Better Policies for Sustainable Development 2016
A New Framework for Policy Coherence

Overview: Enhancing policy coherence for sustainable development

What can we learn from promoting policy coherence for development for the implementation of the 2030 Agenda?

Policy coherence for development (PCD) has focused on avoiding or minimising the negative spill-over effects of various policies on the development prospects of developing countries. For example, by avoiding situations in which Official Development Assistance (ODA) supports another country's agricultural development, while tariffs or subsidised agricultural production in the provider country simultaneously undermine the other country's export opportunities. Policy coherence for sustainable development (PCSD) requires us to go one step further, moving beyond a "do-no-harm" approach and towards a partnership approach based on "win-win" solutions. Importantly, PCSD will be fundamental for fostering synergies between economic, social and environmental policies in the implementation of the Sustainable Development Goals (SDGs), and take into account more systematically the effects of policies on the well-being of people living in other countries as well as of future generations.

OECD Members have formally signed international commitments to enhance PCD through its membership in the Organisation. Most OECD countries now have in place institutional mechanisms for PCD in accordance with the 2008 Declaration and the 2010 Recommendation of the Council on Good Institutional Practices in Promoting Policy Coherence for Development. PCD is a key pillar of the OECD Strategy on Development, endorsed by OECD Ministers in 2012, and the approach is evolving to better respond to the new realities of the global context.

Chapter 1 explores the experience of OECD countries over the past ten years in promoting PCD. It attempts to identify general lessons and good practices that could be relevant for building institutional mechanisms for coherence that are better adapted to the vision and needs of the 2030 Agenda, and for shifting from PCD towards PCSD in line with the new agenda.

The challenge of policy coherence for development

Enhancing PCD is a persistent challenge in international development as well as in effective governance. Members of the OECD's Development Assistance Committee (DAC) have sought to meet that challenge by setting up institutional mechanisms, the PCD building blocks: i) political commitment and policy statements; ii) policy co-ordination; and iii) systems for monitoring, analysis and reporting. The purpose is to make sure that domestic and foreign policies support, or at least do not undermine, the development aspirations of developing countries. There is no "one size fits all" formula for promoting PCD.

Practice varies from country to country depending on their governance processes, political dynamics, institutional setup, administrative culture and working methods.

A quick look at the trends in DAC peer reviews over the last ten years shows an increasing number of institutional mechanisms in place to promote PCD. In general, the experience has shown that these mechanisms have been instrumental to raise awareness and build commitment, but are not sufficient to achieve results. The strong commitment on PCD by DAC members sharply contrasts with the perception that progress has been limited over the last decade in terms of policy efforts or changes. According to the Commitment to Development Index (CDI), OECD countries' policies in seven key areas that affect poor countries, notably aid, finance, technology, environment, trade, security, and migration did not change much in the ten years between 2003 and 2013.

Some of the key aspects that impede progress, according to recent peer reviews, include the weak understanding and ownership of the PCD concept within administrations, parliaments and the public. They also include the lack of: time-bound action plans with shared objectives for the whole government; clear mandates for institutions responsible to arbitrate and balance divergent policy interests; and analytical capacity and sound monitoring systems and indicators to track progress and inform decision-making. A general overview of the country experiences in promoting PCD shows that making progress entails:

- *A better understanding of PCD backed by a clearly stated commitment, specific objectives and action plan*. DAC peer reviews indicate that the concept of PCD has been hard to grasp for policy makers across members' governments.
- *Establishing specific mandates to ensure an effective interface between domestic and international policies and capacity for managing trade-offs*. Progress is difficult to achieve without specific mandates for co-ordination mechanisms to address domestic policies, deal with policy divergences or tensions, and resolve conflicts of interests. In many cases co-ordination mechanisms have only limited ability to influence domestic policies.
- *Using monitoring systems to influence changes in policies and inform policy-making*. In cases where these systems exist, they are not fully utilised for screening domestic policies that could adversely affect development in other countries or regions. Many recent peer reviews have pointed to a lack of analytical capacity, or inadequate use of existing analytical capacity.

Moving towards policy coherence for sustainable development

The overall lesson is that the PCD building blocks are just a starting point. While PCD institutional mechanisms will continue to be relevant, they need to be reconfigured to respond effectively to the vision and needs of the 2030 Agenda, with mechanisms that: i) fully engage the whole government beyond foreign affairs, development ministries and aid agencies; ii) have the mandate and capacity to manage policy tensions, trade-offs and synergies across sectors and between domestic and international policies; iii) ensure a more systematic consideration of the effects of policies *ex ante*, during and *ex post*; iv) involve key stakeholders particularly CSOs and the private sector; and v) mobilise the national installed capacity for strengthening monitoring and reporting systems.

The universal, integrated and transformative nature of the new agenda requires governments to be able to work across policy domains, actors and governance levels. It involves a significant shift in the way PCD is approached. An integrated agenda requires coherent policy-making to ensure a balanced approach to the economic, social and environmental dimensions of sustainable development (horizontal coherence). It requires breaking out of sectoral silos and adopting integrated approaches to consider more systematically complex inter-linkages (such as the water-energy-food nexus), trans-boundary and intergenerational impacts, and trade-offs. A transformative agenda involves aggregated actions at the local, national, regional and global levels (vertical coherence).

Policy coherence in the 2030 Agenda requires bringing sustainability considerations more systematically into policy-making. Policy coherence for sustainable development, as defined by the OECD, puts greater emphasis on the effects of policies on the well-being of people in other countries and regions. It builds upon PCD efforts. Given the centrality of sustainable development in the 2030 Agenda, PCSD also focuses on the effects on the well-being of future generations (long-term impacts of policies). Policies have a key role to play for delivering the economic, social and environmental transformations needed for achieving a more sustainable path.

A new Framework for Policy Coherence for Sustainable Development

The year 2015 marked a major shift in the international development agenda. The vision of the 2030 Agenda for Sustainable Development differs from that of the MDGs in fundamental ways. It represents a more ambitious agenda that puts emphasis on well-being, prosperity and sustainability in all countries for all people of this generation and those to come. The Sustainable Development Goals are an indivisible set of global priorities that incorporate economic, social and environmental aspects and recognise their inter-linkages in achieving sustainable development.

Given the integrated nature of the new agenda, policy coherence is critical to capitalise on synergies among SDGs and targets, between different sectoral policies, and between diverse actions at the local, regional, national and international levels. PCSD is fundamental to inform decision-making and manage potential trade-offs and tensions between policy priorities, such as: economic growth, human wellbeing, environmental protection and natural resource preservation.

Transitioning from the MDGs to a universal sustainable development framework calls for updating current approaches to promote PCD, and making sure that existing institutional mechanisms are “fit for purpose” for the implementation of the SDGs. The new Framework for Policy Coherence for Sustainable Development (“the PCSD Framework”) introduced in **Chapter 2**, aims to support any government – both from OECD members and partner countries – interested in adapting its institutional mechanisms, processes and practices for policy coherence to implement the SDGs. The PCSD Framework provides a tool to:

- *Map out SDGs and targets to identify and manage critical sectoral interactions between the economic, social and environmental spheres.* For example, between water (SDG 6), energy (SDG 7) and food (SDG 2) objectives: 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. Tensions may arise from real or perceived trade-offs between various objectives.
- *Ensure consistency of decisions across different governance levels.* This is critical in an increasingly interconnected global economy where systemic risks have inextricable global-domestic linkages that need to be managed. Some of the sustainable development challenges need to be addressed at the global level (e.g. climate change and other systemic risks); at the national or regional level (e.g. legislative changes or changes in economic, fiscal and

trade policy); and at the local level (e.g. specific details on land use; human settlement patterns, or transportation planning).

- *Consider policy effects "here and now", "elsewhere", and "later".* Achieving sustainable development requires considering ways in which the pursuit of well-being today in one particular country may affect the well-being in other countries or of future generations (the long-term impact of policies at national and global levels). Support measures for fossil fuels for example often introduce economic, social and environmental distortions with unintended consequences. Fossil fuels are responsible for the majority of global GHG emissions, and fossil fuel subsidies – amounting to USD 510 billion worldwide in 2014 – contribute to climate change, but also have health implications, undermine incentives to invest in renewables, and can be in most cases replaced by more effective and targeted support for the poor.
- *Track progress on the diverse elements of PCSD:* i) institutional mechanisms for coherence: ii) policy interactions across sectors; including critical contextual factors that promote or hinder contributions to sustainable development (enablers and disablers); and iii) policy effects, i.e. trans-boundary and intergenerational effects.

The PCSD Framework provides general guidance as well as a screening tool to: i) conduct analysis to identify policy coherence issues, and improve understanding of the interactions among SDGs and targets and their implications (Analytical framework); ii) align existing institutional mechanisms for policy coherence to the vision of the 2030 Agenda (Institutional framework); and iii) consider key elements for tracking progress on PCSD, the purpose is to support countries in monitoring and reporting progress on SDG Target 17.14 (Monitoring framework).

The new analytical framework aims to take into account i) the diverse roles of different actors (governments, international organisations, private sector and non-governmental organisations), as well as the diverse sources of finance – public and private, domestic and international; ii) the economic, social and environmental dimensions of sustainable development in policy-making, and consider critical policy inter-linkages; iii) the enabling and disabling conditions that influence policy performance and outcomes, iv) the effects of policies on the well-being in any one country ("here and now"), for people living in other countries ("elsewhere"); and v) a long-term perspective for transformation and consider the effects of policies on the well-being of future generations ("later").

The institutional framework needs to be strengthened to break out of policy and sectoral silos. The SDGs as an internationally agreed set of global priorities offer an opportunity to build complementarities of planned policies, programmes and actions in the economic, social and environmental areas. The general guidance provided by the PCSD Framework aims to help governments align their institutional mechanisms for coherence to the vision and needs of the SDGs. It draws on the lessons learnt from the OECD Strategy on Development as well as the experience of PCD building blocks, and highlights those recommendations from 2010 on good institutional practices in promoting PCD that are considered still relevant in the context of the 2030 Agenda for Sustainable Development.

The monitoring framework for tracking progress on PCSD and inform decision-making requires looking at: i) functions and capacities to formulate coherent policies (e.g. institutional mechanisms, including budgetary factors); ii) the ways in which policies across economic, social and environmental areas interact in achieving sustainable development outcomes (e.g. fostering synergies and addressing trade-offs); iii) changes in institutional and policy performance as a result of PCSD (e.g. policy outcomes); and iv) the resulting impact of policies on sustainable development "here and now", "elsewhere" and "later". The PCSD Framework offers examples of the diverse types of indicators that can be used to track progress on the different elements of PCSD.

Applying the "PCSD Framework" to food security, illicit financial flows, and green growth

The 2012 OECD Strategy on Development identified food security, illicit financial flows, and green growth as priority areas for the Organisation's work on policy coherence. It called for more evidence-based analyses on the costs of incoherent policies and the benefits of more coherent policies, and advocated for more integrated approaches to policy making. Against this background, over the past three years, *Better Policies for Development* has provided a channel for disseminating Organisation-wide work in the three priority areas.

In 2013, the spotlight was put on policy coherence and global food security. The book *Global Food Security: Challenges for the Food and Agricultural System* (OECD, 2013) provided an important basis for this edition together with work undertaken with other international organisations, in particular for the G20. The analysis considered how changes to the world's food and agriculture system can contribute to improvements in food security in developing countries. It took stock of existing OECD work, with the overarching objective to distil the main priorities for ensuring long-term global food security, including through enhanced policy coherence. *Better Policies for Development 2013* presented an overview of the key findings and policy recommendations.

The 2014 edition focused on illicit financial flows (IFFs), drawing on the report *Measuring OECD Responses to Illicit Financial Flows from Developing Countries* (OECD, 2014). A key output of the OECD Strategy on Development, this report represented a first attempt to measure how well countries are performing in their fight against IFFs. Specifically, it used public data and compliance reviews of international agreements (e.g. FATF Standards, OECD Anti-Bribery Convention) to assess five policy areas: money laundering, tax evasion, bribery, asset recovery, and the role of donor agencies. *Better Policies for Development 2014* built on this analysis to highlight a policy coherence lens to inform actions to reduce IFFs and contribute to better development outcomes for all.

Finally, in 2015, a "PCSD-lens" was applied to green growth. OECD has long-standing expertise in this area and – due to its multi-disciplinary approaches – can offer important added-value. The OECD Green Growth Strategy (OECD, 2011) provides a practical framework for governments in developed and developing countries to seize opportunities that arise when the economy and the environment work together. A more recent project on the alignment of policies for the transition to a low-carbon economy (OECD, 2015) identifies opportunities for improving the coherence of policies to enable an efficient and cost-effective transition to a low-carbon economy. *Better Policies for Development 2015* highlighted the findings and recommendations of OECD work related to green growth, also including work on tax systems to support green growth, the need for infrastructure investments, and the role of social and labour policies in pursuit of green growth.

Pulling all of this work together, this year's edition of *Better Policies for Development* applies the Framework for Policy Coherence to Sustainable Development to food security, illicit financial flows, and green growth. It aims at supporting countries in their efforts to design and implement coherent policies in these three areas, and to contribute to the implementation of the Sustainable Development Goals.

Food security

The application of a policy coherence lens to global food security shows that the main challenge of ensuring 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.

The Sustainable Development Goals recognise that food insecurity can affect all countries through many different channels. Yet, the specific policy responses to food security challenges will vary between countries due to different national contexts, such as income level, trade openness, and geography and climate.

Ensuring food security also calls for a coherent approach among stakeholders at local, national, regional and international levels. Breaking down the silos that separate policy sectors is a key challenge in overcoming inconsistencies and promoting cross-sectoral synergies for achieving food security. **Chapter 3** applies the PCSD Framework to food security and offers a self-screening tool that can support policy makers in identifying and addressing policy interlinkages in order to enhance policy coherence for sustainable development.

Consider how domestic policies influence the four dimensions of food security

According to common definitions, food security exists when the conditions for four key dimensions are fulfilled: i) access to food; ii) availability of food; iii) utilisation of food; and iv) stability of food. Most of the world's hungry are chronically hungry as a consequence of poverty. Poverty is the principal obstacle to the attainment of global food security as it constrains peoples' *access* to food. The basic requirement for poverty reduction is sustainable development. Second, governments can increase the *availability* of food via measures that increase supply sustainably or restrain demand that does not translate into improved food security outcomes. Third, the chief requirements to improve the *utilisation* of food are complementary policies. Improvements in education and primary healthcare can strengthen income growth, and – along with other investments, notably in sanitation and clean water – improve nutritional outcomes. Direct nutrition interventions can also be effective. The fourth way in which policies related to food and agriculture can improve food security is by ensuring *stability*, such that the incomes of farmers and consumers used to buy food are resilient to shocks.

Coherent policy making requires considering not only the impact of sectoral policies on each of these four dimensions, but also how each dimension is linked to the other three. For example, measures to increase crop production (availability) need to be accompanied by appropriate infrastructure investments (access) in order to avoid food waste.

Identify policy interlinkages of relevance to food security (horizontal coherence)

Addressing food security will require actions in a wide range of areas beyond the food sector. Decision-makers may face difficult policy choices in reconciling the domestic with the international objectives, and the short-term economic gains with longer-term sustainable development. Applying a policy coherence lens can help stakeholders to identify and maximise synergies, while minimising trade-offs. Policy areas that may impact on food security include: agriculture and fisheries (e.g. input subsidies; crop insurance; IUU fishing); forestry (e.g. land availability; carbon sink); water and sanitation (e.g. irrigation; desalination); energy (e.g. energy subsidies; renewable energy); trade (e.g. tariffs, NTMs, preference erosion); investment (e.g. FDI restrictions); innovation (e.g. technology transfer; IPRs); climate (e.g. fossil fuel subsidies; biofuel mandates): and biodiversity (e.g. biological pest-control).

In the context of the 2030 Agenda, 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. However, due to the indivisible nature of the SDGs, in order to make progress on SDG 2 policy makers will need to also consider inter-linkages and critical interactions between SDG 2 and other SDGs, such as the synergies with goals on poverty, health, education, gender and sustainable consumption and production patterns, as well as trade-offs with goals on water, energy, climate, oceans, land use, forestry, biodiversity and ecosystems.

Reform or remove policies that create negative spill-over effects

OECD countries can accelerate the process of reforming policies that create negative spill-overs. Historically, the concern has been with high levels of support and protection that have the potential to undercut farmers' livelihoods in developing countries. With the exception of tariff preferences given to some developing countries, tariffs on agricultural products remain several times higher than those levied on industrial goods. This restricts market access for developing countries' farmers with export potential. Higher prices have historically led to the accumulation of production surpluses, which have been disposed of by means of export subsidies. These in turn depress international prices, making conditions more difficult for competitors in international markets and for import-competing producers in domestic markets. Policies to support farmers have also often been counter-cyclical, which stabilise domestic markets but export volatility onto world markets. There have been important reforms, however, resulting in lower marginal impacts of support on developing countries. The reduction in the level of support has also been accompanied by a shift away from production- and trade-distorting forms of support.

As world food prices have risen, concern has focused on policies that add upward pressure on prices, including the diversion of land to biofuel production. There are huge uncertainties over the scale of impact that biofuels will have on overall land use. Future developments in biofuel technology, the cost and availability of fossil fuels and the policy environment are hard to predict. The removal of policies that subsidise or mandate the production and consumption of biofuels that compete with food production would imply that these technologies come on-stream only when they are economically viable, and in the meantime do not jeopardise food security unnecessarily.

Overall, the best response to global market instability is for countries to avoid distorting or protectionist policies. Such policies cause bilateral and regional trade flows to break down, and generate wider negative spill-overs when applied by countries with a larger presence in world food markets. Many of the 2007-08 food price spike responses were ineffective because of the collective impact of other countries applying similar measures. Countries can mitigate some of these risks by having a wider range of trading partners.

Ensure coherence of actions at and between different levels of government (vertical coherence)

Enhancing or maintaining food security depends on coherent policy interventions across all levels of government and co-ordination among political institutions and other stakeholders. Governments need to make better use of existing political structures and institutions, as well as to realign their policy frameworks and agendas with partner countries to expand the reach and improve effectiveness of their efforts.

Local governments are ideally placed (and usually, mandated) to concentrate on several variables needed to improve food security (e.g. infrastructure, food distribution). However, local governments often lack funding, capacities and adequate staffing. This is especially acute in developing countries. Increasing revenue collection in the short term, and promoting local economic development in the long term, can help mitigate those issues.

To improve food security at the *national level*, countries are encouraged to set up or strengthen inter-ministerial mechanisms, informed and co-ordinated at a high level of government, consolidated in national law, and involving governmental and non-governmental stakeholders from all areas related to food security and nutrition. National strategies, in turn, need to be comprehensive and address all pillars of food security, i.e. availability, access, utilisation and stability. Efforts also need to take into account and engage with the regional level and involve regional organisations.

Finally, the *international community* should work collectively in support of national and regional efforts to combat hunger, and to help prevent duplication. The recent economic crises, including high and volatile food prices, have shown that improved co-ordination is critical at national, regional and global levels.

Consider diverse sources of finance to improve food security and ensure complementarities

One of the most effective means of reducing poverty and food insecurity amongst rural populations in agricultural-based economies is economic growth in the agricultural sector. An estimated amount of USD 80 billion annually is needed in agriculture investment globally over the next years, which would mean a 50% increase from current levels. To mobilise such large amounts, policy makers have to funnel funds from a broad range of sources.

While most of the investment will come from the private sector, especially from farmers themselves, governments have an important role in establishing framework conditions that complement and encourage responsible private investment. Governmental intervention in agriculture finance is often directed towards managing risks in the sector. This includes support to farmers in the form of payment of indemnities, reductions in social security contributions, tax exemptions and subsidising private insurance schemes.

Increased investment in agriculture will also involve new stakeholders in agricultural supply chains, as well as innovative financing mechanisms. This is a positive development overall, but it will require policy makers to pay increasing attention to potential incoherencies among these growing sources of finance.

Consider contextual factors and create enabling conditions for ensuring global food security

It is ultimately household income that determines the ability of people to buy the food they need to lead healthy lives. Raising the incomes of the poor is therefore one of the main enablers for ensuring global food security. The basic requirement for poverty reduction is broad-based development and its underpinnings include peace and political stability, sound macro-economic management, strong institutions, well-defined property rights and good governance. Open and transparent markets can also be considered an enabler for food security by alleviating information asymmetries. Trade enables production to be located in areas where resources are used most efficiently and has an essential role in getting products from surplus to deficit areas. It also raises overall incomes through the benefits to exporters (in the form of higher prices than would be received in the absence of trade) and importers (through lower prices than would otherwise be paid), while contributing to faster economic growth and rising per capita incomes.

Conversely, conflict and fragility, as well as high and volatile food prices, are significant disablers of food security. Coherent and integrated policies can help to strengthen enabling environments and to remove or minimise the effect of systemic conditions.

Illicit financial flows

Combating illicit financial flows is a major challenge for all governments, and an increasingly important priority for the international community. IFFs are a significant barrier to sustainable development, and to the implementation of the Sustainable Development Goals. Money lost each year through IFFs is estimated at USD 1 trillion from corruption, and about USD 1.6 trillion from global money laundering. These flows strip resources that could finance much needed public services, such as health care, education, and other vital elements of sustainable development.

IFFs stem from corruption, crime, terrorism, and tax evasion; and use channels ranging in sophistication from cash smuggling and remittance transfers, to trade finance and shell companies. The cross-cutting nature of IFFs requires policymakers and other stakeholders to have a more strategic overview of IFFs. They must assess the potential trade-offs and synergies in an inter-disciplinary manner, better inform policy making upstream, and help government actors to take more effective action. **Chapter 4** aims to address this challenge by providing a simplified framework and self-screening tool for countries to help them plan for, avoid, and resolve the most significant trade-offs or policy inconsistencies and apply existing international standards in a coherent and effective way. It can also raise awareness of the relevance of IFFs to achieving the SDGs, particularly target 16:4 which calls on countries to "significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime" by 2030.

Identify and raise awareness of the types, magnitudes and risks of IFFs

As the very first step in the process of addressing IFFs, governments and other stakeholders need to build an evidence-base to guide further action. It is crucial to map the territory and to identify the types of IFFs, quantify their magnitudes, and assess the threat they pose. This may also help to put IFFs on the political agenda and to raise awareness of the challenges and risks involved.

IFFs can be defined broadly as all cross-border financial transfers, which contravene national or international laws. This is a wide category which encompasses several different types of financial transfers, made for different reasons. It can include:

- Funds with criminal origin, such as the proceeds of crime.
- Funds with a criminal destination, such as bribery, terrorist financing or conflict financing.

- Funds associated with tax evasion.
- Transfers to, by, or for, entities subject to financial sanctions under UN Security Council Resolutions such as 1267 (1999) and its successor resolutions (e.g. Al Qaida and other terrorist organisations).
- Transfers that seek to evade anti-money laundering/counter-terrorist financing measures or other legal requirements (such as transparency or capital controls).

IFFs pose a severe threat to public finance on a global scale: total ODA provided by DAC members in 2013 was USD 134.4 billion. The estimates of IFFs cited here place global losses from corruption at USD 1 000 billion; and from money laundering (which includes some of the proceeds of corruption) at USD 1 600 billion.

Consider the contextual factors that allow IFFs to thrive

Many factors influence the risks that a country faces from IFFs and the capacity to effectively prevent and mitigate them. The threats and vulnerabilities existing in a particular country (whether of a domestic, regional or international origin) affect the scale and the type of IFFs it may see, and the capacity to effectively prevent and mitigate them in terms of policies and institutions. Understand the scale of domestic crime, notably proceeds-generating crime and organised crime. In order to curb IFFs, it is therefore imperative to:

- Assess the strength and integrity of public institutions (including law enforcement, tax authorities, and financial supervisors).
- Ensure good governance, rule of law, and strong institutions, including the involvement of civil society and independent media.
- Analyse the size of the financial sector, including international and offshore financial centres, as this might impact the country's exposure to risk and IFFs.
- Examine the role of the international environment, the impact of geographical location and cultural links.
- Identify the degree of secrecy/transparency in public and private institutions, e.g. bank secrecy, beneficial ownership of legal persons and arrangements, and data protection.
- Survey the composition of the national economy; and explore how this composition may encourage or discourage illicit flows.

Support coherence within and between national and international normative frameworks (vertical coherence)

Measures to combat IFFs can be complex and technical, and they also need to be responsive to an ever-changing global environment. It is not effective or coherent for each country to pursue these measures in isolation. Countries are more effective when they share information about the changing risk environment; when they pool their resources to identify and disseminate best practices in the implementation of policy measures; and when they exert concerted pressure on jurisdictions which do not play by the rules. Active participation in the international groups and bodies concerned with IFFs can support effectiveness and coherence at home, and open up co-operative options for managing conflicts and spill-overs internationally.

The international framework is governed by a large array of different, legally binding agreements; international standards developed by the OECD; and numerous voluntary standards and bodies. This international normative framework is generally considered as coherent and the multitude of agreements and treaties refer to (and build on) each other. Coherence is further enhanced by an increasing focus of four key OECD bodies that are primarily working on IFFs: The OECD Working Group on Bribery; the Global Forum on Transparency and Exchange of Information for Tax Purposes; the Oslo Dialogue, (supporting a whole of government approach to fighting tax crime and other financial crimes), and the Financial Action Task Force (FATF).

Recent years have seen the development of clearer international standards for combating IFFs, widening global participation in key international bodies, and greater co-operation between specialised agencies. In spite of substantial changes over recent years, considerable scope for coherence improvements remains at the interface between this multi-facetted framework and the different nation states. There is uneven progress across OECD countries in curbing IFFs, and developing countries are particularly dependent on coherent international action to tackle the links in the IFFs chain that are beyond the scope of their national policy making (OECD, 2014).

To improve coherence, it is essential to: engage with *international norms and standards*, including peer review mechanisms, multilateral co-operation initiatives, and information exchange mechanisms; establish *bilateral co-operation*, in particular with countries which are key sources and destinations for IFFs; and identify how *development assistance* policies can support measures to combat IFFs.

In a similar vein, the issue of IFFs needs to be mainstreamed across and between national actors, e.g. ministries and competent authorities, as well as non-government institutions. Governments need to build institutional mechanisms that assign clear responsibilities and facilitate straight-forward co-ordination and collaboration between the different agencies, both on the level of policy design and implementation.

Consider critical interactions across economic, social and environmental areas to address IFFs (horizontal coherence)

As IFFs cut across traditional policy sectors, the responses will inevitably interact with other policies and at times even interfere with their specific policy objectives. In order to stand a chance of success, measures to counter IFFs have to be carefully embedded into the specific sectoral frameworks. Mapping out potential frictions and incompatibilities could guide policy design so as to exploit synergies, and to avoid unintended consequences.

The overarching trade-off regarding IFFs concerns risk, cost, and proportionality: Are anti-IFFs policies, given the costs they involve, a proportionate and justified response to the risks posed by IFFs? Specific policy areas for consideration include:

- taxation (i.e. balance revenue recovery and administrative resource constraints with the need to deter further tax evasions and maintain public support and compliance);
- business regulations (i.e. balance the need for transparency and regulation of the establishment of companies with the consideration of creating a business-friendly environment and minimising compliance costs);
- financial inclusion (i.e. balance the need for stringent reporting rules with concerns for access to financial services of poor people with insufficient identity documentation);
- migrant remittances (i.e. crack down on IFFs while not discouraging migrant remittances);
- data protection rules (i.e. balance the need for transparency and reporting with privacy and data protection rules);

- and diplomatic relations (i.e. balance the need to combat IFFs with diplomatic concerns about tensions between countries/governments about high-profile cases).

Going forward, it will be important to consider synergies and trade-offs related to IFFs in the context of the SDGs. Reflecting their significance as a potential disabler of development efforts, SDG target 16.4 includes a specific reference to IFFs, calling upon countries to "by 2030 significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organised crime". Efforts to achieve this target will need to be carefully balanced with efforts to achieve other targets. This involves identifying synergies with some goals (e.g. Goal 8: sustained, inclusive, and sustainable growth), as well as trade-offs with other goals (e.g. Goal 10: Inequality).

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 challenges with implications for future generations. 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. Without shifting towards a sustainable growth path, the impact on natural resources and the ecosystem services on which human wellbeing depends will be colossal.

Green growth policies will be fundamental in incorporating the sustainability dimensions into economic policy making. They can unlock new and sustainable sources of growth through improvements in productivity and innovation, create new markets through changes in demand, and create greater investor confidence through a predictable government approach to green growth. In addition, the risks to growth emanating from resource bottlenecks and ecosystem imbalances can be successfully addressed.

This impetus is propelled further by the 2030 Agenda for Sustainable Development, which attempts to move beyond the single-goal vision of economic expansion and incorporate a multitude of other targets into a more coherent and sustainable idea of human wellbeing. Green growth – a subset of sustainable development – will be instrumental for achieving the Sustainable Development Goals.

To promote green growth – and achieve the SDGs – a much better understanding of the opportunities and trade-offs between environmental and economic policies is instrumental. If governments do not have a clear grasp of the economic opportunities created by environmental preservation – or the potential feedbacks of environmental damages on economic growth – they will struggle to align economic and environmental priorities for green growth. **Chapter 5** shows how the PCSD Framework can be used to support their efforts to design and implement coherent green growth policies.

Consider the contextual factors which may support or hinder green growth

The policies needed to implement green growth policies will vary from country to country depending on national and contextual circumstances, such as income levels, size and sectoral composition of the economy, and the relative dependence on natural resources or fossil fuels. Governments can enable green growth by shifting public expenditures away from activities that waste, overuse or degrade environmental resources, and by facilitating for businesses to fully integrate sustainability and equity concerns. More effective enforcement of legislation, as well as research, science and innovation, can also support the transition to green growth. In many developing countries, it is important to establish resource and land rights regimes that safeguard the interests of those with informal rights.

Similarly, the importance of constraints to green growth will vary between countries. The OECD identifies two broad categories of constraints to green growth:

- Low overall economic returns, encapsulating factors which create inertia in economic systems and capacity constraints, or "low social returns".
- Low appropriability of returns, where market and government failures prevent people from capturing the full value of improved environmental outcomes and efficiency resource use.

Other systemic conditions, which apply to virtually all areas of policy, include poor governance, weak institutions, lack of transparency and corruption. The management of systemic conditions will be viewed differently depending on whether the focus is on a single industry, the stewardship of an economy at large, or even the global economy. From an economy-wide perspective, there are clear downsides to acting too slowly. Priorities and timeframes are likely to be different depending on local environmental and developmental context.

Ensure coherence at and between different levels of governance (vertical coherence)

While national, sub-national and municipal governments face different challenges and opportunities in promoting green growth, their policies and actions need to be coherent and strive towards the same overall objectives. Multilevel governance – co-ordination between different levels of government, private sector and civil society – is necessary for integrating environmental and economic priorities in pursuit of green growth. At the same time, local and national strategies need to be aligned with broader international agendas.

At the international level, the Sustainable Development Goals underscore the importance of green growth strategies to the global development agenda, while the Paris Agreement at COP21 marks a decisive turning point in the global response to climate change. National-level actions, in turn, are most effective when guided by a national strategy, ideally designed through stakeholder engagement and championed by the centre of government. Additionally, governments need to develop institutional capacity in order to be able to integrate green growth objectives into broader economic policy-making and development planning.

However, central government policy alone cannot ensure a green transition – cities, regions and communities are also important catalysts for green growth policy solutions. Experimentation and learning at the subnational level can provide essential experience and lead to bottom-up diffusion of approaches between cities and regions as well as influence national and even international levels of actions. Co-ordinating governance issues can help achieve the most cost-effective option in attaining green growth, including in the areas of green investment and innovation

Identify policy interlinkages of relevance to green growth (horizontal coherence)

Policies for greening growth will differ across countries, according to local environmental and economic conditions, institutional settings and stages of development. However, in all cases, various policy instruments have to be harmonised across different policy domains and line ministries in order to integrate the natural resource base into the same dynamics and decisions that drive growth.

The 2030 Agenda will also require policy makers to recognise and promote synergies between some SDGs and targets, while at the same time minimising potential conflicts between others. Specifically, green growth requires aligning economic and environmental objectives so that they are mutually reinforcing and not working at cross-purposes, while at the same time taking into account the social consequences. To this end, policy makers need to have a shared understanding of the interactions between economic and environmental goals, their complementarities and potential policy conflicts and trade-offs. Policy coherence for sustainable development can be used to identify such linkages *ex ante*, as well as their effects *ex post*.

Policy areas to consider in conjunction with the design and implementation of green growth policies include environment and climate (e.g. carbon pricing, emissions performance standards); fiscal policy (e.g. environmental taxes; green budgeting); investment (e.g. in infrastructure); competition (e.g. barriers to market entry); labour market (e.g. green skills and jobs); trade (e.g. bilateral and multilateral trade agreements, trade in environmental goods); agriculture (e.g. sustainable production and land use, fertiliser subsidies); innovation (e.g. support for R&D, green technologies); energy (e.g. fossil fuel subsidies, biofuel subsidies); transport (alternative vehicles, congestion charges); urban planning (e.g. land-use planning); and development co-operation (e.g. ODA for climate change adaptation).

Consider the various sources of finance (public, private, domestic, foreign)

Financial flows need to act both as an engine for growth and development as well as an incentive to maintain the quality of the global commons. However, the investment needs for a transition to the green economy are great and funds will be required from both public and private sources. Different scenarios have tried to estimate the amount of future investment required for green transition. Most recently, the OECD/IEA (2015) estimated that in order to remain within the 2 degrees scenario, additional investment of around USD 40 trillion would be required from 2016-50, about half of which (USD 19 trillion) should be channelled to the transportation sector. In total, this accounts for about 1% of projected global GDP over the same time.

Public investment will have to play a pivotal role in the promotion and implementation of green growth policies and measures. Three areas in particular merit attention:

- *Green taxation*. Taxes related to energy and greenhouse gas emissions have by far the biggest revenue-raising potential of environmentally related taxes.
- *Subsidies abolition*. Public resource mobilisation could be further supported by gradually phasing out harmful tax incentives and subsidies.
- *Green public procurement and expenditure*. OECD countries increasingly include environmental objectives in procurement strategies.

Development finance institutions are also instrumental in mainstreaming microfinance and supporting the development of private industries in risky green sectors at early stages of development, but their role could be strengthened further.

Private investment is indispensable for green growth. To this end, governments will need to make every effort to unlock hitherto dormant capital flows. Importantly, promoting green investment may not as much depend on raising new funds as on redirecting existing funds by building an investment environment conducive to sustainable investment. Institutional investors (such as insurance and pension funds), whose size and influence are expected to increase as a consequence of the ageing populations in OECD countries, are considered the natural candidates to finance a long-term transition to green growth.

Assess the impact of policies and monitor progress towards green growth

Policy coherence for sustainable development can help governments anticipate the effects of their actions on people's wellbeing (here and now), as well as on other countries (elsewhere) and future generations (later). Given the broad scope and complexity of green growth, however, progress towards policy objectives (as well as associated policy effects) cannot be easily captured by a single measure but rather by a set of markers that identify necessary conditions for green growth. The OECD Green Growth Measurement Framework provides a powerful tool for providing a body of evidence to support the policy dialogue on whether economic growth is becoming greener and, if so, to what extent people are benefiting from it. Specifically, the framework explores four inter-related groups of indicators, which are flexible enough for countries to adapt them to different national contexts:

- The environmental and resource productivity of the economy.
- The natural asset base.
- The environmental dimension of quality of life.
- Economic opportunities and policy responses.

Additionally, the framework also considers the socio-economic context and characteristics of growth.

Tracking progress in policy coherence for sustainable development

Monitoring policy coherence for sustainable development will require consideration of three key elements: i) institutional mechanisms; ii) policy interactions, including contextual factors; and iii) policy effects (OECD, 2015a). This broader approach can be used to assess the extent to which domestic policies are aligned with international sustainable development objectives and contribute to the achievement of the Sustainable Development Goals. The purpose of **Chapter 6** is to explore a selection of policy interactions related to food security, illicit financial flows, and green growth – the three priority areas for policy coherence identified in the 2012 OECD Strategy on Development.[1] These include:

Food security:

- Potential trade-offs: Ending hunger/manage water sustainably/ensure energy access/ increase biofuels production
- Synergy: Correct trade restrictions and price distortions/income growth
- Potential trade-offs: Agricultural productivity/climate change/marine pollution/ deforestation

Illicit financial flows:

- Potential trade-offs: Strengthen financial regulation/improve financial inclusion/transaction cost of remittances
- Synergy: Reduce IFFs/manage natural resources sustainably
- Synergy: Strengthen domestic resource mobilisation/reduce IFFs

Green growth:

- Potential trade-offs: Double agricultural productivity/sustainable use and management of ecosystems, forests, land and soil
- Potential trade-offs: Sustain per capita economic growth/sustainable use and management of ecosystems, forests, land and soil
- Synergy: Rationalise fossil fuel subsidies/combat climate change

Identifying and understanding the different types of interactions between the SDGs and their respective targets will help policy makers to maximise synergies and exploit win-wins (pursuing multiple objectives at the same time); avoid potential policy conflicts (pursuing one policy objective without undermining others); manage trade-offs (minimising negative impacts on other policy objectives); and ultimately design coherent policies for sustainable development.

Data and indicators to track progress on PCSD are likely to vary from country to country depending on their natural attributes, economy, institutional set-up, and political and social variables. Yet, some common indicator sets could be identified for cross-country comparisons and peer review. By monitoring the correlation and trends between these indicators, we offer an approach that countries might wish to use to assess their own progress towards SDG target 17.14 – "enhancing policy coherence for sustainable development". Monitoring the evolution of OECD country policies that could either contribute to or undermine the achievement of these targets provides an additional layer of analysis. The purpose of this exercise is to contribute to monitoring policy coherence at the national level. It is undertaken in parallel with the UN-led process to monitor implementation of the SDGs at the global level.

Other stakeholders too are conducting studies of SDG interactions and monitoring options. Such initiatives include: a number of modelling tools by UN DESA; a nexus approach to identify interactions by Stockholm Environment Institute; an SDG dashboard and index by the Sustainable Development Solutions Network; a taxonomy of the types and strengths of interlinkages by the Stakeholder Forum, Bioregional, and Newcastle University; the iSDG Model by the Millennium Institute; and a proposal for reporting on SDG target 17.14 by 11.11.11 (the Flemish Coalition of the North South Movements) and Kehys (the Finnish NGDO Platform to the EU).

Implementing the 2030 Agenda nationally

The 2030 Agenda presents national governments with both opportunities and challenges. Opportunities – because it prompts them to review and improve the coherence of domestic policies, guided by a common global framework; challenges – because, in many countries, it requires new or updated institutional mechanisms for designing and implementing integrated policy solutions more effectively.

National approaches for implementing the 2030 Agenda and the Sustainable Development Goals vary between countries. **Chapter 6** provides an overview of 18 countries' initial efforts to "nationalise" the agenda and adapt it to their own country context and priorities.[2] It is based on responses to the following six questions:

1. In what way is your country aligning its national strategies to the 2030 Agenda and setting national targets?
2. What steps are being taken to integrate the SDGs into national policy frameworks, break out of policy silos and apply integrated and coherent policy approaches?

3. How is your country updating institutional settings and strengthening co-ordination mechanisms for improved coherence and effective SDG implementation?
4. Is your country applying an intergenerational timeframe when designing policies for the implementation of the SDGs?
5. How are current monitoring mechanisms being aligned with the new agenda in order to track progress in SDG implementation?
6. Are efforts being made to involve multiple stakeholders, e.g. CSOs, NGOs, and the private sector in these processes?

It shows that most of them have begun to align their existing national sustainable development strategies, as well as their development co-operation policies – many refer to this as the internal and external dimensions of SDG implementation. Several countries have or are planning to conduct gap analyses or mapping exercises of their national strategies vis-à-vis the 2030 Agenda in order to identify where action is needed. Subsequently, concrete action plans for implementation are being proposed or elaborated, and responsibilities for implementation, follow-up and reporting are assigned to appropriate government bodies. Steps are also being taken to break out of policy silos and apply integrated and coherent policy approaches that stretch over several years. To the extent possible, countries are using existing structures and processes.

Institutional settings and co-ordination mechanisms for SDG implementation are being updated too. Some countries have created designated interministerial working groups for this purpose; others are using existing oversight units, which tend to be located at the centre of government (e.g. Prime Minister's Office), ensuring a whole-of-government approach and strategic planning.

With regard to monitoring and reporting, most countries rely on the active involvement of their national statistics offices. They have been involved in preparations during the lead-up to the adoption of the SDGs and will continue to have a leading role in reviewing and updating existing national sustainable development indicators. The importance of good quality data for tracking progress in SDG implementation cannot be over-emphasised.

Finally, all countries are making efforts to involve non-government stakeholders, such as civil society and non-governmental organisations, the private sector, philanthropists, academia and local interest groups. This is done in various ways, e.g. through regular consultation processes, multi-stakeholder advisory groups, and online platforms for exchange.

Notes

1. For a more in-depth analysis of the three topics, see previous editions of Better Policies for Development: 2013 edition for food security; 2014 edition for illicit financial flows; and 2015 edition for green growth.
2. Countries that have contributed to this overview by responding to six broad questions include: Austria; Denmark; Estonia; Finland; Germany; Greece; Italy; Ireland; Japan; Latvia; Netherlands; Poland; Portugal; Slovak Republic; Spain; Sweden; Switzerland; and Turkey.

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