Policy Coherence for Development: Five Challenges*

Frank Barry, Michael King and Alan Matthews

Institute for International Integration Studies, Trinity College Dublin

ABSTRACT

Policy Coherence for Development (PCD) seeks to ensure that non-aid public policies are consistent with a government's international development goals. In light of a number of years of PCD reviews and institutional reforms at both EU and member state level, this paper reflects on the dynamics of the PCD policy environment and discusses five challenges for the PCD policy agenda. These include the opposing interests of domestic and development constituencies, conflicts between development objectives themselves, disagreements between experts on what 'good' development policy is, difficulties in identifying the true development interest of developing countries, and the growing heterogeneity between and within developing countries. While the challenges discussed in this paper have general relevance, we draw on EU and Irish policies to illustrate the arguments. We conclude with a series of recommendations on how these challenges might be addressed and how to make the PCD agenda more effective.

INTRODUCTION

Policy Coherence for Development (PCD) is achieved when policies across a range of domestic policy areas support, or at the very least do not undermine, the attainment of overseas development objectives. PCD seeks to represent the interests of the poorest developing countries within developed country policy-making processes and seeks to ensure that investments in overseas aid are not undermined by damaging non-aid policies.

Issues of policy incoherence are most obviously seen in agricultural, trade and environmental policies but also in policy areas such as finance, science and technology, security and migration policy. While some progress towards coherence has occurred in recent years as the EU member states have begun to systematically consider PCD, the agenda is in its infancy and many issues of incoherence have yet

*This paper forms part of an IRCHSS-funded project entitled 'Turning globalisation to national advantage' and Frank Barry acknowledges financial support from the Irish Research Council for the Humanities and Social Sciences (IRCHSS). It also forms part of the Framework Project on Policy Coherence undertaken by these three authors which was funded by the Advisory Board for Irish Aid. Neither the Advisory Board for Irish Aid, Irish Aid nor IRCHSS are responsible for the views expressed in the paper.

Author's e-mail: michael.king@tcd.ie

Irish Studies in International Affairs, Vol. 21 (2010), 207–223.

doi: 10.3318/ISIA.2010.21.207

to be resolved. In any case, as policies, issues, and political preferences change over time, policy coherence becomes a moving target, requiring continuous efforts to ensure that developing countries are not negatively affected by developed country non-aid policies. PCD should therefore be considered a continuous process of evaluation and reflection which seeks to ensure ever-increasing policy coherence towards developing countries in developed country policies.

The recent fiscal crisis in OECD countries has focused attention on the potential of PCD to deliver real improvements in the livelihoods of the poor in developing countries. In the context of declining aid budgets, PCD represents a cost effective way for OECD members to support real progress towards the Millennium Development Goals.

This paper reflects on the dynamics of the PCD policy environment and identifies five important challenges that the PCD policy agenda must address. It is hoped that the discussion will provide researchers, policymakers and practitioners with a deeper understanding of the dynamics that underlie the PCD process. We examine the opposing interests of domestic and development constituencies and ways in which these could be aligned, the significance of conflicts between development objectives themselves, disagreements between experts on what 'good' development policy is, difficulties in identifying the true development interest of developing countries, and the growing heterogeneity between and within developing countries. We argue that international institutions and agreements can be important in helping to overcome apparent policy conflicts. We note the importance for PCD of recognising the role of special interest groups in formulating domestic policy in both developed and developing countries. We also emphasise the importance of good research in providing the evidence base for more coherent policy decision-making.

The paper proceeds as follows. The next section presents a brief history of the PCD concept and its implementation in the EU and Irish context. The following sections discuss five challenges that arise in attempting to pursue more coherent policies for development. In the final section we conclude with some recommendations to strengthen the PCD process under three headings; more effective decision-making mechanisms, stronger and more comprehensive formal oversight procedures and the promotion of a robust evidence base for policy impact and coherence.

THE PCD AGENDA: A BRIEF HISTORY

At EU level, PCD first came to prominence with the Maastricht Treaty in 1993. The Treaty states that 'the Community shall take account of the objectives referred to in Article 130U [which refers to development cooperation] in the policies that it implements which are likely to affect developing countries'.[1] This statement signalled the rise to prominence of the PCD agenda at the EU level.[2] As part of the European Consensus on Development, the EU in 2005 committed to a biennial PCD reporting process. The first reports on progress towards PCD commitments were issued in 2007 and 2009.[3]

The annual OECD ministerial meeting in 2002 called on OECD members to 'enhance understanding of the development dimensions of member country policies

[1]This objective is now found in Article 208 in the Treaty of Lisbon, on 'The functioning of the European Union'. It was originally formulated in the Maastricht Treaty, Article 130, 38, available at: http://www.eurotreaties.com/maastrichtec.pdf (25 August 2010).

[2]Maurizio Carbone, 'Mission impossible: the European Union and Policy Coherence for Development', *Journal of European Integration* 30 (3) (2008), 323–42.

[3]European Commission, 'EU Report on Policy Coherence for Development' COM 545 (Brussels, 2007); European Commission, 'EU Report on Policy Coherence for Development' COM 461 (Brussels, 2009).

and their impacts on developing countries'. The OECD specifically proposed that policy development should consider 'trade-offs and potential synergies across such areas as trade, investment, agriculture, health, education, the environment and development co-operation, to encourage greater policy coherence in support of the internationally agreed development goals'. Since then, the OECD Development Assistance Committee has included an analysis of PCD efforts in its regular reviews of member country aid policies. The findings of recent reviews are synthesised in OECD.[4]

PCD also forms an integral part of the UN Millennium Development Goals framework. The eighth goal—to 'develop a global partnership for development'—covers actions needed to achieve greater coherence between the purposes of Official Development Assistance and other public policies.

Responding to PCD developments at the EU level, the 2006 Government of Ireland White Paper on Irish Aid adopted coherence as a guiding principle for Ireland's overseas development aid programme. The Paper stated that 'we will work for a coherent approach to development across all Government Departments'. To implement the vision of the White Paper, the government established the Inter-Departmental Committee on Development (IDCD) in 2007 to act as a forum to promote PCD in all areas of Irish government policy that affect developing countries.[5]

Across Europe, member states have pursued the PCD agenda in different ways.[6] In the Netherlands, foreign policy has the explicit aim of promoting policy coherence between development and relevant non-aid policies and to support this, the Dutch established a formal Policy Coherence Unit in the Ministry of Foreign Affairs to screen all EU legislation, to pro-actively influence specific national policy debates and to raise awareness of PCD both domestically and internationally. In contrast, the United Kingdom and Sweden have taken the whole of government approach to overseas development. The United Kingdom does not use the label 'policy coherence' but set poverty eradication as an objective for the whole of the government in its 2000 White Paper on eliminating world poverty.[7] As a result, PCD discussion occurs across all UK ministries and each ministry is responsible for reporting progress towards the MDGs. In Sweden, the Government Bill 'Shared responsibility: Sweden's policy for global development' was passed by the Swedish Parliament in 2003, enshrining development goals as the responsibility of all government departments.[8]

Despite the endorsement of PCD at the highest political levels, the practical implementation of PCD remains a fraught process. EU development NGOs have given a critical reception to the second Commission PCD report, highlighting the many areas of continued incoherence in EU policies.[9] Carbone has described the

[4]OECD, 'Building blocks for Policy Coherence for Development', (OECD, 2009).

[5]The scope of the PCD agenda in Ireland is reviewed in Frank Barry, Michael King and Alan Matthews, *Policy Coherence for Development: a scoping report for Ireland,* Advisory Board for Irish Aid and IIIS (Dublin, 2009).

[6]ECDPM, 'EU mechanisms that promote Policy Coherence for Development: a scoping study', (Maastricht, European Centre for Development Policy Management, 2005); ECDPM, 'Evaluation of the EU institutions & member states' mechanisms for promoting Policy Coherence for Development', (ECDPM, 2007); ECDPM, 'Evaluating co-ordination, complementarity and coherence in EU development policy: a synthesis', (ECDPM, 2008); European Commission (2007); European Commission, (2009); Christian Egenhofer, '*Policy Coherence for Development in the EU Council: strategies for the way forward'*, (Brussels, 2008).

[7]United Kingdom Government, 'Eliminating world poverty: making globalisation work for the poor', White Paper on International Development, HMSO (London, 2000).

[8]Government of Sweden, 'Shared responsibility: Sweden's policy for global development', Government Bill 2002/03:122, (Stockholm, 2003).

[9]CONCORD, 'Spotlight on Policy Coherence', (Brussels 2009).

pursuit of policy coherence in EU policy-making as 'mission impossible'.[10] We now turn to discussing five challenges inherent in the PCD agenda which help to explain this paradox.

CHALLENGES FOR THE PCD AGENDA

Conflicting domestic and international development goals

The most obvious challenge faced by PCD occurs when domestic interests and international development objectives conflict. This is the single most important reason for the prevalence of incoherent policies. Adapting a domestic policy to take account of developing country interests may run counter to the interests of those whom the domestic policy is intended to promote or support. However, using examples from agricultural policy, migration policy and climate change, we argue that apparently conflicting interests may be more closely aligned if a sufficiently long-term perspective is taken. Specifically, international institutions and agreements can play an important role in improving global policy outcomes, by promoting cooperative policies that facilitate the pursuit of mutual long-term benefits.

Agricultural protectionism has for many decades been pursued by developed countries in support of domestic objectives such as the maintenance of farm incomes, support to rural communities, stabilisation of market prices and ensuring food security. These policies have led to significant negative externalities for developing countries. In the case of European agricultural policy, developing countries argue that the CAP damages their development efforts by depressing the world market price for their exports, making it more difficult for them to trade their way out of poverty. While recent reforms have opened European markets to exporters in the poorest developing countries, significantly reduced the dumping of agricultural surpluses and de-coupled subsidies from production, policy incoherence between developed and developing countries in the area of agricultural policy remains.[11]

The EU continues to maintain high tariffs for many agricultural products. Direct payments to EU farmers contribute to covering their sunk costs allowing them a competitive advantage on world markets.[12] Policies to stabilise EU farm prices have the effect of exporting instability to world markets, hence exacerbating price volatility for developing country producers. In addition, food standards, animal health and traceability rules provide safeguards to European consumers about the quality of food imports but can become barriers to trade by increasing exporting costs for developing country producers.

In the area of environmental policy, and specifically the control of greenhouse gas emissions, the existence of conflicting policy interests was clearly revealed at the 2009 Copenhagen Climate Change Conference. The asymmetric distribution of the costs of adapting to climate change and the proposed allocation of mitigation costs lie at the centre of the policy conflict. On the one hand, climate change is expected to have a disproportionate impact on poor developing countries, many of whom are characterised by low-lying lands and increasing desertification. The high cost of adaptation faced by developing countries is compounded by limited fiscal resources and competing demands on revenue from pressing social needs. On the other hand, developed countries are asked to shoulder the upfront costs of mitigation and

[10]Carbone, 'Mission impossible'.

[11]Alan Matthews, 'The European Union's common agricultural policy and developing countries: the struggle for coherence', *Journal of European Integration* 30 (3) 2008, 381–99.

[12]The argument that developing country consumers can benefit from the subsidisation of European agriculture through lower prices is discussed later in the paper.

contribute to the cost of global adaptation given their responsibility for the bulk of the stock of anthropogenic carbon emissions in the atmosphere to date. Issues of policy conflict become more acute when emerging economies assert their rights to high-carbon, low-cost development paths.

A further example of conflicting goals is developed countries' encouragement of the immigration of skilled workers, such as expensively-educated health workers, from developing countries.[13] Working visas, green cards and active recruitment policies are used by many developed countries to supplement their domestic labour supply. Depending on the sector and the level of state investment in the highly skilled migrant's education, brain drain can lead to some degree of investment leakage and skills shortages in sending countries.

These issues demonstrate apparently clear conflicts of interest between developed and developing countries. However, these interests can be reconciled if a longer term view is taken. Underlying this time distinction is the premise that all nations will mutually benefit from higher incomes, higher levels of international trade and increased security associated with sustainable and more equitable development paths. Whether we consider economic growth or security policy, the elimination of poverty and emergence of higher incomes is in the long-term interest of developed countries.

In the case of agricultural protectionism or failure to address climate change, the detrimental impacts on developing countries could give rise to political instability and extremism and are likely to trigger increased illegal immigration to developed countries. Protectionism will also reduce developing countries' long-run capacity to absorb developed country exports. These long-term strategic considerations provided the rationale for apparently altruistic aid programmes such as the US Marshall Plan for post-war European reconstruction and the Structural Funds programmes of the European Union.[14]

The movement of developing country health workers into developed country health systems can also have a positive impact on the long-run well-being of developing countries. Remittances might compensate developing countries for their loss of human capital. In addition, if migrant workers return home later in their careers they can provide developing countries with highly experienced professionals. Countries such as the Philippines explicitly educate excess nurses for such reasons, while India, and indeed Ireland, benefited substantially from the return of experienced software engineers when their respective booms began.[15] In other words, an argument for 'altruistic' trade policy and the 'self-interested' attraction of developing country skilled workers into developed country labour forces can be defended on the grounds of mutual interest if a sufficiently long-term time horizon is considered.

Climate change provides an even more powerful example. Fiscally constrained developed country governments reluctant to increase costs on local businesses at a time of weak economic growth are unlikely to have an incentive to sign up to an international agreement imposing ambitious mitigation targets. Benefits to developed countries from mitigation policies and indeed adaptation investments by developed

[13]OECD, 'Building blocks'.

[14]For more information on the US Marshal Plan in Ireland, see Paul Loftus, 'An exercise in mutual cooperation: the Second Inter-Party Government, the American embassy and the establishment of the agricultural institute, 1954–57', ISIA 21 (2010). For more on the strategic framework under which EU structural funds are currently allocated in Ireland see 'The National Strategic Reference Framework for Ireland (2007–2013)', available at: http://eustructuralfunds.gov.ie/files/Documents/NationalStrategicReferenceFramework200713.pdf (25 August 2010).

[15]Devesh Kapur and John McHale, 'Sojourns and software: internationally mobile human capital and high tech industry development in India, Ireland and Israel' in A. Arora and A. Gambardella (eds) *Underdogs to tigers: the rise and growth of the software industry in some emerging economies* (Oxford, 2005).

countries in developing countries are likely to accrue over a 20 to 50 year time horizon, as increased poverty, migration pressures, political instability and conflict are avoided. When one considers the reluctance of European nations to sufficiently prepare for future pension system liabilities over a similar time horizon it is apparent that the discount rate applied to long-term costs and benefits is very high.[16]

One possible explanation for the tendency of policymakers to overlook benefits or costs that accrue over the long term is the electoral cycle. Disincentives to taking the long-term view exist because politicians in democratic systems are constrained in their policy-making by the need to retain the support of the electorate and of a time-varying combination of sectional interests and swing voters. Policymakers may therefore be unable to pursue the longer-term strategy of mutual interest in trade or environmental policy, opting instead to pursue short-term political survival. Other potential explanations include the myopia of the electorate or powerful sectoral interests, a point we discuss later in the paper.

The high discount rate of policymakers underlines the role that international institutions can play in providing a framework within which the longer-term global public good can be pursued. To illustrate how international institutions can support long-term coherent policy, we invoke the classic prisoner's dilemma problem.[17] We focus on the case of two countries, each facing a choice between low trade tariffs if they cooperate and high trade tariffs if they do not. If one country commits to low tariffs, the other may be better off by choosing high tariffs. But this means that neither will be prepared to commit on its own to low tariffs. Some form of binding international agreement is required to provide the basis for mutual commitment to low tariffs. In trade policy, the World Trade Organisation (WTO) plays precisely that role.[18]

In climate change policy, the standard prisoner's dilemma game described above must be altered. Benefits to low carbon emissions are not likely to be realisable in the short term (even though global marginal abatement cost curves such as those devised by McKinsey suggest substantial opportunities for lower emissions at negative costs, providing win-win scenarios for both the environment and economic welfare).[19] In the short term, payoffs from cooperation are likely to be lower than the payoffs from non-cooperation (high carbon emissions). It is only when the game is repeated over the medium to long term that the benefits to mutual low emission strategies become significant. This delayed payoff component, coupled with the uncertainties of benefits and costs over this time period, have conspired to prevent the establishment of a comprehensive and enforceable international agreement to mitigate and adapt to the effects of climate change discussed at the December 2009 Copenhagen Conference.

We thus emphasise the importance of promoting international agreements to encourage reciprocity in cooperation and recognition of long-term benefits and costs

[16]A high discount rate means that current costs and benefits are accorded much greater importance in policymakers' minds than future costs and benefits.

[17]In the typical version of the prisoner's dilemma problem, both countries receive a payoff of two for not cooperating, with a payoff of three on offer for each country if they cooperate. If one country chooses to cooperate and the other defects the payoffs are one and four respectively. Unless there are strong beliefs that the other country will choose to cooperate, the rational strategy for a country is to choose non-cooperation.

[18]A political economy reading of the role of the WTO would recognise that it is an institution that can be used to provide national politicians with political cover if they wish to resist populist pressures towards detrimental protectionism. The WTO trade agreements do indeed appear to have played such a role in the current global crisis, in contrast to the descent into global protectionism seen over the course of the Great Depression of the 1930s.

[19]McKinsey & Company, *Pathways to a low carbon economy: version 2 of the global greenhouse gas abatement cost curve*' (London, 2009.)

as a vital policy instrument in the pursuit of policy coherence for development. Well-designed international agreements and institutions offer a framework for protecting long-term benefits against the tendencies of policymakers to value short-term benefits more highly than longer-term gains.

Further opportunities for the PCD agenda are opened up when we consider the possibility that national policies might not even be beneficial to national welfare. The idea is expressed succinctly by Garret FitzGerald, who notes that ‘democratic national governments tend to be subject to such strong pressure from vested interests within their own territories that many of their decisions operate against the interests of society as a whole’.[20] Such issues are explored in the burgeoning literature on ‘the political economy of protectionism’, which takes as its starting point Olson’s work on interest groups.[21]

Consider the Irish stance on agriculture in the ongoing Doha Round World Trade Organisation trade negotiations. Ireland has some small but significant weight in the determination of EU agricultural and food policies through the decision-making institutions of the European Union. Given the relative importance of the agri-food industry in Ireland and its significant dependence on EU agricultural support, Ireland has historically been more reluctant than many other EU member states to embrace agricultural policy reform.[22] Collins and Adshead both suggest that Irish agricultural policy-making within the European context displays the characteristics of a ‘closed policy community’, one which excludes other interests, particularly consumers, and yields a false appearance of national consensus.[23] Ireland, in the summer of 2008, prioritised protection of the agricultural sector in its approach to the WTO negotiations, even at the risk that this could have jeopardised an overall agreement.[24] Ireland’s export-oriented manufacturing and services sectors, by contrast, stood to gain substantially from an overall agreement.[25] Furthermore, it was estimated that the gains to the winning sectors would outweigh the losses to agriculture.[26]

The differing influence of competing interest groups on national policy opens the possibility of unconventional coalitions in support of coherent policies towards the developing world. PCD advocates may find themselves sharing common ground with particular local sectional interests. For example, both development agencies and environmental groups argued for CAP reform over the last decade. Development advocates concerned about the impact on developing countries of international tax fraud share common interests with those seeking to curb financing for international terrorism. As PCD issues evolve, the forging of partnerships with domestic interest

[20]Garret FitzGerald, ‘Diluting lobbies and unleashing growth’, in R. O’Donnell (ed.) *Europe: the Irish experience*, 111–22 (Dublin, 2000).

[21]Mancur Olson, *The logic of collective action* (Cambridge, MA, 1965).

[22]The early adoption by Ireland of full decoupling (where farm payments are no longer linked to production) and the recent cessation of Irish sugar production—which means the country no longer competes in a product where developing countries have a clear comparative advantage due to lower production costs—mean, however, that Irish policy has been shifting in a more PCD-consistent direction.

[23]Neil Collins, ‘Still recognisably pluralist? State-farmer relations in Ireland’, in R. Hill and M. Marsh (eds) *Modern Irish democracy* (Dublin, 1993); and Maura Adshead, ‘Beyond clientelism: agricultural networks in Ireland and the EU’, *West European Politics* 19 (3) (1996), 583–608. Chubb quotes approvingly from *Magill* magazine that ‘Ministers for Agriculture have, since Ireland’s entry into the EEC, become Ministers for Farmers!’ See Basil Chubb, *Government and politics of Ireland*, Third Edition (London, 1992).

[24]*Irish Farmers Journal Newspaper*, ‘Veto word takes IFA back from the Lisbon cliff’, 7 June 2008.

[25]Anna-Louise Hinds, and Aoife O’Donoghue, ‘Ireland and the WTO: dancing at the crossroads?’, *Irish Studies in International Affairs* 19 (2008), 169–82.

[26]Alan Matthews and Keith Walsh, ‘The economic consequences of the Doha Round for Ireland’, *Economic and Social Review* 37 (1) (Spring, 2006), 17–22.

groups who may also be adversely affected by incoherent policy measures from a development perspective will become an increasingly important strategy for implementing PCD.

Conflicting development goals

Some development goals are themselves likely to be in conflict, so that trade-offs are required. Tensions arise, for example, between the goals of industrialisation and the reduction of carbon emissions, and between increased agricultural production and the protection of biodiversity. Another topical case is the conflict between environment-friendly biofuels production as a source of export earnings and employment and the objective of food security. We discuss these cases in this section with a view to elucidating the significance of this issue for the PCD agenda.

First, in the literature on the Environmental Kuznet Curve (EKC) it has been argued that as a country becomes richer, environmental degradation initially increases. But as incomes rise further, the adoption of modern technology, the shift into services and a change in preferences may cause this to be reversed.[27] Whether or not this reversal occurs, developing countries are in many cases likely to be situated on the upward sloping part of the curve.[28] Using a panel of 100 countries over the period 1960–96, EKC research shows that carbon emissions rise as low income countries pursue policies aimed at economic development. More recent data from the International Energy Agency illustrates the higher growth rate of carbon emissions in less developed regions. Between 1990 and 2007, CO_2 emissions from fuel combustion increased significantly in developing regions; China (+170.6 %), Middle East (+136.1 %), Asia (+126.6 %), Latin America (+68.2 %) and Africa (+61.5 %). This compares with +38 percent globally, +18.6 percent in the USA and -3.3 percent in the European Union.[29]

Turning to the biofuels issue, the growing demand for this energy source has had unintended consequences for the world supply and price of food. While estimates as to the precise contribution that diversion of agricultural crops into biofuel feedstock made to the sharp increase in food prices experienced between 2006 and 2008 differ, there is no doubt that they were a contributory factor.[30] Biofuel support policies in developed countries have been heavily criticised for their uncertain contribution to reducing greenhouse gas emissions and their excessive cost. However, biofuel production in developing countries has a much more positive carbon balance and has the potential to contribute to increased income and employment opportunities. However, there is the danger that this is at the expense of the food security of net food purchasers if food prices are higher as a result.

Trade-offs between achieving the MDGs targets for 2015 and reducing the rate

[27]The Environmental Kuznets Curve (EKC) hypothesises that the relationship between per capita income and the use of natural resources, the emission of waste or in this case carbon emissions may have an inverted U-shape.

[28]Evidence of this tension between industrialisation in developing countries and carbon emissions is documented in Théophile Azomahou, François Laisney and Phu Nguyen Van, 'Economic development and CO_2 emissions: a nonparametric panel approach', *Journal of Public Economics* 90 (2006) 1347–63.

[29]Assessing growth in carbon emissions per unit of GDP or by population represents alternative approaches to assessing the evolution of carbon intensity. In both cases, the broad picture remains similar. CO2 emissions per person increased by 3.4% in OECD countries and 24.9% in non-OECD countries over the period 1990–2007. With the exception of China where emissions per GDP PPP fell by 47.7 % between 1990-2007, the more developed regions fared better; European Union 27 (-33.2%), USA (-27 %), Asia (-10.4 %), Africa (-8.8 %), Latin America (-4.7 %) and Middle East (+17.9%).

[30]Donald Mitchell, 'A note on rising food prices', Policy Research Working Paper 4682, World Bank, (Washington, 2008).

of biodiversity loss are also widely recognised. The scenarios of the Millennium Ecosystem Assessment suggest that future development paths that show relatively good progress toward the Millennium Development Goal (MDG) of eradicating extreme poverty and improving health also show relatively high rates of biodiversity loss over 50 years.[31] Governments frequently use development policies at the extensive margin—through colonisation-settlement projects (often poorly conceived and poorly funded) into remote frontier areas—as ways to relieve the political pressures of the poor in already settled areas. That is, frontier expansion in land-rich countries plays the role of anti-poverty policy substituting for social programmes.[32] Whether or not it is associated with frontier expansion, improving rural transportation networks is another common feature of hunger reduction strategies that increases the rates of biodiversity loss, both directly through habitat fragmentation and indirectly by increasing the profitability of unsustainable harvesting of forest resources.[33] A change to the Common Agricultural Policy of lower trade barriers to the import of biofuels, which led to agricultural frontier expansion and intensification of agricultural production systems in the developing world, would have an adverse impact on biodiversity through changes in natural habitats. Many other development activities aimed at poverty reduction in LDCs would also be likely to have negative impacts on biodiversity as the value of biodiversity is typically not factored in.

The fact that development objectives can conflict with each other underlines that full policy coherence is not attainable. The scenario where an EU trade policy might lead to economic growth and higher employment in rural Brazil, while at the same time compromise longer-term sustainable development through biodiversity loss, illustrates the challenges in identifying coherent policies. In the cases where development objectives mutually conflict, skilful navigation of trade-offs to ascertain the most coherent policies will require that policymakers have a sophisticated understanding of the multi-dimensionality of the development process and make use of advanced techniques for measuring policy impact.

Developing country policies: preserving policy space or protecting interest groups?

We referred above to the evidence that often government policies in developed countries are driven more by interest groups than by genuine national welfare considerations. But taking account of the political economy of decision-making is also relevant in developing countries. Are developing country domestic policies or positions in international negotiations really compatible with promoting pro-poor growth at home? How should the PCD agenda react to the question of whether the articulated demands of developing countries are themselves merely expressions of elite interest groups within those countries?

While acknowledging the importance of according respect to the official positions of developing countries, a number of examples where elite interest groups appear to have captured policy-making in developing countries to the detriment of the national interest can be identified. The PCD agenda should be cognisant of such underlying

[31]Millennium Ecosystem Assessment, 'Ecosystems and human well-being: biodiversity synthesis', World Resources Institute (Washington, 2005).

[32]Edward B. Barbier, 'Natural capital, resource dependency, and poverty in developing countries: the problem of "dualism within dualism"', in R. Lopez and M. A. Toman (eds), *Economic development and environmental sustainability, new policy options* (New York, 2006), 23–59.

[33]Susana Ferreira, 'Ireland and the developing world: environment, climate change, transport and energy', ABIA Scoping Report Background Report, UCD School of Geography and Planning, (Dublin, 2008).

political economy considerations in the policy formulation process of developing countries.

Consider the historical experience of trade reform in developing countries. As argued by Dani Rodrik, a broad consensus on what constitutes growth-enhancing trade reform has existed for a number of decades.[34] Nevertheless, many developing countries have been slow to reform, have implemented reforms poorly or have reversed their reforms. Bienen points to elite capture as the core reason for reluctance to pursue trade-liberalising reforms.

> Trade liberalization policies are often extremely hard to formulate and implement in Africa precisely because it is powerful officials (civilian and military) who benefit from the controls that have been established over imports and exports. It is government officials who ration and distribute scarce imports, including foreign exchange. They realize the rents which accrue from the systems they construct and control.[35]

Owners of local import substitution industries, often patrons of civilian and military officials, also gain significant rents from import quotas, high tariffs and official licenses through higher prices and lack of competition. The literature suggests that trade protection is 'most pervasive in states characterised by vehement demands for protection articulated by well organised groups and state institutions that fail to insulate policymakers from the brunt of these demands'.[36] While there may indeed be good economic reasons for maintaining domestic protection, it would be naïve to ignore the possibility that developing country policies may simply reflect the interests of particular elites.

WTO debates over the contentious 'Singapore issues' have divided WTO member states, largely along north-south lines. The debates centred on whether negotiations should be launched to draw up binding new rules governing the areas of investment, transparency in government procurement, and competition policy.[37] The EU was among the leading proponents of additional disciplines in all of these areas, while developing country opponents led by India argued that they would hinder domestic firms in competing against foreign-owned multinational enterprises

[34]Rodrik argues: 'The consensus can be crudely expressed in terms of a number of dos and don'ts: demonopolize trade; streamline the import regime, reduce red tape and implement transparent customs procedures; replace quantitative restrictions with tariffs; avoid extreme variation in tariff rates and excessively high rates of effective protection; allow exporters duty-free access to imported inputs; refrain from large doses of anti-export bias; do not tax export crops too highly.', Dani Rodrik, 'Trade policy and economic performance in Sub-Saharan Africa', NBER Working Paper No. 6562, (Cambridge, MA, 1998), available at: http://www.nber.org/papers/w6562 (25 August 2010).

[35]Henry Bienen, 'The politics of trade liberalization' in Frimpong-Ansah, J.H., Kanbur, S.M.R. and P. Svedberg, eds, *Trade and development in Sub-Saharan Africa*, (Manchester, New York, 1991), 76.

[36]Edward Mansfield and Marc L. Busch, 'The political economy of nontariff barriers: a cross-national analysis', *International Organization* 49 (4) (1995), 723–49: 747.

[37]Discussion on these issues began at the 1996 Ministerial Conference in Singapore. Following the acrimonious collapse of the Cancún Ministerial Conference in 2003, the 'July 2004 package' that emerged from the General Council session held just under a year later attempted to set the Doha Round negotiations back on track by agreeing to begin negotiations on trade facilitation and dropping the three more controversial subjects from the WTO current work programme.

[38]Developing countries and many NGOs argued furthermore that the WTO is not the appropriate forum in which to address the Singapore issues, see Hillary Coulby, *Investment, competition and government procurement: positive alternatives to the WTO agenda*, (London, 2003); Bernard Hoekman and David Vines, 'Multilateral trade cooperation: what next?', *Oxford Review of Economic Policy* 23 (3) (2007) 311–34, though the contrary position is argued by Keith E. Maskus, 'Regulatory standards in the WTO: comparing intellectual property rights with competition policy, environmental protection, and core labour standards', *World Trade Review* 1 (2) (2002),135–52 and by Simon J. Evenett, 'Five hypotheses concerning the fate of the Singapore issues in the Doha Round', *Oxford Review of Economic Policy* 23 (3) (2007), 392–414.

and intrude unduly on the 'policy space' of developing economies. The potential long-term benefits of adoption of the Singapore issues for developing countries are debated by experts, a point we discuss in the following section.[38] Explanations for the reluctance of developing countries to embrace a multilateral agreement on the Singapore issues are wide and varied.[39] However, it would again be naïve to ignore the possibility that the reluctance of developing countries to embrace additional WTO disciplines is driven by elites eager to protect their influence over public procurement contracts, as well as the profitability of local enterprises supported by uncompetitive regulatory practices and protected from local competition from multinationals.

As a third example, there is an increasing trend among high- and middle-income developing countries to lease large areas of land in other developing countries for commercial agricultural production. Motivated by food security concerns and demand for biofuel, state and non-state investors from Bahrain, China, Egypt, India, Japan, Jordan, Kuwait, Libya, Malaysia, Qatar, Saudi Arabia, South Korea and the United Arab Emirates have taken long-term leases to millions of hectares in African countries such as Sudan, Mozambique, Mali, and Ethiopia.[40] For these developing countries, such leasing can bring much needed revenue streams as well as potentially giving a boost to low-productivity agricultural systems.

However, many development NGOs have questioned whether these leasing activities are really in the interests of the poor or simply serve to line the pockets of existing elites. There is evidence that foreign investors are targeting countries with weak institutions in order to cut deals that crowd out local farmers. NGOs warn about the displacement of smallholders from traditional lands, the potential damage to ecosystems and biodiversity, reduced food production capacity and the likely under-pricing of the true value of the land. The World Bank has discussed drawing up international rules on agricultural investments that would protect local citizens, ecosystems and biodiversity and ensure equitable terms for local populations.[41] Such moves recognise the potential for conflicting interests between those in power and the population at large in developing countries.

These three examples provide evidence that the developing countries' agenda can be more opaque than is apparent at first glance. Developing country political economy considerations must be evaluated when the coherence of policies is considered. For the PCD agenda, it raises the question of policy coherence with whom? Advocates of the PCD agenda must walk a fine line between respecting the official position and autonomy of developing countries, understanding local political economy considerations and keeping abreast of the evolving evidence on what policies are most likely to lead to sustainable development outcomes.

[39]The shortage of institutional capacity in developing countries was a main rationale for their resistance to the introduction of these new issues onto the WTO agenda, see e.g. Michael J. Finger and Philip Schuler, 'Implementation of Uruguay round commitments: the development challenge', *World Economy*, 23 (4) (2000) 511–25. Panagariya cites a number of other valid reasons why developing countries have been resistant to the idea of an agreement including uncertainty over future benefits, the greater burden on developing countries in implementing a multilateral agreement, exposure to trade sanctions for non-compliance in a timely manner and concern about acceding to a multilateral agreement on portfolio investment due to the increased risk of sudden capital flight, Arvind Panagariya, 'Developing countries at Doha: a political economy analysis', *World Economy*, 25 (9) (2002), 1205–33.

[40]According to the World Bank, the rights to some 50 million hectares in Africa alone have either been acquired since 2006 or are under negotiation, World Bank, 'Rising global interest in farmland: can It yield sustainable and equitable benefits?', (7 September 2010, Washington, DC).

[41]World Bank, 'Rising global interest'.

Divergent opinions among experts

Identifying coherent policy is helped when consensus prevails among experts on what constitutes 'good' development policy. When divergent opinions exist, the search for coherence is undermined by uncertainty as to what the benchmark for coherence is. We explore the issues of divergent opinions among experts by returning to the Singapore issues and considering furthermore the issues of debt relief and conditionality.

Notwithstanding the political economy of developing countries' stance on the Singapore issues, there exists significant disagreement among experts as to whether the proposed new rules are supportive of economic progress. In a well-known book entitled *Kicking away the ladder* (2002), Chang argues that the developed world, through the World Trade Organisation, seeks to reduce the policy space available to the developing world to adopt the kinds of policies that many developed economies themselves followed at earlier stages of their development.[42]

Alternatively, in reviewing the literature on the industrial policies of the fast-growing East-Asian economies, Evenett found that these state economies rarely resorted to cartelisation, forced mergers, or discriminatory enforcement of competition law.[43] To the extent that they intervened to influence the degree of rivalry among domestic firms, the evidence pointed instead to measures to promote competition.[44] By way of example, there is growing evidence to suggest that liberalisation of telecommunication sectors in developing countries that lead to greater usage has supported the economic activities of the poor.[45]

While developed country firms may indeed have most to gain from more liberal access to procurement, the potential that such services might well be offshored to developing economies must also be borne in mind. As to the advantages of regulating foreign direct investment, it is well known that the desire to address market failures must be set against the potential for government failures, particularly in countries characterised by poor institutional capacity, in deciding whether intervention is justified.[46]

Further divergent opinions exist in the area of debt relief. In recent years, a number of multilateral debt reduction programmes, such as the Heavily Indebted

[42]Ha-Joon Chang, *Kicking away the ladder* (London, 2002).

[43]Simon J. Evenett, 'A study on issues relating to a possible multilateral framework on competition policy', paper prepared for the Secretariat of the World Trade Organization (Geneva, 2003).

[44]Evenett also points out that proponents of a multilateral framework on competition policy acknowledge that exceptions should be granted in the event of a substantial clash between the proposed obligations and national development policy so that, even if there is an encroachment on useful policy space, solutions are envisaged that did not undermine development prospects, see Simon J. Evenett, 'Five hypotheses concerning the fate of the Singapore issues in the Doha Round', *Oxford Review of Economic Policy* 23 (3) (2007), 392–414. Woolcock argues furthermore that the commitments involved in greater transparency in government procurement are modest and will not encroach on national policy autonomy. See Stephen Woolcock, 'The Singapore issues in Cancún: a failed negotiation ploy or a litmus test for global governance?', *Review of European Economic Policy / Intereconomics* 38 (5) (2003), 249–55.

[45]Robert Jensen, 'The digital provide: information (technology), market performance and welfare in the South Indian fisheries sector', *Quarterly Journal of Economics*, 122 (3) (2007), 879–924; Jenny Aker, 'Does digital divide or provide? The impact of cell phones on grain markets in Niger', Center for Global Development Working Paper No. 154, 2008.

[46]In similar fashion, Simon Evenett states bluntly that 'when one considers how rarely, if ever, one hears of development success stories based on degrading a nation's trade facilitation infrastructure, on greater delays and costs at ports and airports, and on non-transparent public-procurement policies, one wonders just how ridiculous is the claim that the need to preserve the policy space of developing countries provides compelling grounds to reject the Singapore issues'. Simon J. Evenett, 'Five hypotheses concerning the fate of the Singapore issues in the Doha Round', *Oxford Review of Economic Policy* 23 (3) (2007), 392–414.

Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI), designed to tackle issues of odious and unsustainable debt in developing countries, have been supported by many development experts and practitioners. The programmes are motivated by development concerns and seek to reduce the drain on developing country fiscal resources and facilitate greater investment in local investment priorities.[47] Opponents of debt relief point to the prevalence of moral hazard in debt relief programmes, arguing that all developing countries are encouraged to contract further debts when debt relief programmes reward countries that fall into unsustainable debt. An additional concern is expressed in a recent World Bank paper which argued that repudiating sovereign debts can 'create the real risk of reduced flows of lending to sovereign borrowers, particularly poorer countries, thereby affecting financial flows to developing countries as a result of the danger of ex post challenges to lenders' claims'.[48] In short, the debt controversy is a struggle to find the ideal legal doctrine and relief process that avoids adverse outcomes, such as unsustainable debt paths and the inheritance by innocent citizens of the debts of corrupt dictators, without undermining the basis for all lending to developing countries or encouraging further unsustainable borrowing. Consensus on what the ideal legal framework for dealing with unsustainable debt paths and odious debt has not yet emerged, despite the recent multilateral debt relief programmes.

A somewhat related controversy illustrating alternative perspectives among experts is the important area of policy conditionality attached to either aid programmes or debt relief programmes. The primary reasoning behind the imposition of 'policy conditionality', such as satisfactory implementation of a 'poverty reduction strategy paper' or maintenance of macroeconomic stability under an IMF-approved arrangement to secure the HIPC and MDRI debt relief packages, is that donors want assurance that the relief will not simply be dissipated in corrupt or unproductive spending, or in an outflow attributable to unsustainable macro policies. Similar reasoning has underlain the relatively elaborate policy conditionality accompanying structural adjustment and the more recent 'policy development' loans of the World Bank.

Other expert opinion rejects this view. Some objections relate to specifics of the imposed conditions, ranging from particular points on which there is professional disagreement (for example, the design of monetary policy in a country experiencing a surge in aid inflows, or the cost-benefit analysis of introducing a deposit insurance scheme in a low-income country, to take just two cases in the field of financial sector policy), to broad disagreements on general approaches to economic policy, such as liberalisation and privatisation.[49]

Further contested issues with conditionality more generally include (i) the question of whether a universally effective economic and social policy blueprint for development is sufficiently well established to justify its imposition as a condition for the transfer of concessionary resources; (ii) the issue of ownership: if a detailed set of conditionalities is proposed to an unconvinced government as the price of financial assistance, how well will it be implemented? (iii) the issue of implementation capacity: even negotiating the exhaustive sets of conditions that have been included in numerous loans, let alone implementing them, has imposed a heavy administrative burden on low-income aid recipients; and (iv) the desirability of

[47]Opponents argue that the benefits of debt relief are subject to elite capture, an argument that provides a rationale for conditional debt relief.

[48]Vikram Nehru, and Mark Thomas, 'The concept of odious debt: some considerations', World Bank, Economic Policy and Debt Department Discussion Paper, 2008.

[49]For example, the Norwegian government's Soria Moria Declaration in February 2007 asserted that no requirements must be made for privatisation as a condition for the cancellation of debt.

allowing a democratically-elected government the policy space to design and implement measures adapted to local economic and political conditions. Reflecting these kinds of considerations, some have advocated a move away from policy conditionality in favour of broad budget support for governments, which the donors see as exhibiting a minimally-detailed set of qualifications.

The existence of significant divergence in expert opinion in many of the policy areas considered under the PCD agenda renders the search for coherence more challenging. While some issues remain controversial, in many cases as the years pass investments in research help develop a consensus view on what is optimal development policy. To illustrate this point, we need only reflect on the significant changes in development policy that have occurred every decade since the 1960s. With this in mind, efforts to pursue coherence require that PCD advocates are familiar with the best policy research and actively invest in its development and synthesis.

Heterogeneity between and within developing countries

Widening differences between developing countries and internal disparities within them pose significant challenges to the formulation of coherent policy. The World Bank distinguishes between low, middle and high-income countries, with the first two groups conventionally defined as developing economies.[50] The Irish Aid programme focuses especially on low-income developing countries. These countries face particular difficulties in integrating into the global economy and are less likely to pose a competitive threat to Irish or European interests. In contrast, the middle-income category includes emerging economies such as Brazil and Thailand which already are in a position to compete effectively in world markets for agricultural and manufacturing products and services. Nevertheless, living standards even in middle-income developing countries remain well below what would be considered acceptable in developed economies, and substantial proportions of the population in emerging economies live well below the poverty line.[51]

Such heterogeneity between and within developing countries suggests that developed country policy reforms will create both winners and losers in developing countries. This heterogeneity of developing country interests can be illustrated in the case of agricultural policy. The differences in EU treatment of imports from different developing countries mean that further CAP reform will generate both winners and losers in the developing world. The EU has for some time granted preferential access to agri-food exports from many low-income and least developed countries under a variety of preferential schemes, including the Generalised System of Preferences, the Everything But Arms initiative, and the Cotonou Agreement with 77 ACP (African, Caribbean and Pacific) countries. Of particular importance were the sugar and banana protocols which ensured that ACP exporters of these products gained significant preferential rents on the limited volumes of these exports they could sell on the EU market.

CAP reform that reduces European agricultural surpluses and raises world food prices will have a number of conflicting effects on the developing world. It will benefit the middle-income emerging market economies, which are already in a position to compete effectively on world agricultural markets. It will lead to

[50]Economies are divided according to 2007 GNI per capita, calculated using the World Bank Atlas method. The groups are: low per-capita income, $935 or less; lower middle income, $936–$3,705; upper middle income, $3,706–$11,455; and high income, $11,456 or more.

[51]Given the often sizeable and rapidly-growing middle class as well as often extreme inequality in income and wealth distributions in many emerging economies, it can be argued that the responsibility to tackle domestic poverty is as much a domestic policy issue as it is the responsibility of developed country aid donors.

preference erosion for the world's poorest countries. Even for those that are net food exporters, supply constraints due to poor infrastructure and institutions will inhibit their ability to exploit potential opportunities. For the urban and landless poor and smallholder farmers who remain net food purchasers, increases in global food prices will have detrimental effects, at least in the short run. Over the longer term the impact on the poor will depend on the extent of 'trickle down' of any resulting development.

In the event of asymmetric effects of trade reform, complementary policies designed to compensate losers can be pursued in parallel. In our example of preference erosion, aid policies to support the productivity and income of small farmers, provide social safety nets, develop alternative livelihoods or promote 'aid for trade' policies can help to offset the adverse effects of trade reform.

Recognising this heterogeneity has at least two implications for PCD policies. First, it is much easier to gain public support for policies that are confined to the low-income developing countries. Partly this is because their requirement for additional resources, for example, for climate change adaptation, will be limited and they hardly pose a competitive threat to EU producers. Partly it is because it is easier to convince EU public opinion of the neediness of these countries and the responsibility of rich countries to address their problems. It is a much more difficult task to persuade EU citizens that emerging economies are deserving of support through more coherent policies, even though in numerical terms the largest numbers of poor people live in these countries. No one objects to Namibia being given the right to export beef to the EU; it is quite a different matter when the country benefiting from it is Brazil. While each country pursuing a PCD agenda can decide for itself what partner countries it will seek to ensure policy coherence for, it is less valid for the EU to focus on a subset of developing countries for two reasons; the EU's PCD mandate is universal in its reference to developing countries, and the sheer influence of EU policies globally requires a united global approach to PCD. As a result, the EU PCD agenda is always likely to be challenged to some degree by developing country heterogeneity.

The second lesson is for the need for aid policies to be altered to reflect changes in non-aid policies that negatively affect some developing countries. Where there are losers among developing countries from EU policy reform, or where reform makes poorer people within developing countries worse off, then the EU has the obligation under its PCD commitment to step in and mitigate this damage. Usually, this would take the form of financial compensation to the affected groups, either in the form of support for social safety nets or assistance to help the affected groups to become more productive or to diversify into alternative lines of activity. The commodity protocols attached to the Cotonou Agreement are a good example. Some farm groups used the argument that, because some developing countries would be made worse off by reform of the EU sugar regime, the reform should be abandoned. Instead, because the reform moved the CAP in a sensible direction, the appropriate response was to provide adjustment assistance to those countries most heavily dependent on preferences. This is exactly what the EU did in the case of its sugar and banana reforms. The lesson is that aid policies need to be made coherent with changes in non-aid policies, not only to avoid losers among vulnerable groups in developing countries, but also to facilitate these groups in taking advantage of new opportunities which changes in EU policies may bring.

CONCLUSIONS AND POLICY RECOMMENDATIONS

In this paper we draw attention to some challenges inherent in pursuing a PCD agenda. These challenges help to explain the paradox that, despite political commitments to PCD at the highest level, development practitioners often despair at the extent of incoherence of EU policies with its development objectives. We propose approaches that can help to make the PCD agenda more effective.

The core challenge for PCD presents itself when developing and developed country interests directly conflict. In response, we have shown that such apparently conflicting interests may actually be aligned if a sufficiently long-term perspective is taken. In this respect, well designed international institutions and agreements can play an important role in locking in credible long-term commitments, overcoming the prisoner's dilemma problem and securing the mutual gains from cooperation. Domestic policies are often captured by significant interest groups pursuing their own agendas. An understanding of the political economy behind domestic decisions can also help PCD advocates to build coalitions with other groups in developed countries to whom current policies are detrimental.

Further complexity in the PCD agenda occurs when separate development objectives are in conflict. Experts may disagree on what is 'good' development policy. In other cases, developing countries' policies and demands may reflect the interests of political elites rather than those of the majority poor. In response, we recommend that PCD advocates are familiar with the best policy research, actively invest in its development and make use of sophisticated policy assessment tools capable of measuring impacts at the sectoral and regional level within developing countries.

Finally, growing differences between and within developing countries pose a challenge for the legitimacy of and public support for the PCD agenda. Public opinion may be willing to adjust domestic policies to benefit the very poorest developing countries, in part knowing that any 'costs' will be minimal. However, it would be wrong to confine the PCD agenda to only the least developed or smaller low-income countries. Policy responses to the needs of emerging economies will need to be more nuanced. It will require seeking out win-win opportunities supplemented by more targeted interventions when needed. However, at a minimum, it means that those pursuing a PCD agenda need to make explicit who exactly they perceive their development partners to be.

What will ultimately determine the success of PCD is an effective and integrated PCD system comprising (i) effective decision-making procedures with significant capacity for policy impact and coherence analysis, (ii) strong and comprehensive oversight mechanisms and (iii) a robust evidence base. In a recent publication, we propose a series of recommendations to advance the PCD agenda specifically in the Irish institutional setting.[52] We summarise here these three strategic priorities designed to help overcome the challenges of coherence, and to realise the promise of PCD for developing countries.[53]

First, an effective, official decision-making mechanism is required to consider PCD issues. Enshrining a 'stake' for international development objectives can be achieved along the spectrum of formality from the UK's approach of including the MDG's as part of all government departments' annual objectives to more informal cross-departmental groups established to consider and pursue coherence. The success of such mechanisms will depend on the skills of the staff involved, in particular in the areas of policy analysis and international development, and the existence and quality of processes for the evaluation of the impact and coherence of policies on and towards developing countries.[54]

[52]Barry, King and Matthews, *Policy Coherence for Development*.

[53]An alternative set of PCD building blocks is presented by the OECD. These include political commitment and policy statements, policy coordination mechanisms and monitoring, analysis and reporting systems. See OECD, 'Building blocks' for further details.

[54]An example of a standard process for the evaluation of the policy impacts is the European system of Regulatory Impact Assessments (RIAs).

Second, strong and comprehensive formal oversight procedures are necessary to ensure that internal government PCD deliberations are informed and critiqued by domestic and developing country parliamentarians and civil society, as well as by developing country governments. In the absence of formal oversight mechanisms, there are significant risks of group think and lack of awareness of the views of developing countries and experts on specific issues of coherence.

Finally, promoting a robust evidence base for policy coherence and policy impact is a necessary ingredient to underpinning the PCD agenda. The evolving nature of this agenda, as well as the challenges identified in this paper, require on-going research into policy coherence and the impact of both current and potential future policy endeavours of developed countries.