council of the European Union (July – December 2013). The focus on policy coherence for development was strengthened with the adoption of EU Council conclusions that highlight the need for regular EU Council debate on thematic PCD priority areas and emphasise the objective to seek closer co-operation among the Commission, the European External Affairs Service and the Member States, in order to enhance PCD in the EU external actions.

Policy coherence for development should be at the core of the post-2015 development agenda. All of us - governments, business, organisations, private foundations, parliamentarians and many others - need to make an extra effort in order to achieve sustainable development, end poverty and effectively address global warming and climate change. In this context the *Global Partnership for Effective Development Cooperation* should play a significant role. The importance of the Global Partnership continues to increase in the light of the current humanitarian and man-made crises. We have never before faced such a large need for humanitarian aid as we encounter nowadays.

Humanitarian aid and state-rebuilding will require additional resources, and finding these is a challenge from the perspective of the new commitments on financing for development. Therefore, we believe that the future development agenda and its implementation should be based on rational, innovative and creative solutions for successful mobilisation and sustainable use of all resources: public and private, domestic and international, in addition to ODA.

During the last two decades Lithuania has undergone an impressive period of institutional, economic and social reforms like many other European Union member states. For that reason, Lithuania believes sustainable development can be achieved by sharing knowledge and expertise, stronger involvement of the private sector, promotion of science, technology and innovations, stimulation of trade, as well as other non-financial measures.

A good example of successful implementation of PCD principles is the Provincial Reconstruction Team in Ghor province of Afghanistan (Box 5.3).

LUXEMBOURG

Luxembourg's policy coherence for development mechanisms have been reviewed and clarified recently, in line with the recommendations of the DAC.

The *Inter-ministerial Committee for Development Co-operation* (CID) is Luxembourg's competent body in terms of policy coherence for development. The *Law on development co-operation and humanitarian action*[3] extends the remit of the Committee to policy coherence for development (Article 50) and calls on the Government to present an annual report to the Chamber of Deputies on the work of the Committee, including that in the area of policy coherence for development (Article 6).

The composition and working methods of the CID were laid down by the Grand-Ducal Regulation of 7 August 2012. That Regulation provides that each member of the Government is to appoint a member to the Committee. All the members of the CID were newly appointed in December 2013 after the new Government took office. The list of members and deputies has been updated subsequently and is published on the Luxembourg co-operation website in order to ensure the transparency of procedures.

The CID met six times in 2014. The final meeting for the year was held in the presence of representatives from the Luxembourg NGO umbrella organisation, *Cercle de Coopération des ONG de Développement*. A new working method has been adopted for dealing with issues with a view to policy coherence, particularly as regards the choice of subject matter, examination of case files and final findings. In June 2014, the Committee adopted a mechanism to ensure policy coherence for development. Later, it made a list of the issues to be examined in 2015, such as the State Pension Fund (FDC), economic partnership agreements, the common agricultural policy and social welfare.

Information exchange and capacity-building

The Committee has followed the broad outlines of the post-2015 development framework and its financing, with a view to meeting future sustainable development targets. Given the universal nature of future sustainable development targets, all ministries are affected by these decisions.

Committee members have also been kept up to speed with the activities planned in the context of the European Year for Development (EYD) 2015, the European event organised by the European Commission in close co-operation with the Lithuanian and Luxembourg Presidencies. A European opening ceremony was held in Riga in January 2015, and the closing ceremony will take place in Luxembourg in December. The concurrence of the EYD and the Luxembourg Presidency has been used to promote policy coherence for development in Luxembourg and in European institutions (see below).

The 2013 EU Report on Policy Coherence for Development was presented by Mr. Norbert Probst from the European Commission's Directorate-General for Development and Cooperation (EuropeAid). Mr. Probst outlined to the members of the CID the history of policy coherence for development within the European institutions, the role of the European Commission and the Member States, and the drafting of the report, focusing on its five thematic issues: trade and finance, climate change, food security, migration and security.

The Committee is kept informed about the work of the network of experts and focal points for policy coherence for development (PCD) at European level which meets regularly in Brussels. At one of the meetings of this group, the work of Luxembourg's Inter-ministerial Committee for Development Co-operation was presented.

Finally, very close co-operation has been established with the Luxembourg Ministry of Sustainable Development in connection with the post-2015 sustainable development agenda. Moreover, the Directorate for Co-operation and Humanitarian Action has embarked on much closer co-operation with the Luxembourg Ministry of Finance and, in particular, with its representatives in international institutions such as the World Bank, the International Monetary Fund (IMF), the European Investment Bank (EIB) and Asian and African Development Banks.

Two examples of good practice

Dialogue with civil society is essential in relation to PCD, at both national and European level. The «coherence barometer», a publication put out by the *Cercle de Coopération des ONG de Développement*, which highlights the areas in which it considers that policy coherence for development should be given greater emphasis, is financed and given political support by the Minister for Co-operation. The CID invited representatives of the Cercle to its December meeting and discussed with them the priority issues referred to in the «2014 barometer».

On that occasion, the Cercle also suggested certain changes to the Committee's working procedures. Discussions were also held with the European Concord platform, and Luxembourg civil society also has a session on a topic of its own choosing at the annual Co-operation Conference. The Cercle de Coopération was also invited to the CID's February meeting, to exchange views with the Chairman of the State Pension Fund (responsible for managing the reserve of the general pension insurance scheme and enabling the majority of that reserve to benefit from financial market movements).

The European Year for Development and the ***Luxembourg Presidency of the Council*** of the EU for the second semester of 2015 are important drivers for promoting policy coherence for development in inter-ministerial and European discussions. The Minister for Co-operation has therefore encouraged other ministers to incorporate the theme of development co-operation in the work of the various formal and informal councils, with a view to benefiting from this lever effect and putting the principle of policy coherence for development into practice. Positive feedback has already been received in relation to migration and development, culture, ICTs and agriculture and development. This operation should be viewed in the context of the European Year for Development 2015, for which a national programme of initiatives and actions has been drawn up, in conjunction with the Cercle de Coopération, the Foreign Affairs Committee of the Chamber of Deputies, the Delegation of the European Commission to Luxembourg, the Information Office of the European Parliament and many other actors such as the EIB and the European Court of Auditors.

National application of post-2015 sustainable development targets

The Minister for Sustainable Development and Infrastructure and the Minister for Development Co-operation and Humanitarian Action have submitted a decision to the Council of Government concerning a review of the national post-2015 sustainable development agenda, on the basis of the post-2015 sustainable development targets. The Inter-departmental Committee on Sustainable Development (CIDD) will meet after the New York Summit in September 2015 in order to report on the Summit and to adopt a work programme and a schedule for reviewing the post-2015 sustainable development agenda.

Action is needed to ensure the coherence of future sustainable development targets. The major risk of incoherence is financing: significant financing will be needed in order to achieve the SDGs, and official development assistance will continue to play a vital role in this context, but ODA is obviously not sufficient, and it will also be necessary to mobilise other sources of financing (private investment, transfers by migrants, national fiscal resources, etc.). ODA is vital for LDCs and countries affected by conflicts, but not just for them: ODA can have a catalytic effect in terms of mobilising other resources or merely accessing those resources.

It will also be necessary to mobilise adequate resources to finance climate issues, resources which need to supplement those earmarked for the fight against poverty. Luxembourg is combining ODA and climate funding and considers that the current DAC discussions on the new definition of official development assistance could dilute ODA and budgetary efforts aimed at sustainable development.

In my view: Taking PCD to the next level in the Netherlands

By Foundation Max Van der Stoel

In March 2015, Dutch NGOs produced the first Dutch PCD monitor, titled 'Let's walk the talk together'. The aim of the monitor is twofold. Firstly, to move PCD higher on the political agenda. Secondly, to bring more intensive and active cooperation between the organisations involved in PCD. The monitor was presented to Minister Ploumen of International Trade and Development Cooperation, but it is also targeted at other Ministers and ministries, not necessarily directly involved in development cooperation. A good example of this would be Dutch tax policy, which has indirect influence on developing countries.

Fourteen Dutch NGO's co-operated on writing the PCD monitor, addressing PCD in general and diving into seven different topics; fair taxes, Economic Partnership Agreements (EPAs), human rights, peace and security, climate change, food security and migration. On each of these topics, the monitor describes the current policy and state of affairs, identifies incoherencies, and makes recommendations on how policies can become more coherent. On each topic several recommendations were made to the Ministers and other policy makers. A structural dialogue on PCD was one of the general recommendations, also in light of the Addis Ababa Financing for Development Conference. In general, the monitor demanded continuing unabated effort to increase PCD. NGO's argue for structural attention on PCD, and an annual update to the Dutch parliament so politicians are informed on PCD. The Dutch PCD monitor will be repeated on a two yearly basis and followed by other events to put PCD higher on the political agenda.

One of the topics written about in the Monitor is Migration and Development. In 2008 the Netherlands officially stated that circular migration would be mutually beneficial for the Netherlands, the EU, and developing countries. Circular migration was initially an important aspect of the Mobility Partnerships set up by the EU and intended to promote legal labour migration instead of illegal immigration. However there are inconsistencies between this aspiration and recent practice: since 2011, circular migration has disappeared from the agenda and been replaced by a focus on the return and re-integration of migrants. Furthermore, the Netherlands maintains the instrument of negative conditionality and sanctions in migration-related issues to development cooperation, which is incoherent with the EU's approach based on dialogue and positive incentives. In short, the triple win that is recognised by the Dutch government is not being translated into reality. The 'development' aspect in migration policy seems to be less important.

The Monitor 'Let's walk the talk together' was launched in March 2015, at a PCD conference organised by Foundation Max van der Stoel, Partos and Woord en Daad - three Dutch NGO's who are actively involved in the PCD debate. Together they presented the PCD monitor to Minister Ploumen. The conference also created room for dialogue between NGO's, civil servants, knowledge institutions and politicians. Two (political) panel discussions, workshops on topics discussed in the Monitor, and round table sessions where civil servants from the relevant ministries could get a clear view of each other's interests formed the core of the conference. In this way, the incoherencies in different policy areas could be assessed.

Minister Ploumen reacted to the report during the Conference. She recognised that there is still a lot to improve in the field of PCD and agreed to make annual reports on PCD. She stressed that a 'Do No Harm' attitude is not enough, despite the fact that politicians, Ministers and NGO's are not yet fully aligned in the struggle to realise PCD. She sees 2015 as highly relevant for action on PCD. All actors involved in realising the Sustainable Development Goals should be aware of policy coherence issues and should take action when incoherencies are recognised. Minister Ploumen is asked by the parliamentarians to give her reaction on the Monitor, making sure that politicians are informed on the matter. The politicians also asked for a strategic agenda, in order for specific targets and goals to be identified.

PCD should not just be a good intention and a 'feel-good subject' - as it was referred to by one of the parliamentarians present at the conference - but should be brought to action. The NGOs involved in the Monitor and the conference should use their partnerships with the Ministry; their advocacy activities, structural dialogues with different stakeholders and media attention, in order to put PCD higher on the political agenda.

POLAND

The issue of ensuring coherence of government programmes and strategies with development co-operation priorities has been incorporated into the Multiannual Development Cooperation Programme 2012-2015. Poland is now in the process of elaborating a new multiannual development co-operation programme for the period 2016 – 2020. A chapter related to PCD will be included in this document.

PCD co-ordination mechanism

The Development Cooperation Act, which came into effect on 1st January 2012, established the Development Cooperation Programme Board, composed of representatives of different ministries, parliamentarians, NGOs, employers organisations and academia. The Board's main responsibility is to define development co-operation priorities but it also reviews draft government documents relating to development co-operation, and PCD-relevant issues can be discussed during meetings of the Board.

Poland's National Focal Point for PCD is placed at the Department of Development Cooperation in the Ministry of Foreign Affairs.

An intra-governmental network of PCD focal points was established in September 2012, composed of experts representing different line ministries: economy, finance, agriculture, internal affairs, defence, environment, infrastructure and regional development, labour and social affairs. Members are tasked with co-ordination of PCD issues in their respective ministries.

PCD is also promoted through Poland's co-ordination system for to EU issues. Governmental instructions prepared before EU Council meetings have to be approved by the *Committee for European Issues* (composed of deputy ministers from different ministries). This allows for the co-ordination of positions and ensures more coherence in Poland's position towards EU legislative proposals.

In March 2015, the Ministry of Foreign Affairs introduced in the document "*Guidelines for Regulatory Impact Assessment*" a new question concerning an impact of a regulation on social and economic development of Poland's priority countries (defined in the multiannual programme of development co-operation). The revised document was approved by the Ministerial Council.

Post-2015 agenda and PCD implementation

The Ministry of Foreign Affairs (MFA) is responsible for the co-ordination of the Polish development co-operation policy, including the co-ordination of the SDGs negotiation process in Poland. In December 2014, Poland adopted a government position towards the Communication of the European Commission "*Decent life for all …*", which supported the need to enhance policy coherence at both national and local level.

Alongside general consultation meetings on the SDGs (for public administration and NGOs representatives), the MFA also organised two meetings dedicated to the issue of Policy Coherence for Development in September 2014 in Warsaw. These meetings were organised jointly with OECD and the Ministry of Foreign Affairs of Sweden. The panelists were Ms. Ebba Dohlman (Head of Unit in the Office of the Secretary General, OECD) and Ms. Ulrika Grandin (PCD coordinator in the Ministry of Foreign Affairs, Sweden). They included presentations of the main approaches, methods, instruments and implementation tools for PCD and on the Swedish experience in implementing PCD. The topics discussed were related to the linkages between PCD and the post 2015 framework; and how to manage the more complex, synergies, spill-overs and trade-offs in different policy areas underpinning the delivery of the SDGs. The meetings included PCD contact points in line ministries, representatives of NGOs, of academia, and of the private sector, as well as members of the Development Cooperation Programme Board. These meetings contributed to knowledge of PCD and of the link between PCD and the post-2015 process.

Other events related to the promotion of PCD

The Ministry of Foreign Affairs (Department of Economic Cooperation) and PAIiIZ (Polish Information and Foreign Investment Agency) also organised a seminar on "*European Business Cooperation on Third Markets*" in December 2014. One of the panels concerned development policy in context of private sector engagement in Africa. The aim of the seminar was to promote private sector engagement in development co-operation and a multi-stakeholders approach to the SDGs.

In March 2015, Poland (together with Denmark, Sweden and The Netherlands) submitted a joint letter to EU High Representative Mogherini and Commissioner Mimica concerning abolishing tax exemptions in Government-to-Government aid. This initiative is aimed at strengthening domestic resource mobilisation in the countries where the aid is provided.

PCD implementation in priority areas

Trade

Trade and Development play a major role in the functioning of World Trade Organization (WTO), where Poland is one of the founding members. We support all activities that WTO is undertaking to boost the development of developing and LDC members.

Development plays a big role in the current Doha Development Round negotiations, where the needs of developing members are taken into account specifically. As one of the elements, special guidelines relating to the WTO accession process have been agreed and applied. Moreover, members are currently working on a revision mechanism addressing all special and differential treatment provisions in existing WTO agreements.

The Global Aid for Trade review undertaken together with the OECD also needs to be underlined. This activity aims at encouraging developing country governments and donors to recognise the role that trade can play in development. The initiative seeks to mobilise resources to address the trade-related constraints identified by developing and least-developed countries themselves. Poland would like to join these activities, so we are undertaking all necessary steps and prepare a donation for the Trade Facilitation Agreement Facility, which would support the Aid for Trade.

Poland is also a strong supporter of the EU General System of Preferences, which enables developing and least-developed countries to benefit from Duty Free, Quota free imports into EU markets. The system is designed in a way to boost productivity and encourage export differentiation in the beneficial countries.

Poland also supports other initiatives undertaken by the EU, in particular the *Initiative to Promote Fundamental Labor Rights and Practices in Myanmar*. The EU will join the initiative established by the Republic of the Union of Myanmar, the United States of America, Japan, Denmark and the International Labour Organization (ILO). It will focus on promoting fundamental labour rights, capacity building, fostering strong relations among businesses, workers and stakeholders.

Corporate Social Responsibility

The Polish government acts as an intermediary between business and civil society in discussion of responsibility for social and environmental issues. The Minister of Economy established a Corporate Social Responsibility Advisory Board in July 2014, which creates a space for exchange of information, knowledge, and good practices between the public administration, business, and civil society, with the aim of promoting sustainable development and corporate social responsibility (CSR). Ensuring effective communication and intensifying a dialogue between the government, social partners and business representatives is seen as crucial.

A Working Group on Sustainable Consumption and Production has been established within the CSR Advisory Board, with the aim of developing recommendations or guidelines on the implementation of the principles of sustainable consumption and production. The Working Group has discussed measuring the environmental performance of products and organisations; dissemination of information on international aspects of co-operation in the context of SCP; and the need to develop recommendations on sustainable consumption and production in particular industries and subsequent stages of the supply chain.

The CSR Advisory Board is also a platform for dissemination of public consultation documents such as ILO-OECD Draft Guidance For Responsible Agricultural Supply Chains, and information on the activities of the European Commission and OECD regarding responsible supply chains in the textile and garment sectors.

The CSR Advisory Board also includes a Working Group on monitoring CSR trends, the main goal of which is to prepare recommendations to the Ministry of Finance (which is responsible for the transposition into Polish law of EU Directive 2014/95/EU on disclosure of non-financial and diversity information). It will also prepare the handbook for the companies regarding the Directive.

Capacity Building for Domestic Resource Mobilisation

Ministry of Finance provides technical assistance devoted to key issues of tax administration. This is generally carried out in the form of study visits and workshops lasting a few days. In addition to its own technical assistance, the Ministry of Finance works in co-operation with the Intra-European Organisation of Tax Administrations (IOTA), a non-profit intergovernmental organisation which assists its members in improvement of tax administration. Among the members of IOTA are: Albania, Armenia, Azerbaijan, Belarus, Georgia, Serbia, Moldova, Montenegro, Ukraine. Every year, the Ministry of Finance hosts an event in the framework of the IOTA, in which each member country can participate and send two delegates.

Climate Change

Poland finalised a new act on the emissions trading system. The bill will fully implement relevant EU Directives on greenhouse gas emission allowance trading[4]. It will set out rules for the emission trading system in the third trading period. The bill was submitted for approval by the President.

Poland adopted its national adaptation strategy (NAS 2020)[5] in October 2013. Climate change adaptation issues are also mentioned in the *Medium-Term Development Strategy* (to 2020) and in the *Long-Term Development Strategy* (to 2030).

Since not all adaptation issues were included in these documents, the Ministry of Environment started the KLIMADA project (2011-2013), and its result - NAS 2020 - includes the issues that were not mentioned in the above-mentioned strategies. NAS 2020 indicates the objectives and directions of adaptation action in the most vulnerable sectors and areas in the period up to 2020: water management, agriculture, forestry, biodiversity and protected areas, health, energy, building industry, transport, mountain areas, coastal zone, spatial development and developed urban areas. The vulnerability of these sectors was identified on the basis of climate change scenarios developed for NAS 2020.

The Ministry of Environment plans to coordinate the process of implementing local adaptation strategies (including adaptation plans) for cities over 100,000 citizens. Adaptation to climate change will be included in updated regional operational plans (ROPs), which can impact on action plan preparation.

Other Policy Areas

Poland's PCD tools are also being applied actively in a number of other areas; including:

- *Migration* - where Poland is working to strengthen migration management systems in countries of origin; to improve co-operation between governmental institutions (including the law enforcement agencies) and non-governmental organisations to support victims of trafficking; and a number of bilateral projects with partner countries including Ukraine, Armenia, and Georgia.
- *Security* - where Poland is helping to implement police reforms in countries including Moldova, Belarus, and Ukraine; is supporting good governance and the rule of law through twinning projects in Bosnia-Herzegovina; FYROM; and Montenegro; and contributes to EU EUROMED co-operation with ENPI southern partner countries.
- *Central Banking* - Narodowy Bank Polski (NBP) operates a technical co-operation programme on aspects of central bank policy and operations for a range of countries, including Eastern Partnership countries; members of Poland's IMF/WB Constituency; and EU candidate countries.

PORTUGAL

Policy coherence for development is crucial to make the most of the Portuguese contribution to the implementation of the Sustainable Development Goals, which require enhanced inter-ministerial dialogue, and the establishing of a «culture of coherence» through an increasing connection between development issues and governmental decision-making processes, in an efficient and systematic manner.

Portugal has established the main legal and institutional building blocks for promoting PCD:

- A political commitment towards PCD has been stated in strategic documents - PCD is one of the four pillars of the *Strategic Concept for Portuguese Cooperation for 2014-2020*, adopted by the Council of Ministers in February 2014. It is also clearly embedded in the national position document on the post-2015 agenda, which was defined in close consultation with the sectoral ministries and civil society, and endorsed by the Council of Ministers in September 2014.

- A legal framework for PCD was adopted in 2010, with the Council of Ministers Resolution 82/2010 on PCD that foresees the establishment of a national work plan, a PCD network and an institutional framework for advancing PCD.
- In early 2014, the existing Inter-ministerial Commission for Cooperation (CIC), that gathers all sectorial ministries, was given the mandate to meet at Ministerial level, led by the Minister of Foreign Affairs, and to address PCD, as foreseen in the Council of Ministers Resolution on PCD. The first ministerial meeting of this Commission took place in early 2014, when the new *Strategic Concept for Portuguese Cooperation 2014-2020* was presented and discussed.
- The Camões (Institute for Cooperation and Language), which is responsible for the definition, co-ordination and supervision of development policy, is the national focal point for PCD.
- The establishment of a national work plan and of a national PCD network has suffered some delays, due to significant changes in the administrative structures of all ministries, including in the framework of development co-operation. However, work is underway to establish a PCD network, to define a PCD work program, and to work on PCD indicators.
- The Secretary of State for Foreign Affairs and Cooperation joins the Minister on regular visits to Parliament, and attends parliamentary hearings at the request of the Assembly. Structural documents such as the *Major Planning Options* and reports on the Ministry's Budget (including the Cooperation budget), are sent regularly to Parliament. Relevant issues for Development Cooperation may also be discussed at weekly meetings at Ministerial level, including the *Strategic Concept for Portuguese Cooperation for 2014-2020*; the national position document on the post 2015 agenda; and information about the Strategic Cooperation Programs.

Portugal has an appropriate and consistent legal and institutional framework for promoting PCD, and it has been addressed at the required political level, enabling a "whole of government perspective". The framework enables a gradual implementation of a greater coherence of government policies and consideration of their impact on development and the implementation of the SDGs. Portugal believes that the process of defining the post-2015 agenda and, subsequently, the actions to be taken for its implementation, could offer a uniquely favourable context for strengthening PCD, both in Portuguese co-operation, and in the national policy-making process as a whole.

Turning a standing institutional framework into a cross-cutting dynamic

Portuguese co-operation has been doing its utmost to disseminate PCD issues in a wide-ranging institutional scope: in Parliament, ministries and in civil society at large. In January 2011, a public hearing was held in Parliament, which was attended by the OECD-DAC Chair, where the recommendations related to PCD from the latest peer review were presented and discussed. An in-house seminar involving sectoral Ministries is also planned to take place in 2015, prompted by a Discussion Paper on PCD indicators prepared by the European Center for Development Policy management (ECDPM) and co-financed by Portugal and Switzerland, which provided examples of the institutional framework in place in other European countries, that will be useful in the operationalisation of the national monitoring system.

Different sectoral ministries have been involved in the preparation of the Portuguese input to the EU's Biannual Report on PCD, coordinated by Camões I.P. in its role as national focal point for PCD. The establishment of a formal PCD network in the framework of the Inter-ministerial Commission for Cooperation is also planned during this year. Several strategic documents have been internally approved, underpinning the link between different sectoral policies (e.g. national strategy on Security and Development; national program on climate change), showing the increasing involvement of ministries in PCD.

Important work is also being done in the framework of the *Community of Portuguese Speaking Countries* (CPLP) through ministerial meetings and sectoral working groups to strengthen co-operation and harmonise legislation among member states in a wide range of areas of activity with a significant impact on development (e.g. trade, customs, financial, migration, tourism, culture, etc.). As the CPLP's focal point for co-operation, Camões I.P., has sought to strengthen links and synergies between dialogue and action within the Community, in a Policy Coherence perspective, therefore maximising impact.

There is also important work going on with the Portuguese NGO Platform, which has an «Aid Watch» working group dedicated, among others, to issues of Policy Coherence for Development. Furthermore, the Development Cooperation Forum, that gathers representatives from civil society, the private sector, academia, local authorities and international organisations represented in Lisbon, has been engaged in the definition of specific strategies on priority areas (e.g. food security, gender), and provides an important framework for dialogue with these actors on PCD-related issues and constraints.

Progress in PCD is visible in a wide range of areas

Important steps have been made on Policy Coherence at national level, in recent years, in the field of environment and development. It is increasingly frequent that development issues emerge as central concerns in strategic documents defined for other areas. For example, in the environmental sector, a *National Action Programme to Combat Desertification* was recently revised and updated, conveying joint tasks to Camões I.P., the Institute for Nature Conservation and Forests and the Portuguese NGO Platform, and whose actions have a strong impact in developing countries. Similarly, under the "Fast Start Initiative" a ministerial task force was set up to coordinate climate change co-operation activities, and a working group was established to implement the initiative, joining together representatives from Camões I.P. and the Portuguese Environment Agency. The close collaboration established with all ministries, the parliament and civil society in the elaboration of the national position document on the post 2015 agenda, and the fact that it was endorsed at the Council of Ministers' level also provides an important entry point for advancing PCD in a post-2015 era.

SLOVENIA

The Ministry of Foreign Affairs is Slovenia's national coordinator for international development co-ordination. It harmonises the objectives of international development co-operation with other line ministries and within the interagency working body for international development co-operation. These objectives are outlined in the *Resolution on International Development Cooperation* (setting out the priorities of Slovenia's bilateral and multilateral ODA until 2015) and in the *Framework Programme of International Development Cooperation*. The harmonisation of the programmes helps define a clear direction, which the line ministries take into account when planning and implementing their projects and defending Slovenian positions at international conferences on development co-operation topics. Since 2004, when Slovenia officially became a donor, efforts have been invested towards sensitising the governmental and the non-governmental sphere to the importance of international development co-operation and the significance of coherent donor action in individual countries or regions.

There have been no changes to the legal and strategic instruments that guide the programming and implementation of international development co-operation since 2009. However, following changes in 2011 to the organisational structure of the national coordinator (when a new Directorate for International Development Cooperation and Humanitarian Assistance was created, with separate departments for policy and for implementation and humanitarian assistance) and the consolidation of Country Programmable Aid in 2010, it became clear that amendments are needed to the International Development Cooperation Act. A new act on international development co-operation and humanitarian assistance is currently being drafted. Once this is adopted (expected to be in 2016), it will contribute significantly to policy coherence.

A new medium-term development co-operation strategy is being planned to replace the current *Resolution on International Development Cooperation of the Republic of Slovenia for the period until 2015*. The new strategy will be in line with the post-2015 Sustainable Development Goals, including the principles of policy coherence for development.

Since 2010 there has been a significant convergence of Slovenia's reporting with OECD guidelines and standards, as Slovenia seeks to move towards an open IATI-compatible common standard. Slovenia has also introduced PCD policy markers. The «climate change», «biodiversity» and «gender equality» markers are used in reporting, thus improving policy coherence in Slovenia's international development co-operation. Consideration was also given to a potential introduction of the «resilience» marker in the field of humanitarian assistance, which would allow for more efficient aid and greater coherence of development and humanitarian efforts on the ground.

The realisation of global strategic goals regarding biodiversity (Aichi Biodiversity Targets 2010–2020) requires a wider range of actions that go beyond the traditional narrow role of ODA for this particular area. In this context, ODA is much broader and it may contribute a great deal to achieving the Aichi targets (e.g. poverty reduction, gender equality, environmental enhancements, etc.). Despite the difficult public finance situation, Slovenia continues to contribute to the attainment of global biodiversity targets, both directly through ODA, and indirectly by supporting developing countries, particularly in the Western Balkans, through the transfer of best practices, study visits and other forms of technical assistance.

Respect for PCD is also included in the calls for proposals from NGOs for development and humanitarian projects. Slovenian embassies in the Western Balkans play an important role in the context of PCD, especially since the Western Balkans is the priority region for Slovenia's development co-operation. Through these embassies, Slovenia has established regular dialogue and co-ordination with partner countries. Slovenia places particular emphasis on the sector-specific priorities of recipient countries (reflected in their national development strategies) when directing its development assistance. As an institutional form of dialogue with recipient countries, we have established joint committees that implement and monitor development co-operation and policy coherence for development.

Thematic issues

Trade and finance

Policy coherence for development is not being addressed systematically as part of the competencies of the Ministry of Finance. The principles of policy coherence for development have been taken into account to a certain extent during the preparation and implementation of international development co-operation, which is financed by the Ministry of Finance, particularly through international financial institutions (e.g. the Center of Excellence in Finance[6]). However, when other (primarily internal) policies and measures are being elaborated - e.g. relating to public finances, taxes and the financial system - little attention has been devoted to this issue.

Climate change

To some extent, Slovenia facilitates the access of developing countries to low-carbon and climate-resilient technologies, particularly for adaptation, by supporting ongoing projects for energy efficiency in public buildings in the Western Balkans.

Food security

Ensuring food security for the growing global population has become an important priority of agricultural development worldwide. In order to produce enough food for future populations, we need favourable conditions for agricultural development, with sustainable intensification of agricultural production. This will be possible only through climate change adaptation, along with investment in technology, knowledge transfer and additional research and development, including the building of institutional capacities at the national, regional and international levels. Food security is an important strategic issue in Slovenia, which is a staunch supporter of national and EU development policies addressing this issue.

In respect of food security globally, Slovenia has been following the EU food security policy, which supports broad-based strategies on food security at the national, regional and global levels. The EU policy underlines the central role of national poverty reduction strategies developed by individual countries to achieve long-term food security and the need to define the eradication of hunger as the first priority in the fight against poverty. Development policies should address the special challenges facing developing countries in agriculture and rural development, particularly by stressing the importance of small farms, economic empowerment of women and education, environmental protection focusing on sustainable water and soil management, and the training of rural populations in sustainable farming. Additional emphasis is also needed on preventive actions and resilience relating to food security, with a view to preventing natural disasters and humanitarian crises.

Migration

The Ministry of the Interior’s responsibilities include elements of policy coherence for development. The Ministry is responsible for drafting and implementing migration and security policies, which are formulated according to EU guidelines and the national legislation, with due regard for experience and good practices. The Ministry has established partner relations with countries benefiting from development assistance. The Ministry thus observes their needs and suggestions, as well as taking into account Slovenia’s political and professional guidelines.

Security

Improving security can be an essential part of development strategies. Slovenia deploys experts to different peace-keeping missions, aimed especially at training members of the police, the reform of the security sector, and assistance in establishing and modernising security structures. Security forces are deployed to areas in which assistance is provided to law enforcement authorities in the fight against organised crime and corruption, strengthening co-operation between the police and prosecutors, and regional and international co-operation.

To ensure this work is coherent with development policies, the Ministry of Defence advocates the pooling and sharing of military capabilities in the EU and NATO Smart Defence. It also follows good practices for assuring coherence between defence policy and policies in other areas - such as for protection from natural and other disasters. One example is building of close links between research and development at the Ministry of Defence and civilian organisations' research, development and economic activity. This aims to produce research products that can meet both civilian and military needs, in both national and international environments.

SPAIN

The process to construct the Spanish position in the Post-2015 and the Financing for Development agendas has been led by the Secretariat General for International Development Cooperation, following a thorough method of proposition, analysis, consultation and synthesis in order to build a consistent position. This has enabled different stakeholders in the Cooperation Council (government, administration, civil society, academia, private sector, trade unions, among others) to contribute in a way that recognise their vision. Importantly, the process attempts to bring coherence to the Spanish contribution to a universal agenda that will bring forward a new worldwide paradigm.

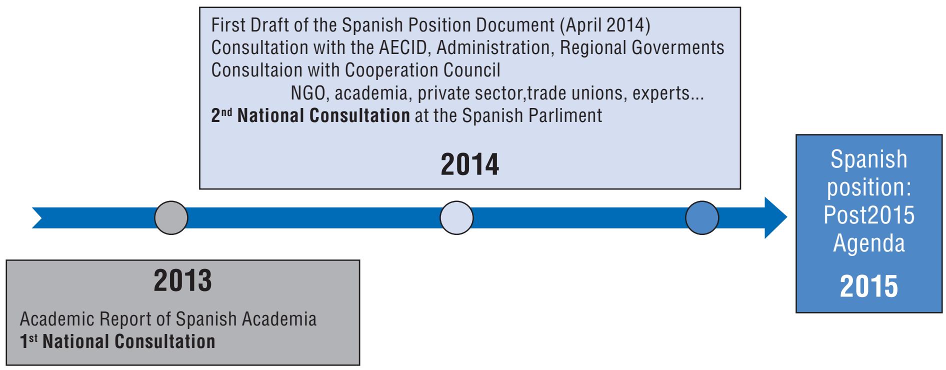
The Post-2015 Agenda process

Spain has relied on numerous international reference documents to build the Spanish position. An extensive consultation process began at the end of 2012 with the commissioning of a preliminary academic report to six research specialist teams of different Spanish Universities, coordinated by Professor Dr. Jose Antonio Alonso (Universidad Complutense de Madrid), and in early 2013 workshops were organised among academics, policy makers and more than 50 development specialists. The First National Consultation on this Academic Report draft, which benefited from the presence of Amina Mohammed (Special Advisor of the UN Secretary-General on Post-2015) and responsible staff from the European Commission, took place in September 2013. The report emphasised the following underlying principles: acknowledgement of principles and values of the Millennium Declaration; the eradication of poverty and inequalities; sustainable development; mobilisation of resources and optimisation of resources from middle-income countries.

This first consultation was followed by a set of workshops that focused on different topics. These were selected taking into account the international debate and represent those in which the Spanish Cooperation has a comparative advantage: food security and nutrition; global health; gender and inequality; growth and employment; environmental sustainability; water and sanitation; energy; governance and education. The outcome document[7] of this first National Consultation provided the basis for the work in 2014.

A multi-stakeholder approach contributed to promoting better decision making and policy coherence and to create trust between different actors in order to build a common position within the Spanish system. The consultation process culminated after two years in September 2014 with the Second National Consultation based on the final draft (version 4). Representatives of UN DESA, the European Commission, the Economic Commission for Latin America and the Caribbean (CEPAL) and Spanish Universities participated in this event.

Figure 5.2. **Spain's process of Post-2015 Agenda position construction**



Source: Ministry of Foreign Affairs, Spain (2015).

The final Spanish position was organised into two blocks: the principles for the new post-2015 development agenda and 12 goals and targets. The priority areas which, according to Spain, must figure in the new agenda are: poverty eradication; reduction of inequalities; sustainability in all its dimensions, rights based approach; and gender approach. These are also areas in which the Spanish Cooperation system can make a substantial contribution. The proposal for a reduced number of goals would allow action strategies to be established and their achievement to be more easily monitored. These goals should be easy to communicate and understandable by all citizens, thus mobilising resources and capacities. They should also be consistent with one another, as part of a balanced human and sustainable development agenda, which recognises Humanity's fundamental dependency on the Earth's ecosystems. To this end, the Spanish contribution to the Post-2015 process has been based on a profound reflection on the lessons learnt from the Millennium Development Goals (MDGs) and the challenges still to overcome.

The Financing for Development Agenda

The process for establishing the position on Financing for Development (FfD) is following a similar pattern. After a first report[8] was entrusted to a group of academics in the different topics of special interest for Spain, a special meeting gathered this academic group and the main Ministries with competences in this agenda (the Ministry of Economy and Commerce, Finance, Treasury and the Tax Agency, the Ministry of Agriculture and Environment, the Bank of Spain, the Institute for Fiscal Studies, etc.) on 25th February 2015.

Figure 5.3. **Extract from Spain's Post-2015 Agenda position**

EL MUNDO QUE QUEREMOS

cooperación española

Post-2015 Agenda: Spain's Position
Key messages

Principles for the New Development Agenda

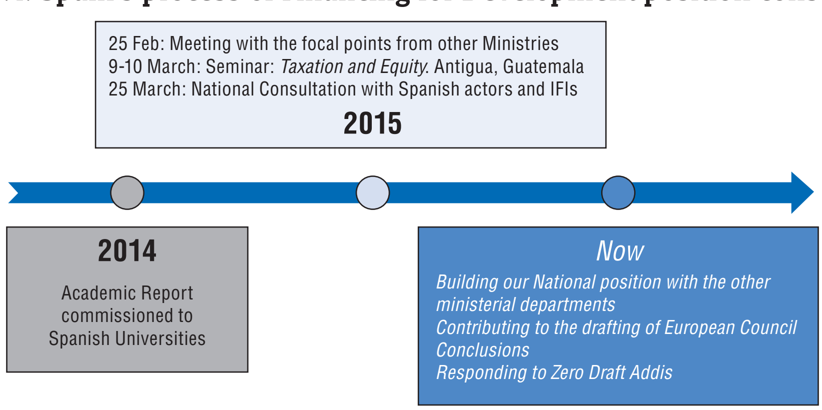
- Acknowledgment **of the MDGs'** principles, values and achievements, but also a sound reflection on the missed targets and absent dimensions.
- A **universal development agenda**, with common goals that are shared by everyone as well as differentiated targets according to each country's circumstances.
- The agenda should be people-focused, aiming to **eradicate poverty and to reduce inequalities** from a **rights-based** and **sustainability and gender approaches**.
- The fight against poverty and development should be linked to **sustainability in all its dimensions**, including the processes that affect the planet's future, such as climate change and the loss of biodiversity. It should be a transformational agenda.
- Middle-**Income Countries** have to be included, both for their issues around inequality and sustainability and for the responsibility they have to assume in the provision of Global Public

Post 2015 Development Goals (proposal)
1. Eradication of poverty and reducing vulnerability
2. Reducing inequalities and promoting an equitable development
3. Environmental Sustainability.
4. Democratic governance and Human Rights. Peace and Security.
5. Gender Equality and women empowerment
6. Food security and nutrition.
7. Health: universal coverage
8. Quality education for all
9. Human Right to Water and Sanitation
10. Inclusive and sustainable economic growth. Job creation.
11. Sustainable Energy for all.
12. Global Partnership for a new development Agenda

Source: Ministry of Foreign Affairs, Spain (2015).

Subsequently, a workshop on Taxation and Equity was held in Antigua, Guatemala, with experts from Central-America, the Inter-American Development Bank, and various Ministries, to name a few. This event was followed by a major national consultation with civil society, representatives from the national administration and regional Governments, and other stakeholders in March 2015.

Figure 5.4. **Spain's process of Financing for Development position construction**



Source: Ministry of Foreign Affairs, Spain (2015).

A tailored questionnaire on the specific issues identified through all these consultations was then circulated and commented by the different ministries. Ongoing work involves building a document that reflects the different positions, both points of agreement and diverging issues, and analysing the scope of the proposal in order to identify potential consensus and bottlenecks, and the final way forward that will represent the Spanish position for the Financing for Development Conference. This position will be built around eight specific topics: 1) domestic public finance; 2) international public finance; 3) private

Box 5.4. **Policy Coherence in the Spanish Post-2015 and Financing for Development positions**

The Spanish Cooperation is actively participating in the post 2015 international processes, while at the same time the national position is being built in an inclusive manner in order to ensure and promote policy coherence of the position to be built and defended.

We have discussed the new challenges in order to consolidate a robust and reasoned national position that contributes both to the international debate and the setting of the agenda, with our European partners and in the global context.

We believe that following such a process, stakeholders have a greater sense of ownership for decisions made. Determining the position of the Spanish Government took on various forms (expert reports, consultation open to all development co-operation organisations and institutions, and working groups), giving rise to a proposal that identified various principles for the new post-2015 development agenda, along with a list of 12 goals. Work Groups were established on every topic of importance where all the members of the Cooperation Council were involved and had a voice.

The Spanish Cooperation drafted the Official Spanish position, that was consolidated in 2014 through a process involving Spain's Central State Administration, its Regional and Local Governments, and the Post2015 Working Group of the Advisory Council on Development Cooperation (with an intensive work with the civil society, private sector, trade unions representatives, academic, and again the central state administration). We discussed up to four evolving drafts of the Spanish Position.

We believe that in order to bring forward the post 2015 Agenda, effective co-ordination and ensuring policy coherence for sustainable development are crucial, provided that this is a comprehensive and universal agenda that affects all countries and all policies. Thus, all the stakeholders need to participate in order to build this holistic approach for a new agenda. As such, we believe the action must come from a reshaping of our priorities and of our political structures in which policy coherence has a fundamental role to play.

Agreed positions between the different parties are essential to ensure that this delicate balance is taken forward. Our position is that our main goal is to build synergies between the different policies and take into account development objectives. Not only the drafting of such policies but also procedures, instruments and mechanisms implied at all levels, and secure adequate resources and share best practice to further these aims.

We believe that both processes, especially in the remit of the new Agenda, need to be addressed and tackled in such a way that policy coherence for development is not only strengthened but guaranteed.

Both the procedures described have been a success in terms of building a position that addresses the different visions, needs and interests of the stakeholders involved with the ultimate and most important objective of building "The World We Want".

Mr. Gonzalo Robles, Secretary General for International Development Co-operation, Spain finance; 4) trade 5) debt; 6) systemic issues 7) science, technology and innovation; and 8) data, monitoring and evaluation.

This position will at the same time modulate and be influenced by the common position of the European Union and will likely be built around 8 specific topics, these being the ones identified by the "zero draft" document from the UN co-facilitators of the FFD process:

SWEDEN

The Government bill *Sweden's Policy for Global Development* from 2003 makes the whole of Government responsible for achieving the goal of equitable and sustainable development. Sweden was one of the first countries to formulate a Government bill on Policy Coherence for Sustainable Development (PCSD), providing all ministries with the responsibility to fulfil the goal. Governmental policy areas shall be coherent in order to contribute effectively to this goal. According to the policy, a rights perspective and the perspective of the poor shall be taken into account.

Since 2003, the Government is tasked to bi-annually report to Parliament on the implementation of Sweden's Policy for Global Development. Since the adoption of the policy, every Ministry has a PCSD focal point.

In the Budget Bill for 2015, the Swedish Government committed itself to "renew" Sweden's Policy for Global Development. This work shall be framed by the implementation of the new post-2015 agenda. Work methods and approaches shall be strengthened, as well as a deepened focus on synergies and conflicts of interests within Policy Coherence for Equitable and Sustainable Development (PCSD). The Swedish Government is especially emphasising three thematic areas within PCD: capital flight and tax evasion, sustainable business, and investments in sustainable energy.

The Minister for International Development Co-operation has been appointed by the Prime Minister to co-ordinate and drive the PCSD work within the Government. But all Ministers have the responsibility to implement PCSD work according to Sweden's Policy for Global Development. Within the Government Offices, the Ministry for Foreign Affairs (MFA) is responsible for the co-ordination of PCD issues. The MFA co-ordinates an intergovernmental working group on PCD issues constituting of the PCD focal points at the different Ministries. In accordance with the Government's "new start" of Sweden's Policy for Global Development, a working group has been set up, composed by Department Heads at International Units at the different ministries. This group is led by the MFA Director-General for Development Cooperation.

The experience from Sweden is that a Government mandate to work on PCSD is important. Political ownership for PCD and global issues at the different Ministries is key. For the PCD focal points at the Ministries, it is important that these have mandates within their own Ministries. The experience from Sweden is also that a reporting mechanism on PCSD issues is central, where the Government is accountable for implementation.

In June 2013, the Government commissioned the Swedish Agency for Public Management (Statskontoret) to evaluate government management and the Government Offices' work procedures with respect to Sweden's Policy for Global Development. Statskontoret's principal conclusions relate to the need for clarifying the concept of PCSD, for collective responsibility for PCSD in the Government, and for making PCSD visible. Statskontoret begins the evaluation by noting that the logic behind the introduction of

Sweden's Policy for Global Development is even more relevant today. Demands for coherent solutions to global challenges are very much a topical issue. In light of this, Statskontoret believes that Sweden's Policy for Global Development could be given even greater priority and resources. Generally, Statskontoret notes, it has proved difficult to manage and capture cross-sectorial issues within Government Offices. Issues need to be integrated at an early stage, and there must be knowledge on how to integrate issues. Statskontoret considers the Government's PCSD communications to the Swedish Parliament (Riksdag) as central and the reports have shown a positive development in recent years. Statskontoret's assessment is that the Government should refrain from creating a comprehensive system for evaluating the effects of PCD by means of, e.g. indicators. Sweden should instead help to develop evaluation systems at the international level.

When it comes to outreach activities, Sweden has good experiences from some successful seminars focusing on thematic areas within PCSD and so-called conflict of goals/interests. The experience from Sweden is that an open discussion with different stakeholders on complex areas and possible conflicts of objectives and interests is very fruitful. Issues discussed include capital flight and tax evasion; global food security; and business and human rights. The Government has also arranged conferences on the theme of "Economic exclusion" and on "Migration flows". In its role as chair of the Global Forum on Migration and Development (GFMD), the Swedish Government hosted several outreach activities and seminars on the theme of migration and development, including the GFMD international dialogue in May 2014, with participants from more than 150 countries on the theme 'Migration – Unlocking the Potential of Migration for Inclusive Development'.

In order to announce the Government's "new start" of Sweden's Policy for Global Development, a seminar was held in June 2014, together with the CSO-platform Concord. Discussions were held on the three thematic areas emphasised by the Government: capital flight and tax evasion; sustainable business; and investments in sustainable energy. Participants included the Swedish Minister for Development Cooperation, the Swedish Minister for Enterprise an Innovation and the State secretary for Finance issues, as well as representatives of academia, business and civil society.

Additionally, as part of the "new start" of Sweden's Policy for Global Development, Sweden has begun a process of developing action plans at each Ministry on PCSD issues connected to the post-2015 goals. The ministries are to develop operational goals on PCSD-issues related to the different SDGs. The purpose of this work is to integrate the global agenda and PCSD issues in a coherent manner into the work of every Ministry. Sweden sees Policy Coherence for Sustainable Development as key to achieving the new SDGs, and emphasises PCSD in the negotiations of the upcoming post- 2015 agenda. The challenge ahead is to transform the post-2015 goals into Swedish national goals and to implement them nationally.

The OECD is a central actor when it comes to PCSD issues. Sweden values the important PCSD work done by the OECD. Continued OECD work on PCSD as an instrument for the implementation of the new SDGs is central. To help countries address the challenges of the SDGs in a coherent manner, it would be helpful for the OECD to analyse how to transform the post-2015 goals into national goals, and how to reflect the coherent manner of the goals in indicators etc. In order for the new post-2015 agenda to be truly transformative, reporting and indicators have to reflect the transformative manner of the agenda. OECD work could be important in this regard. It would also be helpful if the OECD could develop methodological frameworks, formats and templates on these issues.

SWITZERLAND

Switzerland has long recognised that development policies are interlinked with other policy areas. Since its inception in 2007, the government's Annual Foreign Policy Report to Parliament has repeatedly addressed issues of policy coherence for development (PCD). As part of the peer review of the OECD Development Assistance Committee 2013/14, the Federal Council decided to adopt a system of regular reporting on coherence issues for the attention of Parliament and the general public, based on systematic monitoring.

The concept of PCD has also been embedded in Switzerland's preparatory process in view of the post-2015 development agenda process. As presented in further detail in the OECD's 2014 flagship report on PCD, Switzerland has recognised PCD as one of the five principles that must underpin the post-2015 agenda and guide implementation of a future universal and inclusive framework at the national and international level.

Against this backdrop, the Swiss Agency for Development Cooperation has further increased its efforts to promote policy coherence for sustainable development.

Inter-ministerial consultation processes for the preparation of Federal Council decisions have a central role to play in ensuring the greatest possible policy coherence. In these processes, specialists in all departments work to promote synergies between different policies in the areas of the economy, society and environment, to propose solutions to the Federal Council in case of contradictory objectives and thereby address any negative side-effects of individual sectoral policy decisions.

A case in point was the handling in 2014 of various matters related to responsibilities and due diligence obligations – as well as accountability and reporting – pertaining to the commercial activities of international companies.

Common to all these efforts was the desire to achieve long-term, balanced, internationally compatible solutions that promote sustainable development in Switzerland and globally. Important factors in this context were (a) to take on board the legitimate interests of developing countries in a globalised economy, and (b) to bear in mind the limitations of certain natural resources and the delicate balance required for an ecological existence. Finally, (c) to maintain or enhance the freedom to adopt a Swiss approach by further taking into account positions and standards of the most important global players, building on that, and integrating binding international frames of reference (for example in the area of human rights).

In addition, various efforts are under way to improve methodological bases and to address political issues more thoroughly from a coherence perspective. Special attention is also being paid to the inclusion of the developing countries themselves in the analysis and debate. Consideration is now being given to developing indicators for selected pilot themes which should make it possible to identify more systematically PCD-related challenges and progress achieved within the government's four-year legislature programme, the related annual work programme and its implementation through Federal Council decisions.

In my view: Tax justice and illicit financial flows

By BOND, UK membership body for organisations working in international development

2015 is a crucial year for sustainable development, with major decisions of global reach being taken including on the post-2015 agenda, an appropriate financing framework, and a climate deal. This year, Policy Coherence for (sustainable) Development (PCD) matters more than ever. The post-2015 and financing negotiations combine environmental sustainability and development in order to achieve sustainable development, eradicate extreme poverty and tackle inequalities for everyone and everywhere. When designing and implementing these global frameworks, OECD member states, EU institutions and global decision makers need to ensure their policies, systems and laws do not undermine their commitments to sustainable development, and take potential trade-offs into account. How the world, and OECD members in particular, respond to this challenge will make a huge difference. 2015 will only be successful if the international community is able to build on the negotiations, and ensure coherence of related policies and issues, to truly promote sustainable development.

We focus on the relevant aspects of PCD with regard to to designing and implementing successful global sustainable development agreements, including the contributions OECD members can make, and how Civil Society Organisations can contribute to ensure PCD in this key year for development.

The Financing for Development process initiated an ambitious agenda to ensure international financial, trade and development systems work coherently together to deliver on the post-2015 agenda. In its final report, the International Committee of Experts on Sustainable Development Finance (ICESDF) recognised PCD as the game-changer which determines the success of the new global agreements, and integrated PCD – as one of nine guiding principles – into its approach for a financing strategy. In line with Monterrey and Doha outcomes, the ICESDF called for sustainable development criteria to be included in public budgets and private investment decisions as appropriate, and addressed economic, social and environmental dimensions of sustainable development throughout its financing strategy. To ensure PCD in this crucial year, decision makers need to improve tax policies, revise trade laws and tackle systemic issues.

Tax is the most sustainable and dependable form of finance to achieve sustainable development. However developing and emerging economies lose an estimated USD 1 trillion annually because of illicit financial flows. Improving the global tax system, tackling illicit financial flows and refraining from practices that have an adverse effect on sustainable development is a crucial aspect of PCD. Usefully, OECD members could contribute to:

- Improving the rules of the global tax system by establishing a new intergovernmental body on international cooperation in tax matters, under the auspices of the UN, which builds on but goes beyond the current OECD process on Base Erosion and Profit Shifting (BEPS).
- Widening developing countries' tax bases by supporting progressive tax systems and tackling illicit financial flows via increased transparency. An agreement on global transparency should include public country-by-country reporting by multinationals, public registers of beneficial owners of companies and trusts, effective and fully inclusive automatic exchange of tax information between countries, and universal use of open data formats (provided in a way that is fully accessible and usable by anyone).

Reduce the harm caused by their own tax systems by putting in place a system to ensure that all countries carry out, and make public, a spill-over analysis to understand the impact of their tax policies on the tax base in other countries. Furthermore, decision makers should support integrating national human rights frameworks in assessing abusive tax practices both on the national and international level.

Trade can promote sustainable development and reduce poverty by helping to create jobs, fund public services and protect the environment. However, the lack of PCD in current trade policies and practice has significant adverse impacts on the achievement of development goals. For example, there is a clear risk that the proposed Transatlantic Trade and Investment Partnership will undermine the sustainable development agenda. OECD members could specifically contribute to:

In my view: Tax justice and illicit financial flows *(cont.)*

- Ensuring trade deals do respect the rights of developing countries to determine their own development;
- Strengthening corporate responsibility for promoting human rights, and ensuring social, labour and other human rights and standards are put ahead of corporate interests.

Systemic issues have a massive impact on sustainable development. The adverse effects of the international financial and economic crises on poverty, inequalities and the planet demonstrate that the current global systems need improvement in order to fully implement the Sustainable Development Goals (SDGs). Most importantly, OECD members should contribute to:

- Creating a global council at the highest political level to provide leadership on issues of global governance, as recommended by the 1995 Report of the UN Commission on Global Governance.
- Ensuring adequate policy space for national authorities to perform their regulatory function in areas such as tax, trade, debt; and implementing the voice and vote agenda to reform the Bretton Woods institutions. Recognising developing countries' lack of voice or participation in international standard setting bodies and an emphasis on the need to strengthen the UN's role in international economic governance is a key part of that reform.
- Commitment to take steps to prevent food and fuel price volatility, including setting ex-ante position limits in derivatives trading and banning financial entities form speculating by physically holding commodities, thus addressing these causes for hunger and poverty.

Role of Civil Society in Policy Coherence

In November 2014, the Network of International Development Organisations in Scotland (NIDOS) published Policy Coherence for Development: Exploring and Learning from European PCD Approaches. Drawing on examples of PCD in six European countries (Sweden, Finland, Netherlands, Luxembourg, Denmark, and Belgium), the report identified the following structures as successful mechanisms for policy coherence:

- A strong legal or policy commitment to PCD to ensure coherence continues despite changes in government.
- A clear definition of PCD, including what it is that policies should be coherent with.
- All government departments should be responsible for reviewing their policy and practice against PCD.
- A senior cross-departmental body or high-level minister out with the international development department should be responsible for ensuring a PCD approach across government.
- Partners in the global south, including government and civil society, should be engaged in building PCD and in regular scrutiny of progress.
- Alongside a general requirement for PCD across government, thematic focus areas should be agreed periodically.
- Annual or biennial government reporting with parliamentary and civil society scrutiny to ensure transparency and accountability.
- Civil society should be built into the PCD mechanisms.
- Appropriate funding commitment to PCD should be made to ensure government capacity.

The NIDOS report identified several areas where the role of civil society is vital to policy coherence. Governments' approach to implementing PCD should incorporate civil society, including building civil society into policy coherence mechanisms and consulting civil society to ensure coherence is transparent and accountable. In particular, CSOs are valuable partners of policy-makers in collecting and informing policy-makers of evidence relating to the impacts of their policies in the poor areas and on the poor communities they are directly working with. Any responsible policy-making body should make it a priority to assess the real impact of their own decisions, in their own country and outside, as a matter of good governance and credibility. CSOs can be of great assistance in this process.

In my view: Tax justice and illicit financial flows *(cont.)*

The report also highlighted recommendations for NGOs themselves, including to:

- raise awareness of PCD among NGOs by showing its relevance in different thematic areas
- establish working groups for NGOs to develop their knowledge of PCD
- engage with elections to secure new or ongoing commitments to PCD in parties' manifestos, including working with both international development and non-development politicians and party officials
- build relationships with civil servants across different ministries, not only with the international development staff
- produce shadow civil society reports scrutinising progress on PCD.

Putting PCD into practice requires determined political leadership, appropriate policy-making mechanisms to prevent, detect and redress incoherencies, as well as sustained efforts at all levels within the OECD – at the national level of its member states and the European Institutions. Promoting this framework of PCD is a key priority for Bond, for NIDOS, and for our member organisations.

Notes

1. The Special Committee consists of officials from the Ministry of Foreign Affairs (chair), the Ministry of Finance, Ministry of Business and Growth, Ministry of Taxation, Ministry of Food, Agriculture and Fisheries, Ministry of Climate, Energy and Building, Ministry of Environment, and the Ministry of Justice.
2. Statistics Denmark is the central authority on Danish statistics and a state institution under the Ministry of Economic Affairs and the Interior.
3. Law of 9 May 2012, amending the amended Law of 6 January 1996.
4. Directive 2009/29/EC of the European Parliament and Council decision of 23 April 2009, amending Directive 2003/87/EC
5. *http://klimada.mos.gov.pl/en/*
6. The Center of Excellence in Finance (CEF) was established in January 2001 by the Slovenian Government on the initiative of the Slovenian Ministry of Finance and in close co-operation with the ministries of finance of other countries in South East Europe. The initiative to establish the CEF was framed in the context of the Stability Pact for South East Europe (*http://www.cef-see.org/*).
7. *http://www.cooperacionespanola.es/sites/default/files/documentos_de_trabajo_ce-sgcid_-_compromiso_global_v18.pdf*
8. *http://www.cooperacionespañola.es/sites/default/files/archivo-jornadas-y-seminarios/informe_academico_foro_salamanca_cooperacion_espanola.pdf*

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