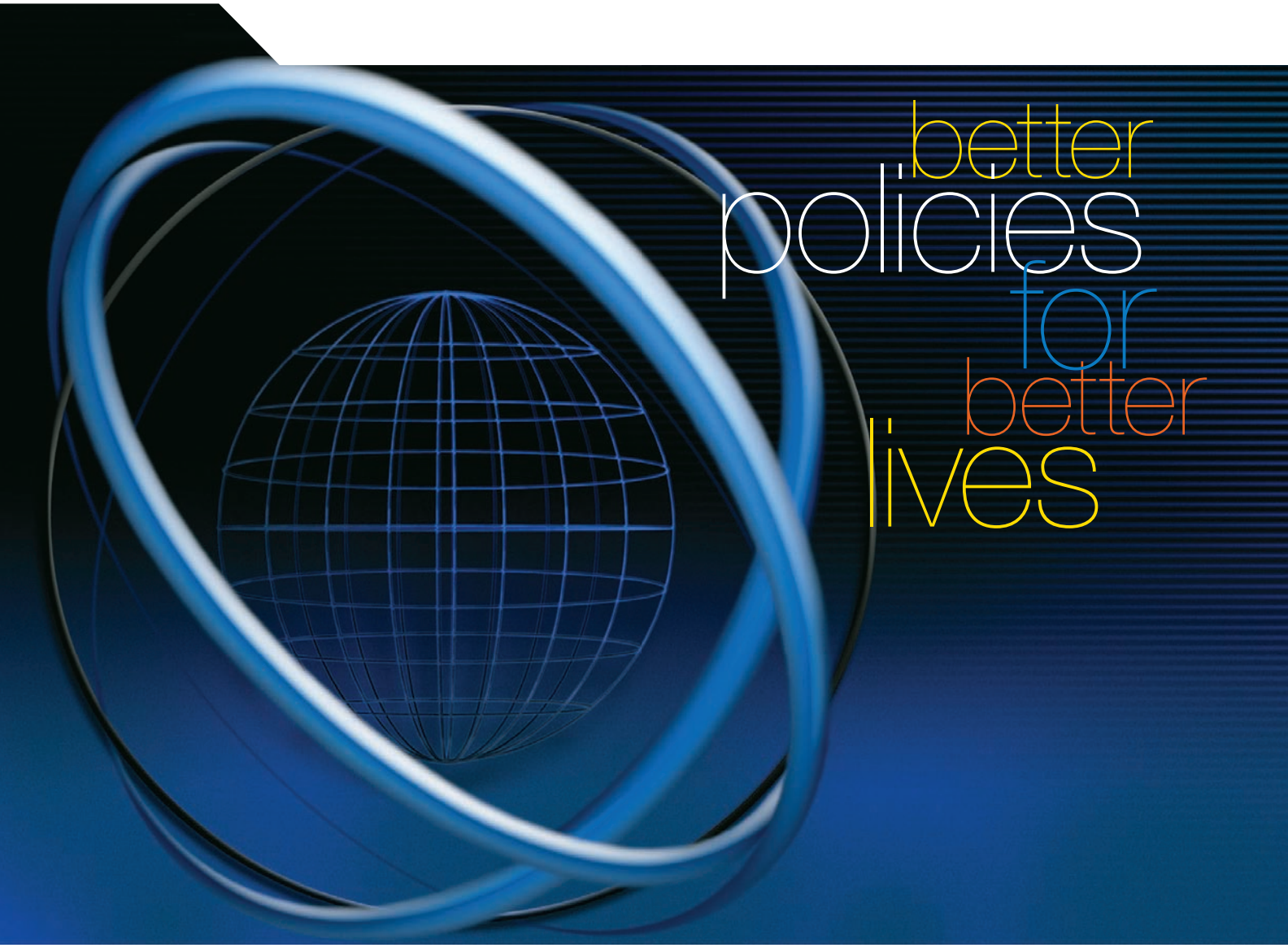
Better Policies for Development

RECOMMENDATIONS FOR POLICY COHERENCE



OECD

better policies for better lives

Better Policies for Development

Recommendations for Policy Coherence

2011



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

Improving development perspectives lies at the very heart of the OECD's founding mission to contribute to economic growth and development worldwide. This report examines the way in which wider policy tools can be used to support our common development objectives, also referred to as "Policy Coherence for Development".

We start from two premises. First, that policies ranging from trade and investment to tax and fiscal transparency, corporate governance, climate change, resource security, and social policy have a profound impact on the prospects for achieving sustainable development objectives in a national and global context. Second, that whilst these policies require action by national governments and regional organisations in both developed and developing countries, in today's interconnected world they also require collective action by the entire international community.

The report covers 18 development policy topics, together spanning virtually and horizontally the whole of the OECD's work. Its structure is divided into four broad categories: sustainable economic growth, economic governance, the environment and natural resource security and society. Together these reflect the OECD's mission to help build a 'stronger, cleaner and fairer' global economy.

The increased need for a horizontal approach to development was underlined by the G20 Seoul Summit in November 2010. Leaders endorsed the G20 Seoul Development Consensus and its Multi-Year Action Plan that complement the traditional Official Development Assistance-focused development agenda. We have contributed extensively to the definition of the G20 development concepts, based on a comprehensive approach to development which is focused on economic growth, knowledge sharing and policy dialogue. The OECD is tasked in six of the nine pillars of the G20 Multi-Year Action Plan on Development: human resources development; domestic resource mobilisation; food security; aid for trade; private investment and job creation; and knowledge sharing. The mandates received from G20 Leaders offer an opportunity to sharpen our focus on how best to support member and partner countries in their policies to promote development.

Development challenges will continue to drive the OECD's work as we celebrate our 50th anniversary, and even more importantly as we look to the future. This will involve not only close collaboration with other international organisations, but also closer co-ordination across the different areas of work of the OECD and its committees. We will continue to build on the OECD's multi-disciplinary expertise and link various policy issues to the development agenda. For instance, some of the next steps of the OECD's horizontal work on green growth will look at supporting greener growth paths and associated opportunities in countries at all levels of development. This cross-cutting approach, building on the collective expertise of the whole Organisation, lies at the core of the new framework for an OECD Strategy on Development.

This wider development agenda does not mean that aid has become less important. Many developing countries will continue to need significant resource transfers from richer countries to accelerate progress towards the Millennium Development Goals (MDGs). It is essential that advanced economies should deliver on their commitments on aid volume and that they take further action to improve their performance at the next High-Level Forum on Aid Effectiveness in South Korea in 2011. The Busan conference is also an opportunity to explore the transition from aid effectiveness to the broader notion of development effectiveness.

Last but not least, reforming the way in which our institutions operate will be vital as we improve the development impact of our policies by better including developing countries in our work. The OECD will continue to deepen its co-operation with emerging economies and developing partner countries. Building on our founding mission, development will continue to be a strategic priority for us; we will therefore define new milestones at the 50th Anniversary Ministerial meeting in May 2011. The "D" in OECD stands for development and this "D" is the imperative for us to offer our support and advice wherever it can contribute to reducing poverty and to "better policies for better lives".



Angel Gurría
OECD Secretary-General

better policies for better lives

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part I ECONOMIC GROWTH

This section of the report examines five interconnected topics, all fundamental to the key engine for development: economic growth and a stronger global economy. They are:

- macro-economic policy
- trade
- investment
- financial regulation
- science, technology, and innovation.

If there were ever any doubt about the importance of economic growth, the interconnectedness of the global economy and the need for concerted collective action, the economic crisis has dispelled it. A crisis which began in the financial sector of developed countries spilled over rapidly into the real economy of those countries, and then into the global economy – with a direct impact on development. Economic growth slowed or went into reverse. Progress towards the MDGs was slowed. Millions more were left in poverty. A sustainable recovery after the crisis will be a major factor in our joint fight against poverty.

The largest concerted policy response in history – spanning macroeconomic policy, measures to keep trade and investment flowing, and to improve financial supervision and regulation - managed to stem the recession. The recovery is now underway. Growth has been stronger in emerging and developing countries but remains weak and uneven in much of the OECD. Global imbalances have widened again and the risk of friction has increased. With less room to manoeuvre on fiscal and monetary policies, there is a growing consensus on the need for structural reforms in order to rebalance global growth and restore sustained growth in living standards worldwide. The way in which we collectively tackle all these issues will have a profound effect on the prospects for securing our common development objectives.

The following topic summaries examine in more detail where we are on each of these issues, what needs to happen next, and what the OECD can contribute. There is now a heightened awareness of global interconnectedness and a sharper focus, notably within the G20 process, on the need to integrate the development dimension as an overarching pillar within our policy responses. There is also a large agenda of unfinished business. Many of the next steps are actions that need to be taken more broadly, to promote a strong global economy from which all countries, including developing countries, will benefit. These include ensuring that recovery is maintained, keeping markets open and trade and investment flowing, and fixing the weaknesses in our financial system. All of these have important development benefits.

Promoting innovation and green growth will be key for advancing self-sustained growth in developing countries. The greening of growth can contribute to poverty reduction by providing more efficient infrastructure, for instance in energy and transport, and by improving welfare, for instance through the alleviation of poor health resulting from environmental pollution. In many developing countries, natural assets have a central role in providing incomes and economic opportunities for the poor. By ensuring better management of natural resources and minimising the risks of costly environmental degradation, green growth policies can contribute to increasing the livelihood security of the poor.

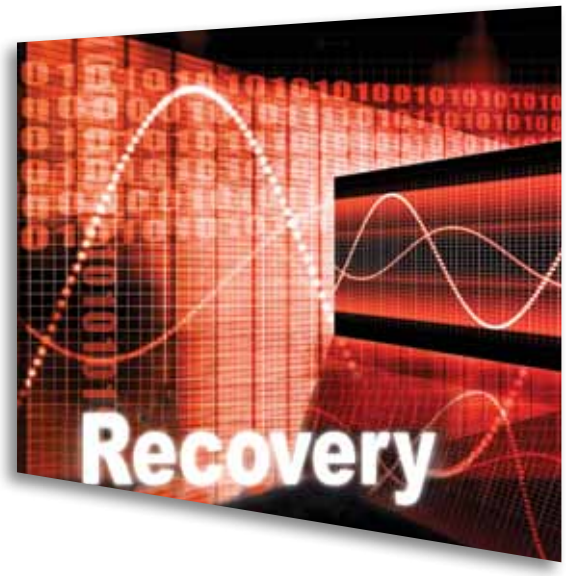
Others are actions with a more specific development dimension – including further trade liberalisation in areas of particular importance to developing countries, such as agriculture, promoting responsible business conduct on the part of multinational enterprises, and facilitating the transfer of technology.

These challenges are inextricably interlinked, both with each other and with our development agenda. They are challenges which lie at the very heart of the OECD's mission. The first aim set out in its founding Convention is to promote policies designed 'to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy'. The second aim is to contribute to sound economic expansion in member and partner countries in the process of economic development.

The OECD is working on a number of policy areas, including: cross-cutting work on 'green growth' and innovation; economic analysis and forecasting; analysis of trade policy issues and its role in setting export credit rules; monitoring investment policies and setting guidelines for multinational enterprises; developing guidance on financial markets, banking, and insurance; assessing how science, technology, and innovation policies can contribute to sustainable economic growth and meeting global development objectives; andon social (employment, education, health) and environmental policy issues.

In all these areas the OECD works closely with other international institutions and, increasingly, with partner countries. In line with its founding mission, it is committed to incorporating the development dimension in all its future work.

Macro-economic policy



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

If any demonstration were ever needed of the reality of globalisation, and the interconnectedness of developed and developing countries, the economic crisis has provided it. Closer economic integration through international trade and investment brings benefits to developing and developed countries alike. But it also means that shocks hitting developed countries will have significant repercussions on developing countries – and vice versa. As OECD countries went into recession in 2008-2009, following the failure of some financial institutions and the collapse of confidence in financial markets, growth rates in developing countries fell also.

The impact on developing countries was less severe than in previous global downturns, as low-income countries entered the crisis with more fiscal space and lower government debt. This enabled them to adopt counter-cyclical fiscal packages, helping to mitigate the negative impact on growth, but without the post-crisis debt overhang seen in many mature economies. Nonetheless, the effect of the crisis was to set back progress towards the MDGs. The World Bank has estimated that 64 million more people were in extreme poverty by the end of 2010 due to the crisis. Its forecasts also show that progress against all MDGs over the next five years is highly sensitive to assumptions on what happens on growth.

Appropriate macroeconomic and structural policies lie at the heart of recovery, provide the foundation for future stable and sustainable growth, and are inextricably linked to virtually every other topic in this report. The crisis demonstrates vividly that, while governments in developing and developed countries alike need to take action nationally, this can only be effective within a framework of policies agreed collectively at the global level, notably within the G20 process.

Key areas for international co-operation are:

- securing a strong, sustained, equitable and balanced global recovery;
- addressing capital mobility;
- strengthening the arrangements for global policy co-ordination.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Securing a strong, sustained, equitable and balanced global recovery

Achieving a broad-based recovery is the key to sustaining growth in living standards in developed and developing countries alike. The recovery has been underway for some time, following the largest co-ordinated response in history, embracing lower interest rates, fiscal stimulus, and measures to ensure liquidity and restore confidence in financial markets.

Growth has been much stronger in emerging market economies and low-income countries, but remains uneven in the OECD area. Global output growth is expected to be close to 4.25 per cent this year and 4.5 per cent in 2012. Growth in the OECD economies is forecast at 2.5% in 2011 and 2.9% in 2012. Unemployment remains

high in many countries. Emerging and developing economies are forecast to do much better, with growth of around 6.5%. However, global imbalances resulting from divergent growth in demand and savings within and across countries remain wide, and there are concerns that they could risk triggering protectionist moves and threaten the recovery.

The next steps include:

Strong: harnessing the full range of policies, including monetary and fiscal policy, trade and investment, and financial sector and structural reform;

Sustained: transforming economies to base social and economic progress on 'green growth' strategies;

Equitable: narrowing the development gap, thereby generating new poles of growth in the global economy;

Balanced: addressing global imbalances, including through structural reforms to help spur investment in mature economies with current account surpluses, and obviate the need for excessive precautionary savings in surplus emerging market economies.

(ii) Addressing capital mobility

Although capital mobility brings benefits, there are associated risks: sizable inflows are challenging the absorptive capacity of some open emerging-market economies; most of the latter are accumulating foreign reserves in order to insure themselves against the risk of sudden reversals in capital flows.

It is important to deal with these tensions through appropriate policies rather than protectionism and exchange rate manipulation. The OECD Going for Growth 2011 publication shows that there is a combination of policy measures which, if implemented in unison in mature and emerging market economies, would reduce imbalances without impacting negatively on growth.

Structural policies can thus help to mitigate some of these risks. Recent OECD analysis shows that structural policies have a strong effect on gross and net foreign capital positions, and that improved structural policies could help to modify the composition of capital flows towards more stable and productive sources of balance-of-payments financing and reduce the potential risks associated with capital flow reversals. Achieving a more even recovery across countries would also contribute to reducing tensions stemming from the flow of capital to high-growth emerging markets and developing countries.

An important long-term challenge is to reform the international monetary system to equip countries with the necessary policy tools to make the most of international capital movements in support of long-term growth. There is a case for identifying the features of a common framework for capital account-related policies that would provide a level playing field for countries while preserving their ability to deal with short-term volatility. The next steps include:

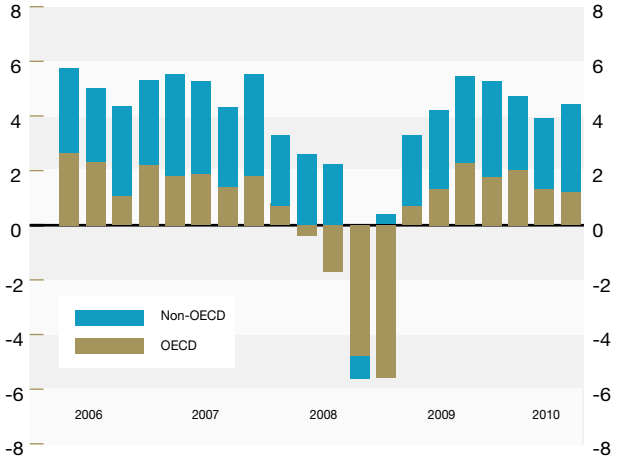
• continued work on the menu of policies which can address capital mobility, including structural policies and international framework for capital account-related policies.

(iii) Strengthening the arrangements for global policy co-ordination

The crisis triggered a step-change in global policy co-ordination through the G20. It has underlined the need for collective action to pursue collective welfare: by catalysing interventions which have positive effects and discouraging those (such as protectionism) which have negative effects. A key element in this is the Mutual Assessment Process (MAP) within the G20, designed to ensure that individual economic policies collectively achieve an outcome of strong sustainable and balanced growth. The Seoul Development Consensus for Shared Growth marked a key step forward in integrating development concerns explicitly into wider policy co-ordination by recognising that 'as a crucial part of this exercise … we need to enhance the role of developing countries and low income countries (LICs) in particular'.

Global growth continues to be led by emerging economies

Contribution to annualised quarterly world real GDP growth (in percent)



Note : calculated using moving nominal GDP weights, based on national GDP at purchasing power parities.
Source: OECD Economic Outlook 89 database.

That being said, policy co-ordination is proving to be challenging. Mature economies are struggling to make headway in reducing unemployment, with growth being hobbled by the urgent need to tackle mounting public debt and households readjusting their balance sheets in the wake of the crisis. In contrast, emerging-market economies are enjoying robust growth on the back of rebounding world trade and rapid catch-up. This difference in performance is leading to a stark divergence in policy priorities and, as a consequence, the global co-ordination of policy is now proving to be considerably more challenging than during and immediately after the crisis.

The next step is:

• continuing to strengthen the MAP and using this to help ensure that macro-economic policies are supportive of our development objectives as well as broader growth objectives.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

These challenges lie at the very heart of the OECD's mission. The first aim set out in Article 1 of its founding Convention is to promote policies designed 'to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy'. The second aim is to contribute to sound economic expansion in Member as well as partner countries in the process of economic development.

The OECD already undertakes a wide range of activities in this area, including regular surveillance of policies at the multilateral and country levels; embracing macroeconomic analysis and reporting; regular projections of short- and medium-term economic developments; and analysis of the links between economic and structural policies, including trade and investment, financial regulation, labour markets, health, demography, and regulatory reform. It will contribute on each of the key priorities above as follows:

(i) Securing a strong, sustained, equitable and balanced global recovery

The OECD will:

• continue to provide assessments of the global economic situation, prospects, and policy requirements over the short to medium term through its semi-annual OECD Economic Outlooks (with interim assessments in between), and annual regional Economic Outlooks covering Africa, Latin America, and South East Asia;

• monitor and assess macroeconomic and structural policies through peer reviews of all OECD countries, Enhanced Engagement, and Accession countries in the Economic Surveys;

• continue to analyse the links between macroeconomic and structural policies, and how to boost growth and living standards over the long term, through its 'Going for Growth' reports;

• analyse how to make this growth sustainable through the development of a 'Green Growth' strategy;

• examine long-term trends and challenges through its new Perspectives on Global Development series, the first of which, Shifting Wealth (2010) examined the development implications of the major re-alignment of the global economy that has taken place in the last two decades.

The OECD will also continue to work on the appropriate policy mix which will create a more even recovery, thereby reducing the policy tensions which can lead to negative spill-over effects on developing countries.

(ii) Addressing capital mobility

The OECD Code of Capital Movements has provided a framework for international co-operation on capital flow management for 50 years. Countries have agreed under the Code to well-principals such as transparency, non-discrimination, proportionality and accountability to guide their recourse to capital controls. This limits the risk of "beggar-thy-neighbour" approaches that can have negative collective outcomes. The flexibility of the codes recognises that capital controls can play a role in specific circumstances.

(iii) Strengthening the arrangements for global policy co-ordination

The OECD will continue to play an active role alongside other institutions in G20 processes. It will contribute to International Monetary Fund (IMF) reports on the Framework for Strong, Sustainable and Balanced Growth. At the November G20 Seoul Summit it was tasked, alongside other institutions: i) to assist in developing indicative guidelines aimed at assessing persistent global imbalances; and ii) to help G20 members to implement structural reforms aimed at boosting and sustaining global demand.

Trade



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Trade is a key element in the generation of the sustained economic growth necessary to raise incomes and reduce poverty[1]. Empirical evidence shows the strong links between trade performance, economic growth, and poverty reduction over the last 30 years, across all regions. Open economies are richer and more productive than closed economies: an increase in the share of trade in GDP of 1% raises the income level by between 0.9% and 3%.

There is a strong link between trade and many other topics in this report. An open international trading system can work effectively only if we: enable market-oriented adjustment to address the current account imbalances that have built up during the past decade; fix the major weaknesses in the operation of financial regulatory and supervisory frameworks; and reform our economies to focus our social and economic progress more heavily on 'green growth' and renewable energies. A liberalised international trading system can in turn help to meet other challenges, including climate change, food and water security, and health.

Domestic policies, including education, labour market and social policies, improvements to productivity and supply-side capacity, and regional co-operation, are all important factors for improving trade performance. There is a key role for Aid for Trade, alongside the efforts of national governments and regional organisations, to increase the capacity of low-income countries to benefit fully from trade liberalisation. But experience shows that wider international co-operation and a multilateral rules-based system are also essential to the continued growth of international trade. This is all the more true following the economic crisis, when falling demand, exacerbated by short-term trade finance constraints, led to dramatic falls in global trade.

Core areas for international co-operation during the recovery phase and beyond are:

- keeping markets open, and avoiding protectionist measures in response to the crisis, or as part of stimulus packages or exit strategies;

- keeping trade flowing and ensuring that sufficient trade finance is available;

- taking forward multilateral trade liberalisation, including through the Doha Development Agenda.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Keeping markets open

The multilateral rules-based system has held up well. The fourth combined Report on G20 Trade and Investment Measures by the OECD, the World Trade Organization (WTO), and the United Nations Conference on Trade and Development (UNCTAD) found a slight decline in the number of trade restricting or trade distorting measures, and their trade coverage relative to levels earlier in the year. But it noted that new trade restrictions covered 1.8% of total G20 imports, and that only 15% of the measures introduced since the outbreak of the crisis had been removed. It also warned

of signs of intensifying protectionist pressures driven by persistent high unemployment, macroeconomic imbalances, and tensions over exchange rates.

The majority of the new measures affected already highly-protected sectors such as agriculture, textiles, and metal industries, thus reversing some of the hard-earned gains from successive trade rounds. These areas are also relatively labour intensive and represent areas in which some developing countries have a comparative advantage. These sectors need more market opening, not further restrictions. The next steps include:

• removal of trade restrictions introduced since the outbreak of the crisis;

• continued freeze until the end of 2013 on raising barriers or imposing new barriers, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports, as agreed within the G20;

• action to tackle problems outside the trading system which are putting its stability at risk.

(ii) Keeping trade flowing

The general policy restraint, together with recovery in global demand and the injection of unprecedented amounts of trade finance (USD 250 billion) through Export Credit Agencies, has helped world trade to stabilise and then recover. After falling by around 12% in 2009, the volume of world trade in 2010 grew at an annualised rate of 15% thus returning to its pre-crisis level. Global trade is expected to return to its pre-crisis trend growth of between 6 and 7 percent in 2011-2012. The next steps include:

• assessment of current trade finance needs in low-income countries, and development of measures to achieve efficient trade finance allocations for this group, if necessary;

• review of effectiveness of existing trade finance programmes for this group (as requested by the Seoul G20 Summit).

(iii) Taking forward multilateral trade liberalisation

Progress towards completing the Doha Development Round has been stalled for a number of years. The absence of an agreement bodes ill especially for developing countries. These countries in particular stand to be amongst the major beneficiaries across all the areas of negotiations, and in particular in services, not least because of their growing role as exporters of services. Developing countries are particularly successful in sectors such as port and shipping services, audiovisual, construction, and health services. And while developing countries have a clear comparative advantage in labour-intensive services, such as construction, technological advances in the telecommunications and computer industries has enabled them to become highly successful in skill-intensive computer-related activities. Progress in industrial goods is also in the interest of developing countries themselves, especially since intra-developing country trade continues to face much higher and escalating tariff barriers, as well as high incidence of non-tariff barrier relative to trade between developing and industrial countries.

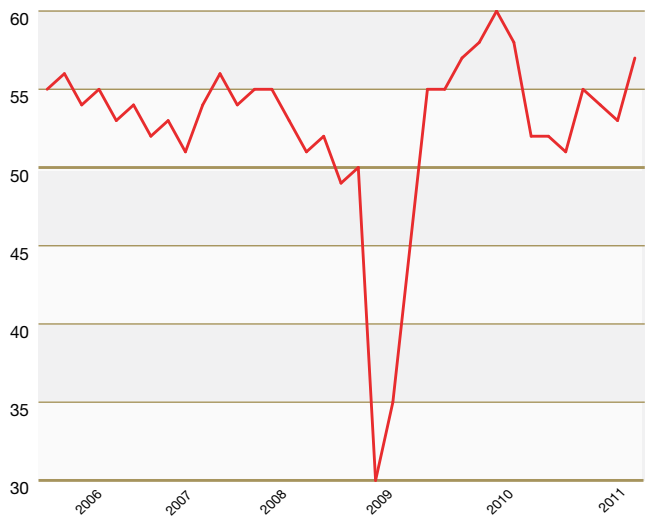
The gains could be especially important for agricultural markets, which at present are distorted by an extensive array of protectionist barriers and self-defeating subsidies. Trade has a critical role to play in achieving food security, as international markets can buffer demand and supply shocks affecting individual countries, and in improving efficient global production to feed the world's seven billion citizens, and provide long-run food security for countries not themselves well endowed for food production. Deeper markets, with increased volume and more buyers and sellers, are less volatile.

The next steps include:

• intensified negotiations to bring the Doha Development Round to a successful conclusion, with a comprehensive, balanced, and ambitious outcome.

World trade is pushing economic recovery

New world exports > 50 means increasing orders.



Source : Markit.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD work on trade covers trade and domestic policies, the multilateral trading system, export credit rules, and the linkages between trade and other policy areas including agriculture, employment, the environment, innovation and growth, and development. The OECD works closely on these issues with other international organisations such as the WTO, the ILO, the World Bank, and UNCTAD. It provides a forum for countries both to exchange information on the availability of trade finance and the demand for official export credit support and to coordinate export credit support measures for the medium and long term. The OECD led the way in efforts to maintain trade finance when the crisis broke through an 'Export Credit Pledge' in November 2008. It also undertakes, with the WTO, regular reviews of Aid for Trade. The next review is scheduled for July 2011.

The OECD policy dialogue increasingly involves developing countries and, in particular, major emerging economies. For example, earlier this year the OECD launched the International Collaborative Initiative on Trade and Employment[2], which brought together ten partner organisations in a global effort to implement an ambitious agenda for research, dialogue, and public information on these issues. The OECD can contribute to taking forward action in the three areas above as follows:

(i) Keeping markets open

Continuing to monitor all trade and trade-related measures adopted by G20 members, jointly with the WTO and UNCTAD; analysing the economic and trade effects of the measures taken in response to the economic crisis; and continuing work on the optimal sequencing of pro-trade and pro-growth exit strategies.

(ii) Keeping trade flowing

Helping to ensure the stability and rules-based operation of government-supported export credit and credit guarantee measures; working with the WTO and the G20 Trade Finance Experts Group on the G20 remit to assess trade finance needs in low-income countries and, if necessary, develop efficient support measures.

(iii) Taking forward multilateral trade liberalisation

Supporting intensified efforts to advance the Doha Development Agenda through its analysis, provision of opportunities for policy dialogue, and advocacy.

1- A recent joint report prepared by the OECD, ILO, World Bank and WTO for submission to the G-20 Summit meeting in Seoul (11-12 November 2010)surveyed the evidence in this regard. For more, see: Seizing the Benefits of Trade for Employment and Growth.

2- For more, see the OECD Trade and Employment web page. An overview of the International Collaborative Initiative on Trade and Employment is available here.

Investment



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Private investment, both domestic and foreign, is key to promoting the economic growth and employment which are essential to reducing poverty. Foreign Direct Investment (FDI) is a major source of finance and an important channel for the transfer of skills and technology. It can, on the other hand, also have undesirable effects, such as when foreign investors do not follow international standards for responsible business conduct. Sources of FDI are becoming increasingly diverse. The emerging economies in the G20 accounted for only 1% of G20 international investment in 2000. By 2010 this figure had risen to 20%.

As in other areas, the economic crisis has had a major impact on investment. International investment declined by over 50% globally in 2009. Developing countries had shown resilience during the crisis, but in 2009, they suffered their first serious declines in inward international investment flows. International investment activity remained flat in 2010, and with markets still fragile and the spectre of various forms of protectionism, further declines can not be excluded.

Investment decisions are taken by investors themselves. At the same time, much can be done by governments at the national level, in both host and home countries and through regional initiatives, to improve the policy environment for investment. At the international level, co-operation on investment issues continues to be fragmented across a range of different institutional settings and separate policy instruments. There is an important role for national governments and donor agencies in helping to strengthen institutional capacity.

Key areas for wider international co-operation are:

- keeping markets open and transparent;
- improving international rules for investment and ensuring a balance between rights and obligations;
- promoting responsible value-added investment;
- promoting international standards for responsible business conduct and monitoring their observance.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Keeping markets open and transparent

Open markets are important for accelerating the integration of developing countries and their investors in the global economy. The political commitment by G20 leaders to refrain from imposing new barriers to investment, underpinned by the joint monitoring process assigned by the G20 to the WTO, the OECD, and the UNCTAD, together with the 'Freedom of Investment' process hosted at the OECD, have helped to ensure that the international investment regimes of the OECD and developing economies have remained open and transparent. The original commitment has been extended to the end of 2013.

The fourth joint WTO-OECD-UNCTAD monitoring report in November 2010 warned, however, that rising tensions could degenerate into protectionism. It found that although most new investment measures were aimed at facilitating and encouraging investment, some countries had put in place capital controls and regulations to buffer their economies from foreign exchange volatility and capital flows. While such measures can serve legitimate purposes, widespread capital controls could lead to a fragmentation of international capital markets and may be difficult to dismantle once in place.

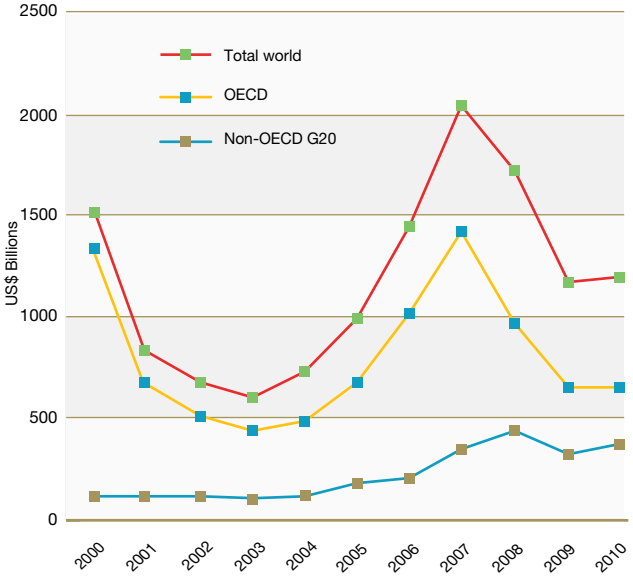
The next step is:

• governments should continue to resist protectionist pressures and should adopt transparent exit strategies to unwind any restrictive measures that have been taken.

(ii) Improving international rules for investment

Advanced, emerging and developing countries have continued to negotiate actively bilateral investment agreements and regional trade agreements with investment chapters. This has resulted in a proliferation of treaties, currently numbering around 3,000. There is, however, no common legal framework for such agreements. The next steps include:

Foreign Direct Investment (FDI) inflows 2000-2010



Source: OECD Investment News, Number 15, 2011.

• policy dialogues, such as those held at the OECD, to explore options to foster more consistency and a higher degree of certainty about interpretations in investment rules;

• helping governments to ensure a balance of home and host-country rights and obligations;

• strengthening existing international investment agreements with low-income countries.

(iii) Promoting responsible value-added investment

There are a number of existing initiatives in this area aimed at helping to improve domestic policy frameworks and institutional capacity, including the Policy Framework for Investment and the Principles for Private Sector Participation in Infrastructure developed by the OECD.

The next steps include:

• development by international organisations of key quantifiable economic and financial indicators for measuring economic value-added and job-creating investment, and recommendations to developing countries on how to attract and negotiate such investment;

• development of options for promoting responsible investment in agriculture (see also Topic 10).

(iv) Promoting international standards for responsible business conduct

The implementation of the ILO standards is being more closely monitored and work is currently underway to strengthen the OECD Guidelines for Multinational Enterprises (MNEs). These Guidelines have been adopted by 42 developed and developing countries.

Work on providing guidance for international investors operating in weak governance zones has intensified, most recently with the endorsement of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas by the UN Security Council's Group of Experts on the Democratic Republic of Congo and the Ministerial Meeting of the UN/African Union's International Conference on the Great Lakes Region (Lusaka, December 2010).

The next step is:

• renewed efforts to both strengthen and broaden multilateral co-operation on responsible business conduct, by both the OECD and emerging country multinational enterprises.

HOW CAN THE OECD, WORKING WITH OTHER ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD is actively engaged on international investment issues, including through its joint monitoring reports to the G20; its 'Freedom of Investment' process, in which 48 developed and developing countries participate; its work on international investment agreements; the OECD Guidelines for Multinational Enterprises, which encourages enterprises to integrate business ethics into their decision-making; and using its investment instruments to help host and home governments work together and make the most of foreign investment.

The OECD can contribute to the above priorities:

(i) Keeping markets open and transparent

Continuing the joint monitoring of investment policies with the WTO and the UNCTAD; and actively engaging developing countries as full and equal partners in the 'Freedom of Investment' process.

(ii) Improving international rules for investment

Working with UNCTAD, the International Centre for Settlement of Investment Disputes (ICSID) and other institutions on advancing mutual understanding and shared practice in investment treaty-making and investment dispute settlement.

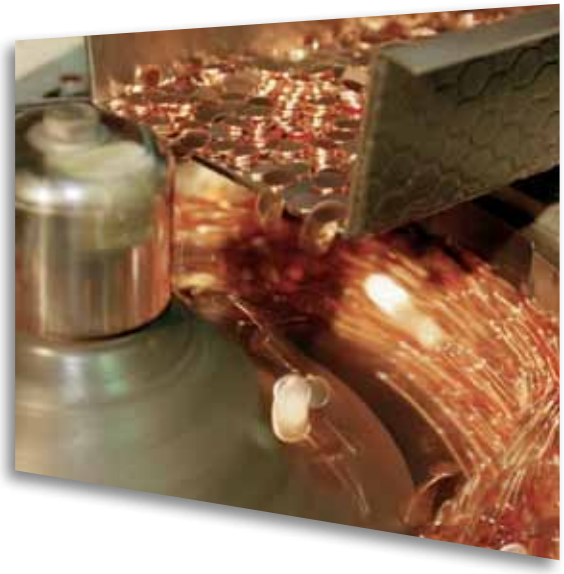
(iii) Promoting responsible value-added investment

- Continuing to serve as a platform for peer learning between developed and developing countries, especially through the Global Forum on International Investment, organised with the UNCTAD and the World Bank and hosted by the OECD; programmes such as the NEPAD-OECD Africa Investment Initiative, the MENA Investment Programme, and tools such as the Policy Framework for Investment, the Principles for Private Sector Participation in Infrastructure and their applications to agriculture and water sectors;
- Contributing to discussions within the Committee on World Food Security on how to promote implementation of the Principles for Responsible Agricultural Investment.

(iv) Promoting international standards for responsible business conduct

Updating the Guidelines for MNEs in 2011 in order to increase their relevance and help enterprises use them more effectively: a process which has included inputs from non-OECD Members and other international organisations and the private sector, and will help advance consensus on global standards for responsible international business and promote a level playing field between international investors; and application of guidance on managing investments with transparency and integrity in conflict zones and fragile states (see also Topic 13).

Financial regulation



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

The financial system plays an essential role in the economy and its development by allocating credit and capital, pooling and managing risks, facilitating financial transactions, and being the conduit of monetary policy. For instance, the development of local currency bond markets and capital markets are crucial for the efficient mobilisation of domestic savings and, hence, for unlocking the growth potential of developing countries. Sound financial systems with a robust financial infrastructure attract investors and enable diverse forms of financial intermediation, providing the basis for private sector development.

The economic crisis exposed major weaknesses in the financial system. There were many interconnected causes – including excess liquidity and leverage, investors' search for yield accompanied by a lack of risk aversion, and improper credit ratings of structured products. A crisis that began in the financial sectors of OECD countries rapidly spilled over into developing countries, affecting the global real economy. As such, it vividly underlined why stable financial systems matter for development.

Financial markets are global by nature. Capital can move easily to other jurisdictions, creating pressures for a regulatory 'race to the bottom.' International co-operation helps to limit spillovers and level the playing field for global financial institutions. Further, close co-ordination and information exchange between supervisors is essential for the oversight of internationally active financial institutions.

Action is needed to ensure that the international financial system plays its role in supporting economic activity. This means addressing identified failures in policy, regulation, and supervision; corporate governance; and risk management. It also means strengthening basic standards of financial sector regulation and supervision in developed and developing countries alike. National action is, in many instances, most effective within a framework of policies and actions agreed collectively at the global level.

Key areas for wider international co-operation are:

- addressing major weaknesses in financial regulatory and supervisory frameworks through the development and implementation of international standards, good practices, and guidance;

- enhancing the understanding of financial systems through improved surveillance and analysis and the exchange of information;

- ensuring that the right institutions are able to implement harmonised financial standards and that key developing countries have a voice in their development.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Strengthening financial policy, regulatory and supervisory frameworks

Action has been taken within the G20 and other fora to address the problems that are viewed as having caused the economic

crisis or reduced financial institution resilience to systemic shocks. Measures have included: an enhanced global framework for bank capital; development of a policy framework to address the moral hazard risks associated with institutions that are too big or complex to fail; increased disclosure and transparency requirements; and measures to improve governance and risk management of financial institutions and oversight of credit rating agencies. The Financial Stability Board (FSB) has also issued principles on compensation in banks to promote sound incentives and discourage excessive risk-taking. Going forward, the FSB will be working on issues surrounding macroprudential policy, the regulation and oversight of shadow banking, financial stability in emerging market economies, commodity derivatives markets, and consumer protection.

International financial sector standard setting bodies (SSBs) such as the Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), International Organisation of Securities Commissions (IOSCO), and International Organisation of Pension Supervisors (IOPS), have been active in developing responses to the crisis. These SSBs have core principles for effective supervision in their respective sectors to which their member countries are expected to adhere: the BCBS core principles for effective banking supervision; IOSCO objectives and principles of securities regulation; IAIS insurance core principles and methodology; and the IOPS principle of private pension supervision. As a response to the crisis, the BCBS has developed a revised global capital adequacy framework for banks, known as Basel III. Developing countries could capitalise on these new or evolving international standards by investigating areas where adherence could be readily achieved.

The FSB is carrying out thematic and country peer reviews which will help to reinforce the implementation of international standards and good practices. These reviews complement and reinforce country assessments conducted through the IMF and World Bank Financial Sector Assessment Program.

Next steps include:

- finalisation and phasing in of Basel III, envisaged to be completed in 2019;

- continued enhanced emphasis on the implementation of supervisory core principles, including through strengthened monitoring.

(ii) Improving financial surveillance and disclosure

Timely and good-quality information is needed to enable domestic and global authorities to comprehend the state and evolution of the financial system, and take appropriate action where needed. Developing accurate statistics and disclosures remains imperative for deepening financial systems in developing countries. The FSB and IMF report on The Financial Crisis and Information Gaps (2009) addressed four main areas: build-up of risk in the financial sector; cross-border financial linkages; vulnerability of domestic economies to shock; and communication of official statistics. The report outlined action plans and timetables.

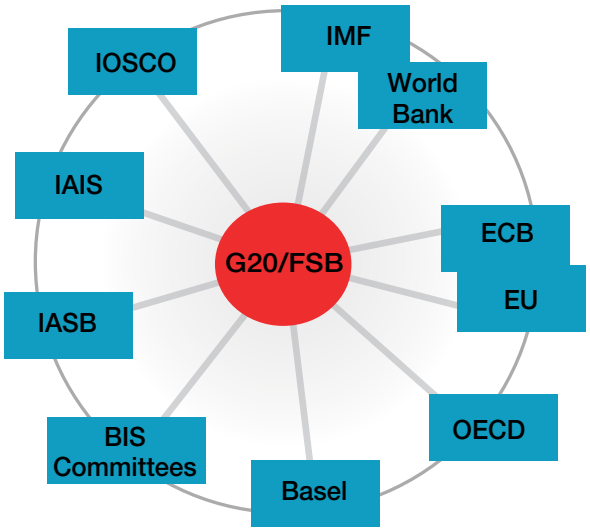
After broad agreement on its recommendations, next steps include:

- greater analytical input, co-operation across disciplines, and high-level support to successfully plug in the gaps.

(iii) Institutions of global financial governance implementing harmonised standards

The FSB was established to co-ordinate the work of national financial authorities, SSBs, and other international institutions, and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability among member countries. To ensure their global reach and inclusiveness, the FSB and the BCBS have broadened their membership base to include a number of key developing countries. The FSB has also announced the establishment of regional consultative groups to bring together financial authorities from FSB member and non-member countries. As exit strategies are adopted to remove special intervention measures, it will be important to maintain a strong level of co-ordination.

Institutions involved in Financial Regulation



Source: OECD staff.

The next step is:

• considering what further efforts and institutional reforms may be needed to ensure a well-functioning system of global financial governance.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

OECD work on financial markets, insurance, and private pensions aims to promote efficient, open, stable and sound market-oriented financial systems, based on high levels of transparency, confidence, and integrity; increased international trade in financial services; and the integration of partner countries into the global financial system. The OECD provides international leadership on private pensions, financial education, debt management and the financial management of catastrophic risks, and has an important policy-oriented role in developing guidance on financial markets, banking, and insurance.

The Global Forum on Finance organises global relations activities linked to the OECD's financial sector work. For instance, the OECD plays a prominent role in the development of local currency bond markets, such as in relation to Africa as acknowledged in the G8 Action Plan for Developing Local Bond Markets in Emerging Market Economies and Developing Countries. Activities in this area will be an important part of the work programme of the newly established OECD Centre for African Public Debt Management and Bond Markets.

The OECD co-operates with relevant SSBs and contributes to global policy and regulatory dialogue and co-ordination through its participation in the FSB as a member of the FSB's Plenary Committee as well as its Standing Committee on Assessment of Vulnerabilities, Standing Committee on Standards Implementation, and their subgroups. The OECD is the de facto standard setter in the area of private pension regulation; OECD core principles on occupational pension regulation are used as a global reference point. On the specific issues above:

(i) Strengthening financial policy, regulatory and supervisory frameworks

The OECD, through its committees and related international networks, provides a key forum for policy discussion and analysis, and the development of principles, good practices, guidelines and standards of relevance to policymakers and regulators. It has issued a Policy Framework for Effective and Efficient Financial Regulation that provides a high-level tool for policymakers, regulators, and supervisors seeking to strengthen financial sector policy and regulation and achieve stronger, more resilient financial systems. The G20 finance ministers have mandated the OECD to develop common principles on financial consumer protection, as well as to collaborate with the FSB on consumer protection options as requested by G20 leaders. The OECD can support the implementation of international core principles and standards in areas where it has international leadership.

(ii) Improving financial surveillance and disclosure

The OECD plays an important and unique role in gathering policy makers to discuss issues in financial markets, banking, insurance and private pensions, with the involvement of the private sector and other stakeholders. The OECD collects data on deposit-taking institutions, insurers, and private pension plans, as well as institutional investors more generally, which contributes to the understanding of the financial system. The OECD could support efforts by developing countries to improve their statistical frameworks by encouraging their participation in OECD-led global statistical exercises.

(iii) Institutions of global financial governance

The OECD provides an important forum for discussion of financial sector policy issues, and thus contributes to global dialogue. International organisations participate in relevant OECD committees and international networks. As in other areas, the OECD seeks to include key emerging economies in its discussions: co-operation with these partner countries has increased significantly in recent years. Global Forum activities involving partner countries complement these efforts.

Science, technology & innovation



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Science, technology, and innovation (STI) are crucial for sustainable long-term economic growth, both in developed and developing countries, even more so in the aftermath of the economic crisis. STI also has a major part to play in addressing the global challenges which are discussed in the following sections, including adaptation to climate change; food, water, and energy security; and health.

Action needs to be taken by governments at national and regional levels to help promote innovation, research, and development in both the private and public sectors, including putting in place the necessary 'framework conditions' such as openness to international trade and investment, a healthy financial system, and a supportive tax climate, and developing capacity to absorb and effectively use technology. This requires co-ordination across a wide range of government ministries and with the private sector.

At the same time, international co-operation is necessary given the global nature of these challenges. No single country can address them on its own. The uncoordinated efforts of countries acting separately are likely to be more costly and less effective than countries acting together.

Key areas for international co-operation are:

- facilitating technology transfer by making the benefits of new technologies widely and rapidly available, in particular in areas related to the MDGs, such as food security and the eradication of disease;

- promoting research and innovation to meet global and social challenges to better harness science, technology, and innovation for achieving the MDGs and bridge development gaps;

- strengthening global co-operation and improving international governance, including enhanced co-operation between developed and developing countries.

Engaging in joint research and development activities which lead to joint intellectual property such as patents would potentially constitute an extremely powerful source of technology transfer and learning for emerging and developing countries. Evidence on co-patenting shows, however, that more than 90% of international co-patenting does not involve non-OECD economies: this proportion was still close to 98% in the mid-1990s, hence pointing to some progression in the insertion of developing countries in global knowledge networks since then.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Facilitating technology transfer

The internationalisation of technology is an important characteristic of globalisation. Technology flows between countries have grown. There is in parallel a well-established system for the protection of intellectual property rights (IPRs), which aim at encouraging innovation and investment. The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) in-

troduced intellectual property rules into the multilateral trading system in 1994, through establishing minimum levels of trade-related intellectual property protection in all signatory states. There is, however, also recognition that the protection of knowledge needs to be combined with policies and mechanisms that facilitate access and transfer. WTO members thus agreed in 2003 on legal changes that make it easier for poorer countries to import cheaper generics made under compulsory licensing. There is ongoing policy and legal debate within the WTO about the scope and effect of these flexibilities. A number of features and flexibilities have been built into the TRIPS agreement to support development-related objectives, in particular related to medicines. Under the TRIPS Agreement, least developed countries benefit from a transition period up to 2013. This transition period is extended until 2016 for patents related to pharmaceuticals. Moreover, an amendment to TRIPS was adopted in 2005 to facilitate access to generics for countries without pharmaceutical production capacities. This amendment is a step toward policy coherence for development, but still needs to be ratified by several WTO members to come into effect.



Source: OECD staff.

The next steps include:

• removing trade barriers that limit technology transfer;

• in cases of market failure, using other channels such as export credit targeted at developing countries;

• developing mechanisms such as patent clearinghouses and patent pools that provide developing countries access to health technologies and free user rights of unutilised patents for developmental purposes;

• re-examining the operation of current rules for intellectual property rights, including the flexibilities provided, in order to ensure that these strike the right balance between incentives for innovation and the public benefit that flows from the dissemination of patented knowledge into the marketplace.

(ii) Promoting research and innovation to meet global and social challenges

The landscape for technology and knowledge has become increasingly global, with a handful of non-OECD economies accounting for a growing share of the world's research and development. Innovation in some areas, such as climate change mitigation technologies, is accelerating. At the same time, for many current global and social challenges market failures, including the simple absence of a market, limit investment and the development and deployment of innovations.

A variety of 'push and pull' mechanisms are being used, for instance, to bring new health technologies onto the market, such as public-private partnerships and advance market commitment, complementing traditional development programmes. As well, philanthropic foundations are playing an increasingly important role in this area.

The next steps include:

• using economic incentives, such as the pricing of carbon emissions, tax policies or other economic instruments, and the removal of environmentally harmful subsidies, to get prices right and trigger the development and diffusion of green technologies and innovations;

• developing innovative approaches based on inter-firm collaboration, access to and use of intellectual property, and new financing mechanisms to promote research and innovation in health;

• developing appropriate international platforms, bringing together firms and national governments, to mobilise innovation for global challenges.

(iii) Strengthening global co-operation and improving international governance

Current co-operation strategies include joint investment in basic and collaborative research in international networks, such as the Consultative Group on International Agricultural Research (CGIAR). However, current global challenges require more concerted and inclusive approaches. The existing policy frameworks and governance mechanisms for international co-operation in STI were created for different purposes and in different settings in the past, often with very limited participation by developing countries and with a focus mainly on science. They also fall short of adequately supporting broad-based collaborative action at the scale and intensity required to tackle today's global challenges.

The next steps include:

• increased collaboration/research partnerships with developing countries, including joint basic research; open access to research data from public funding; and capacity building, including exchanges of researchers;

• development of new mechanisms for the governance of international co-operation on STI, which will help to strengthen collective efforts to find solutions to global challenges, to strengthen innovation for development, and to improve international knowledge and technology flows.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD assesses how policies on STI can contribute to sustainable economic growth and meeting global development objectives. The OECD Innovation Strategy, published in May 2010, draws together five key priorities for national and collective action, including addressing global and social challenges. The OECD also promotes co-operation in STI, identifies areas where it would be useful to foster commonly accepted best practices or rules of the game in order to avoid international friction, and helps in formulating them. It also conducts country reviews of innovation policy, provides policy advice on coping with the challenges arising from developments in new science-based industries (notably biotechnology), and undertakes a wide range of activities on Information and Communication Technologies (ICT). The OECD is increasingly engaging with developing countries in all these areas of work. Co-operation with other international organisations on STI and development is also being strengthened. The OECD will contribute to taking forward the above priorities by:

(i) Facilitating technology transfer

The OECD initiative on the governance of international co-operation on STI will address access arrangements and intellectual property, capacity building, and technology transfer, especially in the context of global challenges. The OECD can also contribute to the international debate on this issue that is now taking place in other international fora;

(ii) Promoting research and innovation to meet global and social challenges

The OECD Global Science Forum examines how to promote true research partnerships between developed and developing countries with a balanced flow in both directions of resources, efforts, and benefits. Promoting research and innovation is also part of the iniative described under (ii).

(iii) Strengthening global co-operation and improving international governance

As a follow-up to the Innovation Strategy, the OECD has launched an initiative to examine the working and limitations of existing governance mechanisms for international co-operation on STI, and to propose new principles that will help to meet development and global challenges. Issues covered (in addition to those mentioned previously) include agenda and priority setting, funding arrangements, and delivering benefits. To achieve tangible results beyond OECD Member countries, partner countries have been fully involved in the initiative from its inception. It is planned that new governance principles will be launched in 2013.

part II ECONOMIC GOVERNANCE

Development requires not just a stronger global economy, but also strengthened global economic governance and a clean business environment. This section of the report examines three interconnected issues: taxation, anti-corruption, and illicit financial flows.

Again, if there were ever any doubt about the importance of these issues for development, and the need for concerted collective action, the events of the last two years should have dispelled this. The impact of the economic crisis on fiscal balances worldwide has focused attention on the issue of tax havens, which has a direct impact on the ability of developing countries to mobilise domestic revenue in support of their development efforts. There has been a similarly increased focus on the importance of tackling corruption. Both issues are closely linked to each other and other challenges: tax havens and lack of transparency in reporting of profits and tax payments paid in resource-rich developing countries are linked to corruption, financial crime, money laundering, and illicit financial flows. All of these issues require action by governments, but none can be tackled by governments acting alone. All require governments to act collectively in support of their common global development objectives.

The following topic summaries review in more detail where we are on each of these challenges, what needs to happen next, and what the OECD can contribute. The economic crisis has focused attention on these issues and has provided the additional political momentum necessary to accelerate progress, for instance on nonco-operative tax jurisdictions.

At the same time, there is a large agenda of unfinished business. Both taxation and anti-corruption were discussed by G20 leaders at the Seoul 2010 Summit, with requests for further work to be undertaken by international organisations, including the OECD during the French G20 Presidency in 2011. Again, many of the next steps are actions needed more broadly to promote a cleaner global economy from which all countries, including developing countries, will benefit. These include stepping up international efforts to crack down on tax havens, corruption, and illicit financial flows. All of these have important development benefits.

Others are actions with a more specific development dimension – including helping to ensure developing countries can benefit from a more transparent and co-operative tax environment and increasing co-operation on the identification, recovery, and return of illegally acquired assets.

The OECD has extensive expertise and experience on economic governance issues. It is the leading organisation in the area of tax co-operation, and has been working on the issues of transparency and exchange of information for over 15 years. It hosts the Global Forum on Transparency and Exchange of Information for Tax Purposes, in which 101 countries now participate. The Global Forum has launched a process of peer review applying to all its members. Other work areas include tax evasion, harmful tax practices, transfer pricing, and transparency in reporting by multinational enterprises. The OECD also monitors and assesses national tax policies and systems and produces internationally comparable statistics.

The OECD has been a key player in the fight against corruption for more than a decade. Its Anti-Bribery Convention is the first and only international anti-corruption instrument focused on the 'supply side' of the bribery transaction, criminalising the bribery of foreign public officials. All parties to the Convention take part in a process of mutual assessment. Related recommendations are aimed at promoting responsible business conduct, denying tax deductibility of bribes, and preventing bribery through export credits and bilateral aid procurement. OECD governments also operate a range of institutions, agencies, legal procedures, and rules to work on the issues related to illicit financial flows.

The OECD will continue to deepen its work on economic governance issues, and to apply this to helping to deliver the conditions necessary for successful economic development and poverty reduction.

Taxation



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Taxation is key to promoting sustainable growth and poverty reduction. It provides developing countries with a stable and predictable fiscal environment to promote growth and to finance their development needs. Combined with economic growth, it reduces long-term reliance on aid. Its key role in mobilising domestic resources was re-affirmed at the Seoul G20 Summit. It is closely linked to other areas of economic governance covered in this report: tax havens and lack of transparency in reporting of profits and tax payments paid in resource-rich developing countries are linked to corruption, financial crime, money laundering, and illicit financial flows. These issues are in turn linked to illicit trade in arms, conflict and fragility. Taxation also plays a key role in ensuring good governance by promoting the accountability of government to citizens.

Much needs to be done by countries themselves, working nationally and regionally through organisations such as the African Tax Administration Forum (ATAF), to improve administrative capacity, broaden the tax base, and increase tax revenue as a proportion of GDP – whilst striking the right balance between an attractive tax regime for investment and growth, and securing the necessary revenues for public spending.

At the same time, international co-operation is essential in the following key areas:

- improving the capacity of tax administrations in developing countries;
- tackling the problem of offshore non-compliance;
- ensuring the consistent application of international standards on transfer pricing;
- optimising transparency in reporting by multinational enterprises (MNEs) in order to help ensure their full compliance with developing country tax regimes.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Raising capacity in tax administrations

Most of the tax challenges above are faced both by developing and developed countries but their impact is much larger where administrative capacity and compliance habits are weak • which is an unfortunate reality for many developing countries. Many, though not all, low income countries have tax administrations which may be plagued by corruption; have poorly trained and underpaid officials; use antiquated administrative structures; and suffer from weak risk management and poorly articulated strategic goals.

A tax system is only as good as its administration. Improving revenue administration is essential for enhanced and fairer revenue mobilisation, and for wider governance improvement. Working with key regional initiatives such as ATAF helps to put control of the developmental agenda firmly in the hands of developing countries themselves.

The next steps include:

• the Task Force on Tax and Development will provide a report on how less developed countries can improve the capacity of tax administrations, which will be fed into the G20 Working Group on Development.

• strengthening direct support for revenue and customs sectors which up to know has attracted a minimal share of aid; contributing to changing donor perspectives to view funding of tax systems as vital to the future of developing countries.

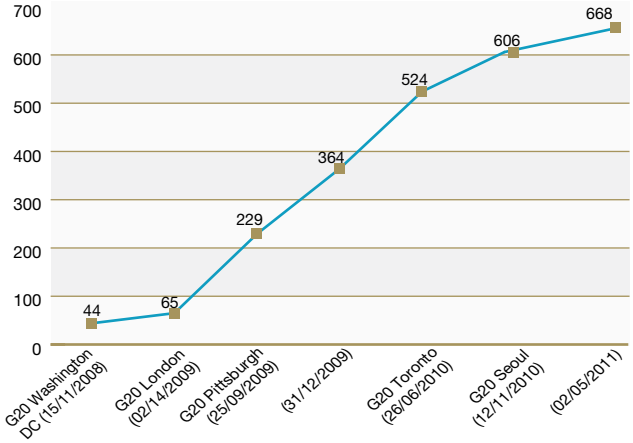
(ii) Tackling offshore non-compliance

Estimates of the revenue loss to developing countries as a consequence of offshore non-compliance vary greatly, but most exceed by some distance the level of official development assistance • around USD 120 billion annually. Improving the exchange of information helps authorities to tackle the problem.

The economic crisis and recent cross-border tax evasion scandals have heightened the political drive to ensure rapid implementation of the OECD's tax transparency and information exchange standards, through the OECD-hosted Global Forum. These require the exchange of information on all tax matters requested by jurisdictions on the basis of international tax agreements. All of the 97 countries covered by the Global Forum have now committed to the Forum's standards of tax information exchange and transparency. More than 600 agreements have been signed since April 2009 and many more are under negotiation. Eighteen peer reviews of jurisdictions' implementation of the standards for transparency and exchange of information have been finalised. The Forum is expected to deliver up to 40 reviews each year and 60 by the 2011 G20 Summit. The Seoul G20 communiqué asked the Global Forum to swiftly progress the reviews and report progress to the 2011 Summit.

More progress on exchange of tax information in past couple of years than in all of the previous decade

Tax Information Exchange Agreements (TIEAs)/ Double Tax Conventions (DTCs) Signed between G20 Summits



Source: OECD, Centre for Tax Policy and Administration, April 2011.

The next steps include:

• implementation in all jurisdictions of the agreed standards on transparency and exchange of information; and prompt action to address any weaknesses identified in the peer review process;

• support to help developing countries benefit from a more transparent and co-operative tax environment, including the development of the necessary capacity in domestic tax policy and administration.

(iii) Ensuring consistent application of international standards on transfer pricing

International transfer pricing standards determine the 'price' to be paid in respect of transactions between different taxable entities which are part of the same MNE, thus determining the tax that should be paid in each jurisdiction. The incomplete and inconsistent application of international standards on transfer pricing, inadequate legislation, or a lack of basic tax capacity in developing countries can mean that transfer prices used by MNEs may depart from the arm's length standard and lead to profits being shifted to low-tax jurisdictions, resulting in lower revenue for normal-rate jurisdictions, including developing countries. A structured dialogue with developing countries on capacities in policy and technical areas, including developing administrative frameworks for an efficient, effective, and fair implementation of transfer pricing regimes, is underway in a joint DAC/CFA initiative on "tax and development" with support from the G20.

The next step are:

• opening of dialogue and development of guidance to assist countries in the development and enforcement of transfer pricing legislation in accordance with individual country needs and priorities, including providing model legislation.

• creating an inclusive Global Forum on Transfer Pricing for developed and developing countries.

(iv) Optimising transparency in MNE reporting

This is the subject of active political debate in many countries, and between non-governmental organisations (NGOs) and business. To improve tax transparency and compliance in developing countries, NGOs have proposed that MNEs provide detailed reports on a country-by-country basis in annual financial statements. These

would include, for example, a disclosure of the countries in which MNEs operate and the financial performance of each, indentifying both third-party and intra-group trade, labour-related information, and pre-tax profits as well as taxes paid. Proponents suggest that country-by-country reporting would discourage profit shifting, reduce corruption, increase corporate social responsibility and facilitate corporate governance. Critics dispute the benefits and point to the potentially heavy compliance burden and the increased costs of auditing and reporting which would be incurred by MNEs.

The next step is:

• objective technical appraisal of the pros and cons of introducing country-by-country reporting, which may extend beyond tax matters into broader issues of disclosure.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD has been working on the issues of transparency and exchange of information for over 15 years. The OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes is the multilateral framework within which work in the area of transparency and exchange of information has been carried out by both the OECD and non-OECD economies since 2000. One hundred and one countries have joined the Forum, which has launched a two-phase peer review process applying to all members and also partner countries on the implementation of standards on transparency and exchange of information. An informal Tax and Development Task Force, including developing countries, NGOs, business, and international organisations, was established in January 2010 to support the leading work of the Global Forum and ensure that developing countries benefit fully from increased transparency through tax information exchange.

The OECD also produces internationally comparable statistics and monitors and assesses national tax policies and systems. It helps to share good practices and develop administrative capacity, through multilateral mechanisms such as the International Tax Dialogue. It also undertakes work on tax evasion, harmful tax practices, and increasing transparency in MNE reporting through the MNE Guidelines, which encourage compliance with tax laws and regulations. The OECD will contribute to these priorities as follows:

(i) Raising capacity in tax administrations

Enhancing co-operation between the African Tax Administration Forum and the Forum on Tax Administration to strengthen the linkage between taxation, accountability of governments to their citizens and state building. A report by the Task Force on Tax and Development on these issues, and the linkage between tax and aid, will be available by the end of 2011.

(ii) Tackling offshore non-compliance

Swiftly progressing the Global Forum's peer review process, helping developing countries to benefit from increased transparency, including by helping to set up exchange of information agreements and administrative structures to implement them.

(iii) Ensuring consistent application of international standards on transfer pricing

Broadening the scope of the OECD's work to help developing countries apply international transfer pricing standards and guidelines to protect their tax bases, whilst providing an investment-friendly environment. A series of dialogue events on OECD standards and guidance will be delivered for developing countries; those in Africa will take place under the auspices of the ATAF.

(iv) Optimising transparency in MNE reporting

The OECD's Investment Committee is working with its numerous non-OECD partners and stakeholders to update the Guidelines for MNEs during 2011, including whether these should be revised to address country-by-country reporting and whether the matter is limited to taxation or if a broader approach to disclosure is required. The OECD's Tax and Development Task Force will support the OECD's Committee on Fiscal Affairs to undertake an objective technical appraisal of this issue.

Anti-corruption



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Corruption undermines efforts to achieve economic development. It takes place at all levels of society and business – in international business in sectors such as natural resources (energy, minerals), defence, construction, and infrastructure, as well as the health and pharmaceutical industries. It is a devastating problem at the grassroots level, where it has a profound effect on the daily lives of poor people. But in today's interconnected world, the effects of corruption also spread far beyond where corrupt acts are committed and throughout the global economy.

No country is immune from the effects of corruption. For developing countries with scarce public resources, bribes paid by foreign companies to public officials for business advantages – such as winning new defence contracts, infrastructure projects, or oil and gas concessions – have an especially devastating effect, as they undermine good governance, distort development plans and investment decisions, and result in sub-standard projects and public services. The issues here are linked to other topics, including improving tax (Topic 6), illicit financial flows, money laundering, and asset recovery (Topic 8), and conflict and fragility (Topic 13).

Action needs to be taken by governments nationally to improve transparency, accountability, and integrity in both the public and private sectors. But the world's largest economies also have a special collective responsibility to tackle the 'supply' side of the problem – including the bribery of public officials in other countries in order to secure business advantages. The OECD confronts this problem with the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (the Anti-Bribery Convention), which requires its 38 States Parties to punish the bribery of foreign public officials with effective, proportionate and dissuasive criminal penalties.

Renewed political momentum has been given to this issue over the last year, both within the OECD and within the G20 process. It has picked up pace with the adoption of an ambitious Anti-Corruption Action Plan by the G20 in November 2010.

Key areas for wider international co-operation are:

- the enforcement of existing OECD anti-bribery instruments;
- the ratification, accession, or full implementation of the UN Convention against Corruption (UNCAC);
- improved co-ordination between international organisations, across related issues, and with the private sector.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) OECD anti-corruption instruments

The OECD has developed well-established instruments covering a broad range of relevant issues, from immunisation and prevention to sanction of corruption. It is also known for its rigorous peer reviews and multidisciplinary approach. OECD instruments address both the private and the public sector in countries across the spec-

trum of development. They cover the supply and demand sides of corruption and address the institutions, systems and processes in place that can help avoid corruption, including education. In terms of immunisation and prevention, OECD instruments deal with public procurement systems and fighting bid rigging, lobbying, conflicts of interest, and public sector integrity in general. The Guidelines for Multinational Enterprises and the Principles of Corporate Governance also seek to promote a corporate culture of transparency and accountability that would discourage bribery and corruption in general.

In this area, the OECD is best known for the OECD Anti-Bribery Convention. Relevant government bodies, police, prosecutors, the private sector and civil society are actively involved in the Working Group on Bribery – made up of representatives from all 38 Convention countries – including a rigorous peer-review system that assesses Parties' implementation of the Convention and related instruments, such as the 2009 Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions.

This Recommendation calls on Parties to the Convention to review policies and laws on facilitation payments, strengthen corporate liability for foreign bribery, strengthen whistle-blower protection, improve communication between public officials and law enforcement authorities, and encourage the private sector to adopt stringent ethics and anti-bribery compliance programmes. It includes a new Good Practice Guidance on Internal Controls, Ethics, and Compliance that helps companies and business organisations prevent bribery and corruption in their business deals.

From 1999 to 2009, 225 companies and individuals were sanctioned for foreign bribery. As of mid-2010, all 38 Parties to the Convention had undergone their first and second rounds of mutual evaluation, and a third round of evaluations had started. Results are published on the OECD website.

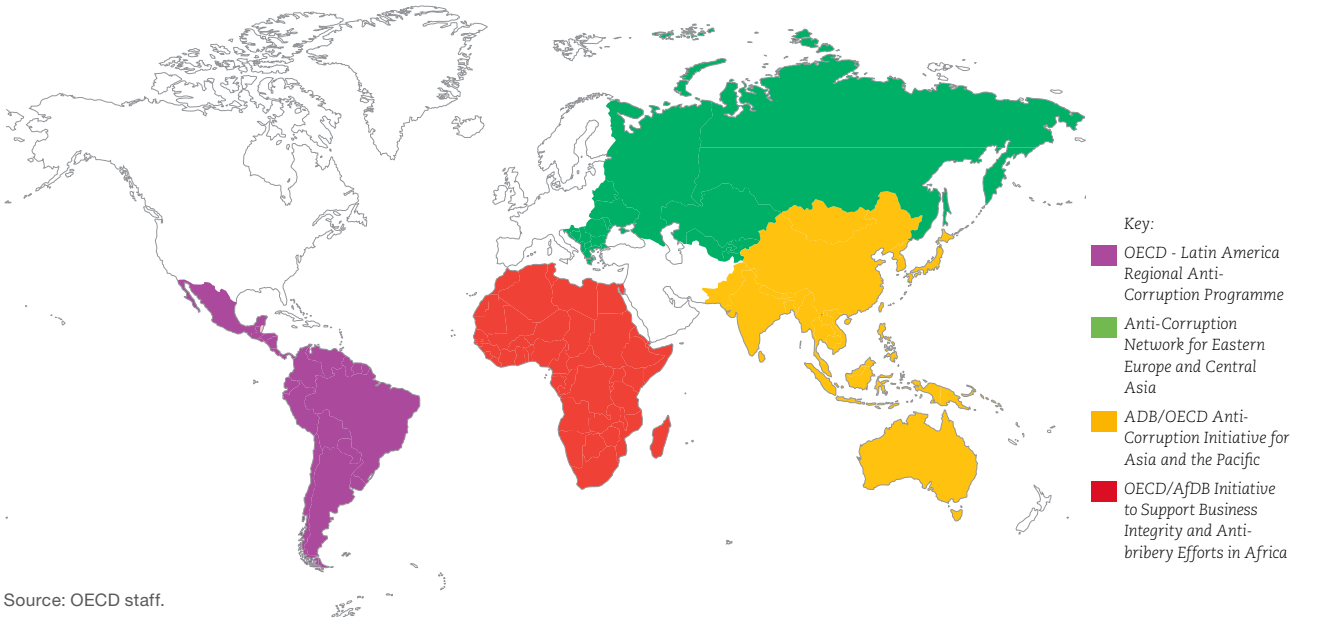
The G20 Action Plan asks all G20 countries to adopt and enforce laws and other measures against international bribery, such as the criminalisation of bribery of foreign public officials. In addition, it calls on non-Parties to the Anti-Bribery Convention to engage voluntarily by 2012 with the OECD Working Group on Bribery on the Convention's standards or to join the Convention. And, in response to the Action Plan's call for public-private partnerships against corruption, the OECD co-organised with the French Presidency of the G20 an anti-corruption conference for the private sector at the OECD, 27-28 April 2011[1].

Other related OECD anti-bribery recommendations include the 2009 Recommendation on Tax Measures for Further Combating Bribery of Foreign Public Officials in International Business Transactions, the 2006 Recommendation on Bribery and Officially Supported Export Credits, and the 1996 Recommendation on Anti-Corruption Proposals for Bilateral Aid Procurement.

The next steps include:

- continued strong enforcement of the Anti-Bribery Convention and related instruments to prevent, detect, and investigate foreign bribery;

OECD Regional Anti-Corruption Programmes



Source: OECD staff.

• increased engagement with major economies not yet party to the Anti-Bribery Convention, with a view to their engaging more actively with the OECD Working Group on Bribery or acceding to the Convention.

(ii) The UN Convention against Corruption (UNCAC)

The Convention is a wide-ranging instrument open to all UN Member States, with 140 signatories. It entered into force in December 2005. It has a strong focus on domestic corruption but also contains a provision against foreign bribery, and addresses new issues such as the recovery of stolen assets. In November 2009, the State Parties to the UNCAC agreed to a new review mechanism that has since come into effect.

The G20 Anti-Corruption Action Plan calls on G20 countries to ratify or accede to and fully implement the UNCAC as soon as possible, and invites non-G20 countries to ratify and accede to it. It also calls for the strengthening of individual reviews by ensuring they are conducted in an effective and thorough manner, and by ensuring transparency and inclusivity. The next step is:

• Follow-up to the G20 Action Plan

(iii) Improved co-ordination

The G20 Action Plan calls for strengthened international co-ordination on issues such as international bribery, money laundering, asset recovery and the protection of whistleblowers, plus strengthened partnerships with the private sector. The OECD is party to a number of efforts to strengthen co-operation with other organisations, including through regional anti-corruption programmes in Asia, Africa, and Latin America. The next steps include:

• improved co-ordination between international and regional organisations fighting corruption, such as the UN, the World Bank, the OECD, and regional development banks;

• strengthened linkages to the issues of money laundering and asset recovery;

• strengthened partnership with the private sector.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD has been a key player in the fight against corruption for more than a decade. It continues to take a lead in setting and promoting international anti-bribery standards and principles through its interdisciplinary approach. Its role is reflected in the Anti-Corruption Plan endorsed by G20 leaders.

It can contribute to the challenges above as follows:

(i) OECD anti-corruption instruments

• completing the third round of mutual examinations launched in 2010 under the Anti-Bribery Convention;

• contributing to the G20 Action Plan in other areas, including whistle-blowing, government integrity and, in particular, public procurement; monitoring of implementation; public-private partnerships and beneficial ownership standards;

• strengthening collaboration with major economies that do not belong to the Anti-Bribery Convention;

• building broader global support among governments, the private sector and the public, including through the Initiative to Raise Global Awareness of Foreign Bribery.

(iii) Improved co-ordination

The OECD has launched an anti-corruption initiative ("Clean.gov.biz") in order to improve the overall co-ordination of anti-corruption efforts. This initiative will aim to:

• promote stronger coherence among existing instruments and reinforce their effective implementation;

• recognise achievements in the fight against corruption;

• act as a catalyst to improve global co-ordination amongst all relevant players, such as the United Nations, the World Bank as part of its Comprehensive Initiative against Corruption, but also main NGOs such as Transparency International and the Extractive Industries Transparency Initiative (EITI), and to promote stronger and more systematic engagement – i.e. ensure that all efforts are mutually reinforcing. To do so, the Initiative will develop a web-based tool box, initiate a series of voluntary reviews in key areas, and launch an international network.

1-More information on the conference, entitled 'Joining Forces against Corruption: G20 Business & Government,' is available online at: www.oecd.org/daf/nocorruption/g20.

Illicit financial flows



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Illicit financial flows from developing countries make up a significant part of the larger problem of capital flight, reducing the resources available for investment, growth, and poverty reduction and resulting in significant losses in government revenue. They comprise the movement of funds whose origin, transfer or use is contrary to national and/or international laws, including the following:

- the movement of money that has been illegally earned, including the proceeds of criminal activities and corruption, and illicit trade. Such transactions are often intended to disguise the illegal origin of funds and to make it appear that they have been generated from a legal source (money laundering);
- the illegal transfer of funds (whether earned legally or illegally) for the purpose of evading taxes or other legally required payment;
- the transfer of funds (whether earned legally or illegally) for an illegal use (e.g. terrorist financing).

Total illicit flows from developing countries have been estimated to be between USD 850 billion to USD 1 trillion per year, far exceeding inflows from Official Development Assistance and Foreign Direct Investment. Tax evasion is estimated to account for 60 to 65% of all illicit flows; 30 to 35% is attributed to criminal activities and 3% to bribery and theft by government officials. There is thus a close link to the two previous topics in this report, taxation and anti-corruption, to international organised crime and to conflict and stability (Topic 13).

There is a need both for action by governments at the national level and for increased international co-operation. A large number of international instruments (both hard and soft law) now exist to tackle illicit financial flows and the flow of illicit goods, such as drugs and illegal arms. Political momentum has been provided by the G20 process. The Seoul Anti-Corruption Action Plan calls for strengthened efforts to prevent and combat money laundering and strengthened channels for mutual legal assistance on asset recovery.

Drawing on the distinction above between origin, transfer and use, the three key areas for international co-operation are:

- stemming illegal earnings at their source;
- making the act of transfer more difficult;
- identifying and returning illegally transferred funds at their destination.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Stemming illegal earnings at their source

Legally binding anti-bribery instruments include the UNCAC and the OECD Anti-Bribery Convention, as well as the OECD Guidelines for Multinational Enterprises (MNEs), which set important recommendations for the private sector on preventing bribery and corruption. There are also a number of certification and transparency initiatives aiming to reduce corruption or illegal trade in natural resources, such as EITI, the Kimberley Process and the EU Forest Law, Enforcement, Governance and Trade (FLEGT) initiative.

The next steps include:

- Application of the UNCAC and related provisions in the Guidelines for MNEs and continued enforcement of the Anti-Bribery Convention.

(ii) Making the act of transfer more difficult

The Financial Action Task Force (FATF) has been active in encouraging countries to adopt its 40 + 9 recommendations on legal, regulatory, and administrative measures aiming to combat money laundering and terrorist financing. As part of the G20 Anti-Corruption Action Plan, it has been asked to report at the 2011 Summit on its work to identify jurisdictions with strategic Anti-Money Laundering/Counter-Financing of Terrorism deficiencies, and to update and implement the relevant FATF standards. The OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes aims to make it more difficult to shelter funds in tax havens. The OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations aim to protect countries against the artificial shifting of profits out of their jurisdictions, and have been widely adopted.

The next steps include:

- updating and implementation of relevant FATF standards; and action to address deficiencies in anti-money laundering regimes identified by FATF;

- further review of progress in 2011 within the G20 and other processes;

- implementation of standards on transparency and exchange of information for tax purposes in order to make it more difficult to shelter funds in tax havens.

(iii) Identifying and returning illegally transferred funds at their destination

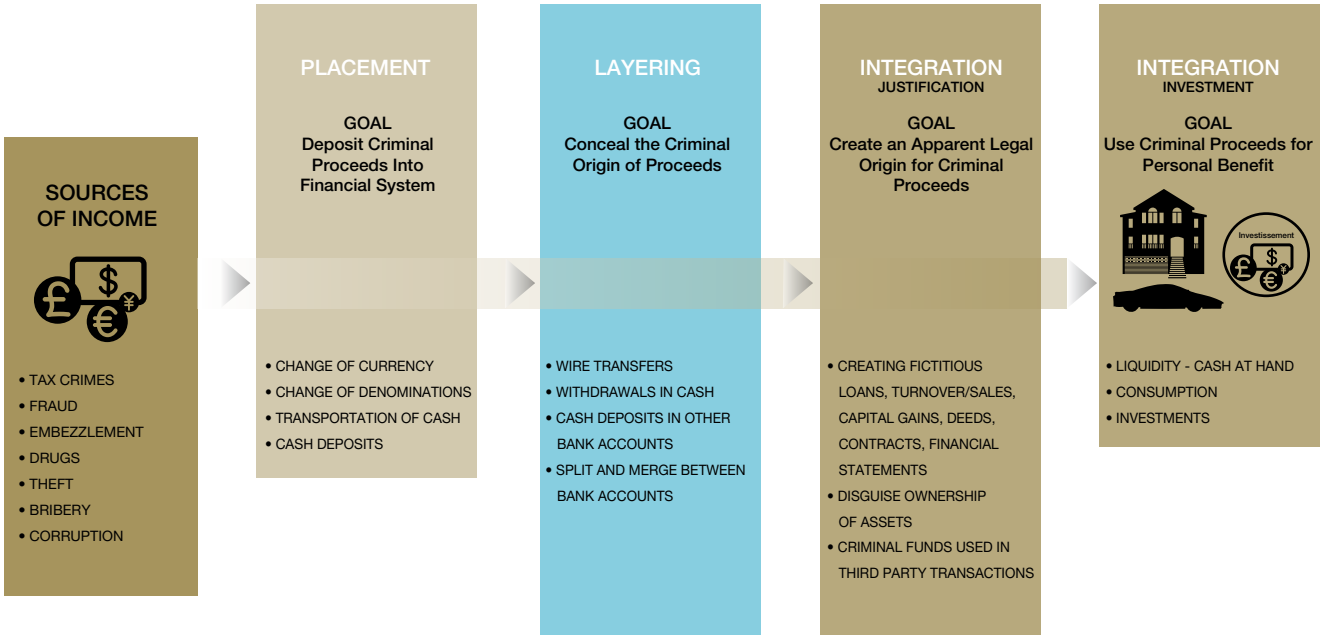
The Stolen Asset Recovery Initiative (StAR) has been launched by the UN Office on Drugs and Crime (UNODC) and the World Bank to help developing countries recover stolen assets, including the proceeds of corruption. The G20 Anti-Corruption Action Plan calls for the use of the relevant provisions on mutual legal assistance and asset recovery of the UNCAC, and for all G20 members to establish clear and effective channels for mutual legal assistance and other forms of co-operation on corruption and asset recovery. The next steps include:

- enhancing effectiveness of the range of institutions, agencies, legal procedures, and rules which exist in relation to asset recovery;

- designation of an appropriate authority responsible for mutual legal assistance requests; and signature of bilateral and multilateral treaties on mutual legal assistance and asset recovery, where needed;

- provision of technical assistance where needed.

Overview of Money Laundering



Source: OECD Handbook on Money Laundering Awareness: www.oecd.org/ctp/taxcrimes/laundering.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

There are a number of other international organisations and processes involved in this area. The main potential entry points for the OECD's engagement are its work on investment, anti-bribery, and taxation. There is a need to link work on these various issues. The OECD can contribute on the issues above as follows:

(i) Stemming illegal earnings at their source

Promoting co-ordination: there is a particular need to draw together and disseminate good-practice lessons on technical, administrative, regulatory, and legal measures aiming to combat illicit flows.

(ii) Making the act of transfer more difficult

Researching and data gathering, including on the nature, types, and scale of illicit flows, and the rapidly changing techniques used by individuals and companies to move money illegally.

(iii) Identifying and returning illegally transferred funds at their destination

Collaborating with the World Bank/UN StAR to follow up the 2008 Accra Agenda for Action commitment on OECD governments' responsibilities to trace, freeze, and recover illegally acquired assets originating from developing countries. A survey of OECD governments was undertaken in 2009-2010 and the OECD is also working with StAR to study the quantification of the proceeds of corruption for the purposes of confiscation and asset recovery (the OECD will publish a report on this in 2011).

The OECD is well placed to develop knowledge and promote dialogue with the UN system (covering drugs, arms trafficking, etc.), the World Bank (asset recovery), and the private sector, especially the banking sector and MNEs.

Finally, building on the outcomes from the March 2011 Tax and Crime Conference, the OECD could promote more intense dialogue at the national and international level between tax administrations and other regulatory bodies.

part III THE ENVIRONMENT AND NATURAL RESOURCE SECURITY

Development requires not only better global economic governance but also a cleaner environment, with basic natural resources secure and used sustainably at the global level, while available to and affordable by all at the household and individual level. The following topics look at four interconnected issues: climate change, and food, water and energy security.

Climate change is a clear example of an issue which transcends boundaries, which has a profound effect on the prospects for sustainable long-term development and poverty reduction and which requires collective action. Whilst it affects all countries, developing countries – who bear the least responsibility historically – are particularly vulnerable to its effects and have the fewest resources available to cope with them.

Climate change has major knock-on effects on food, water, and energy security. There are strong interconnections between these four topics and also with the earlier topics in Part I, including trade and science, technology, and innovation. Each is fundamental to the prospects of achieving the MDGs, including halving the proportion of people who suffer from hunger (MDG1), and ensuring environmental sustainability and halving the proportion of the population without sustainable access to safe drinking water and basic sanitation (MDG7). Each involves challenges ranging from global security to household access. Each is directly related both to the underlying problem of poverty and to the wider global or regional context which affects availability and affordability. Each requires determined action by national governments with financial support from the international community and wider collective action.

The following topics examine in more detail where we are in meeting these challenges, what needs to happen next, and what the OECD can contribute. There is a large agenda of unfinished business. Again, many of the next steps are actions that need to be taken more broadly to promote a cleaner environment from which all countries, including developing countries, will benefit.

These include taking effective action to limit future greenhouse gas (GHG) emissions, developing strategies which will promote 'green growth', developing a more integrated global approach to food, water, and energy policies, and tackling the problems of price volatility that underlay the food and fuel price shocks of 2008. All of these have important potential development benefits and are rising rapidly up the global agenda.

Others are actions with a more specific development dimension – including promoting the development and transfer of technologies which will address the challenges faced by developing countries in adapting to climate change, coping with resource scarcity, reducing GHG emissions, and developing clean and efficient energy.

The OECD has extensive expertise and experience in environmental policy analysis, which has been a core part of its mandate for more than 30 years. It has strengthened its capacity and stepped up its work in this area in response to the growing urgency of tackling these issues – including both the assessment of long-term trends in its Environmental Outlook to 2030 and detailed analysis contained in The Economics of Climate Change Mitigation. The OECD addressed the linkages between innovation and climate change and food security in its Innovation Strategy published in 2009 and will publish a flagship report on Green Growth at its Ministerial Council meeting in May 2011.

Looking further ahead, it has identified environmental issues – spanning climate change, energy efficiency and renewable energy sources (in collaboration with the International Energy Agency), biodiversity loss and water security as key areas where its work will need to be further strengthened. It has identified resource 'scarcities' including food, water, and land as a major issue looming in the global agenda and will address this as one of its key priorities. It will bring this work the capacity to integrate policy analysis – drawing together policies on trade, tax, innovation, and the environment and putting them into the development context.

Climate change



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Tackling climate change is one of the major environmental challenges of this century. It is likely to have a profound impact on natural and social systems and therefore the prospects for economic development and poverty reduction in developing countries which, although they have contributed least to the problem, are likely to be particularly vulnerable to its effects due to their greater dependence on climate-sensitive natural resources, their high growth in potentially vulnerable locations, and the limited resources they have to cope with adverse impacts.

Climate change is a classic example of a challenge which transcends national boundaries. No matter where greenhouse gases (GHGs) are emitted, the impacts of climate change will be global. It also transcends policy boundaries. It is closely linked to many of the topics covered earlier in this report, including trade and investment; science, technology, and innovation; and taxation. It has in turn a knock-on effect on many of the topics which follow, including food, water, and energy security, health, migration, and conflict and fragility. And it has fundamental implications for our models of growth: without a global shift to a low-carbon, resource-efficient economy, the world is on track for increasing greenhouse gas (GHG) emissions by 70% by 2050 and temperature increases of 4 to 6oC by the end of the century. This is far from the target of staying within a 2oC increase noted in Copenhagen in 2009 and the global target recently agreed at the UNFCCC COP16 meeting in Cancún which re-injected hope and confidence in the multilateral negotiation process on climate change.

Whilst action needs to be taken by governments nationally, this can only be effective within a framework of concerted collective international action. This needs to focus not just on our common global interest, but also on our development objectives.

Key areas for international co-operation are:

• working towards identifying a global goal for substantially reducing global emissions by 2050, and identifying the nationally appropriate mitigation actions and policy approaches by developed and developing countries that can collectively achieve this goal in a cost-effective manner;

• supporting climate-resilient and low-carbon growth in developing countries, including through policies on trade, technology and innovation, as an integral part of wider global 'green growth' strategies;

• scaling-up public and private sources of finance in support of both adaptation to and mitigation of climate change in developing countries.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Emission reduction targets

The agreements reached at the United Nations Framework Convention on Climate Change 16th Conference of the Parties (UNFCCC COP16) in Cancún formalise aspects of the Copenhagen Accord "noted" by COP15 and represent a further important step towards collective international action to limit global emissions and to

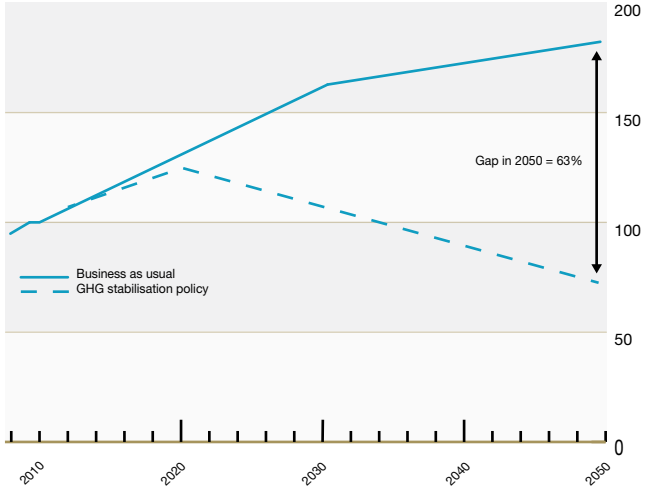
help build cleaner and more climate-resilient economies. However, the overall ambition of the pledges made by all countries has not increased significantly since Copenhagen, and is still likely to be insufficient to limit global temperature rise to 2°C. Recent OECD analysis suggests that the most ambitious industrialised country targets on the table would amount to at most an 18% reduction in their emissions by 2020 from 1990 levels, less than the 25 to 40% reduction suggested by the Intergovernmental Panel on Climate Change (IPCC) to limit global average temperature increase to 2oC.

If industrialised countries reach only the lower bound of their declared targets, they will reduce emissions by only 12% in 2020 compared with 1990. According to the IPCC, significant deviation from business-as-usual is also needed by developing countries; their currently declared actions would amount to an 8% reduction in emissions in 2020 from business-as-usual levels. The graph below shows the expected emissions pathway under business as usual, relative to the trajectory required to stabilise GHG emissions. Further analysis can be found in The Emissions Gap Report by UNEP (2010), to which OECD contributed modelling material.

There are a number of key areas for international co-operation highlighted in the Cancun agreements, but a few ones of particular relevance for policy coherence for development include:

• agreement on how to measure, report, and verify GHG emissions and emission reductions nationally and internationally depending on circumstances.

World's Greenhouse Gas Emissions
2005=100



Source: OECD (2008), Environmental Outlook to 2030, and OECD (2009), The Economics of Climate Change Mitigation: Policies and Options for Global Action beyond 2012, OECD, Paris.

• agreement on ambitious and legally-binding emissions targets or actions appropriate to national circumstances, and scaling up the current commitments, with the aim of holding the increase in average global temperature below 2°C above pre-industrial levels;

(ii) Climate-resilient and low-carbon growth

The Cancún Agreements state that developed countries should develop low-carbon development strategies which are expected to outline national plans for achieving emissions reductions. Developing countries are encouraged to do the same. To support action by developing countries on climate change, the Cancún Agreements have formalised the establishment of a Technology Mechanism, initially noted under the Copenhagen Accord, to accelerate development and transfer of technologies for adaptation and mitigation through a country-driven approach based on national circumstances and priorities. The Mechanism will be overseen by an Executive Committee accountable to the UNFCCC Parties that, through the establishment of a Climate Technology Centre, will benefit from an international network to stimulate technology transfer. Details of linkage with the finance mechanism, and how difficult issues such as ensuring protection of intellectual property rights (IPR) while increasing access to new technologies will be dealt with remain to be decided and discussions will continue during 2011. A Cancún Adaptation Framework has also been agreed, which will establish an Adaptation Committee to facilitate climate resilient development in developing countries. The next steps include:

• operationalisation of the Technology Mechanism in order to promote the accelerated development, diffusion, and transfer of technology;

• elimination of trade-related barriers to the dissemination of cleaner low-carbon technologies worldwide;

• elaboration of low-carbon development strategies or plans by developed countries and, as appropriate, for developing countries.

(iii) New sources of finance

The Cancún agreements also formalise commitments made by industrialised countries in the Copenhagen Accord to scale up financing to developing countries in support of both adaptation and mitigation, including for Reducing Emissions from Deforestation and Forest Degradation (REDD plus) and through carbon markets. The commitments are to raise USD 30 billion for the period 2010-2012, and mobilising USD 100 billion per year from public and private sources by 2020.The Green Climate Fund will now be established and will be accountable to the UNFCCC Parties through a governing board, with the World Bank acting as interim trustee. In 2009 a High Level Advisory Group on Climate Change Financing considered several options for scaling-up climate finance, in-

cluding a tax on international financial transactions and a levy on global aviation and shipping, as well as schemes that would raise money from auctioning off "permits" to emit greenhouse gases. Although not precluding how long-term financing mechanisms may be incorporated under the UNFCCC process, recent OECD analysis found that if the targets currently declared by industrialised countries were to be achieved wholly through carbon taxes or emissions trading schemes with auctioned allowances, this could raise revenues exceeding 1% of their GDP (or USD 400 billion) in 2020 (Dellink et al (2010), "Costs, Revenues, and Effectiveness of the Copenhagen Accord Emission Pledges for 2020", OECD Environment Working Paper 22). While it is unlikely that countries would use only market-based instruments to achieve their targets, and there will be many competing demands for use of such revenues, even a fraction of that amount could contribute significantly towards the international finance levels that have been committed in the Cancún Agreements.

The next steps include:

• developing options on innovative sources of finance; developing appropriate policy mechanisms to encourage scale-up of private and public financing; and operationalising the Green Climate Fund, paying particular attention to the position of least developed and most vulnerable countries;

• agreement on how to measure, report, and verify provision of new and additional finance.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD has stepped up its work on climate change in response to the growing urgency of these issues including the assessment of long-term trends in its Environmental Outlook reports, and detailed economic analysis demonstrating that ambitious action to tackle climate change is economically rational given the costs of inaction: The Economics of Climate Change Mitigation: Policies and Options for Global Action Beyond 2012 and Economic Aspects of Adaptation to Climate Change: Costs, Benefits and Policy Instruments. The OECD provides analysis and policy recommendations for more effective and efficient policy mixes for both adaptation to and mitigation of climate change. It is working to integrate policies on trade, tax, investment, development co-operation, innovation and the environment, and is in the process of developing a Green Growth strategy linking all these elements. It is working with the IEA as the Secretariat of the Climate Change Experts Group (CCXG) to provide analysis relevant to climate negotiations, including on carbon markets and climate finance, approaches to REDD, and "Measuring, Reporting and Verifying" actions and finance. Working with the UNFCCC, the OECD is committed to playing an important role in supporting efforts to reach a climate change agreement, as follows:

(i) Ambitious emissions reductions

Continued analysis of the costs of both action and inaction, including reflecting the impacts on developing countries; support for developed and developing countries in identifying the potential for stepping up their emissions reductions while still growing their economies; and identifying options to measure, report, and verify GHG emission levels and emission reductions to an appropriate degree.

(ii) Climate resilient and low-carbon growth

Continued analysis to identify how to integrate adaptation into all aspects of economic development and to achieve clean, low-carbon growth; advancing policy options which will help to stimulate innovation and technology diffusion and transfer, and to overcome any trade-related barriers to the provision of 'green' innovations and technologies to developing countries.

(iii) Scaling-up climate finance

Further analysis of potential climate change financing options, including: how to better use existing and new market mechanisms (including improving the capacity of countries to access carbon market finance); how public policy frameworks can incentivise private investments in low-carbon and climate resilient development; the use of market-based instruments to increase revenue streams; and identification of options to measure, report, and verify support for climate actions. The OECD will also work to provide advice to governments on these issues.

Food security



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

The FAO estimated there were 925 million undernourished people as of late 2010 - a number that has likely risen with further increases in food commodity prices and volatility since then. Food security remains centre stage in international discussion. Achieving the Millennium Development Goal of halving the proportion of people living in hunger by 2015 will be difficult. Looking further ahead, the projected rise in the world's population to 9 billion by 2050 is estimated to require an increase of 42% in global food production by 2030 and 70% by 2050.

Achieving food security thus presents multiple challenges, ranging from global supply to household access. It is inextricably linked both to the underlying problem of poverty and improving the incomes and purchasing power of the poorest and to the challenges of bringing more land into production and increasing productivity, against a background of the new challenges presented by climate change. It requires action from governments through policies to encourage investment and production and through increased public investment in agriculture, together with the provision of safety nets for vulnerable populations. These actions need financial support from the international community. To be effective, however, collective action is needed.

Key areas for international co-operation are:

• liberalising trade in agriculture, and promoting responsible agricultural investment;

• assessing potential measures to limit food price volatility and to mitigate its impact on the most vulnerable;

• helping spread the benefits of science, technology, and innovation;

• tackling related environmental and energy issues, in particular climate change and climate variability.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Liberalising trade and promoting responsible agricultural investment

Trade in agriculture has been at the heart of ongoing negotiations on the Doha Development Agenda and one of the stumbling blocks that has proved most difficult to overcome. Tariffs and subsidies remain high compared to manufacturing. Liberalising trade would help balance food supply and demand within countries, regions, and globally, thereby enhancing food security and fostering income growth in poor countries possessing comparative advantage in food production. OECD estimates are that a further 50% reduction in all tariffs and domestic support could increase global welfare by around USD 44 billion per year. Most of the gains would be the result of tariff reductions in agriculture. Boosting trade capacity will be important to help developing countries realise these benefits.

The next steps are:

• a speedy, ambitious, comprehensive, and balanced conclusion

to the Doha Development Round, locking in reforms which will reduce subsidies and import barriers, in particular in developed countries;

• promoting the Principles for Responsible Agricultural Investment.

(ii) Limiting price volatility and mitigating its impact on the most vulnerable

Prices fell back in 2009 from their 2007-2008 peaks, and rose again sharply in the second half of 2010 and early 2011. Against this background, there continue to be concerns about the impact of food price volatility on the poor. The L'Aquila Joint Statement on Global Food Security and the 2009 World Summit on Food Security asked relevant international organisations to examine whether a system of stockholding could be an effective way of limiting price volatility. The G20 Seoul Summit asked international organisations, including the OECD, to develop options on 'how to better mitigate and manage the risks associated with the price volatility of food and other agriculture commodities without distorting market behaviour'.

Work is underway to :

• analyse the sources of price volatility;

• analyse the feasibility, effectiveness, and administrative modalities of a system of stockholdingfor emergency purposes;

• developeproposals for mitigating and managing risks, including helping those most affected in vulnerable countries or regions;

• improve market transparency and international policy co-ordination.

(iii) Spreading the benefits of science, technology, and innovation

There have been a wide range of technical advances for agriculture, driven by research in both the public and private sectors, leading to rapidly rising productivity growth spreading from developed to developing countries, in particular in Asia (though with much lower productivity growth in Africa). Genetically modified organisms (GMOs) have been developed as a potential way of increasing agricultural productivity, generating intense debate.

Rules on the patenting of new crop varieties are covered by the WTO TRIPS Agreement. A review of the TRIPS agreement, including its relationship with the UN Convention on Biological Diversity (UNCBD), was agreed as part of the Doha Development Round.

The next steps include:

• additional basic research and development, including strengthening of research led by the Consultative Group on International Agricultural Research on development of crop varieties suited to climate change;

• further analysis of the potential costs and benefits of genetically modified crops;

• assessment of the impact of patent systems on technology transfers as part of the TRIPS review.

(iv) Tackling related environmental and energy issues

Climate change and climate variability are absolutely critical to future food security, along with access and management of land and water resources. Key biodiversity instruments include the UNCBD, and the International Treaty on Plant Genetic Resources for Food and Agriculture. We still lack comprehensive global-scale measures to assess progress towards the 2010 biodiversity targets set in the CBD, but the information available to date indicates that biodiversity is in decline. There is growing interest in the implications of expanded biofuel production for food prices and hence on the food security of the poor, as well as for natural habitats and biodiversity.

The next steps include:

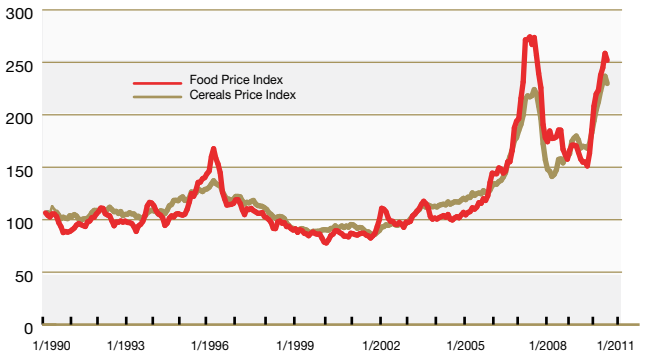
• progress on UNFCCC negotiations on mitigating climate change (see also Topic 9);

• development of a comprehensive biodiversity strategies and plans to reduce the rate of biodiversity loss;

• development of common reference framework for sustainable biofuel development and enforcement mechanisms to minimise adverse impacts of biofuel production on global food security and biodiversity.

Food prices rose again sharply in early 2011

Food and Cereal Price Indices 1990-2011



Source: OECD staff.

HOW CAN THE OECD, WORKING WITH OTHER ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD undertakes systematic monitoring of agriculture policies in OECD and emerging economies, as well as trends and prospects in global agricultural markets and their impact on food security, including through joint medium-term 'Agricultural Outlooks' with the FAO. Together with other international organisations, the OECD monitors progress on delivering existing commitments, including those under the L'Aquila Food Security Initiative, and it has been asked by G20 leaders to continue this work. OECD is working closely with the FAO and other international organisations to develop options for consideration by the G20 to better mitigate and manage the risks associated with the price volatility of food and other agriculture commodities. It works on the linkages between food security and other policy areas including trade and investment; financial markets; science, technology, and innovation; and the environment, energy, and water.

The OECD facilitates the harmonisation of regulatory oversight by governments to ensure the environmental and health safety of GMOs. Its work in all these areas increasingly involves policy dialogue with developing countries, in particular key emerging economies. The OECD can contribute to work on the above issues as follows:

(i) Liberalising trade and promoting responsible agricultural investment

Research and analysis, policy dialogue, and advocacy on how to maximise the benefits of trade liberalisation for food security. Implement the principle of Responsible Agricultural Investment and accumulate best practices.

(ii) Limiting price volatility and mitigating its impact on the most vulnerable

Analysis of the sources of food price volatility, including the changing pattern of supply and demand; regional or national emergency stocks; yield and productivity; the role of futures markets; exchange rates; links with crude oil and energy prices and the biofuels market; analysis of ways of limiting price volatility and mitigating and managing its impact.

(iii) Spreading the benefits of science, technology, and innovation

Following up on the OECD Innovation Strategy (2010) by deepening analysis of how to accelerate technology transfer, stimulate innovation, and promote increased international co-operation, including the application of biotechnology to develop new drought-resistant crop varieties, whilst ensuring environmental and health safety.

(iv) Tackling related environmental and energy issues

Further research and analysis on the interaction between food security, energy policy (including biofuels), and environmental policies (including biodiversity).

Water security



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Water security embraces the issues of water stress, water quality, flood management, access to water and sanitation services, and ensuring adequate water to maintain ecosystems. This topic focuses on the issues of scarcity and access. Many parts of the world are suffering from increased competition for water as overuse and pollution reduce available sources. Climate change is creating additional pressures. In addition, global water consumption is expected to increase by 50% over the next 30 years due to factors including development, population growth, and urbanisation. The number of people living under severe water stress is expected to rise from around 2.8 billion to 3.9 billion by 2030, of which nearly 3.5 billion will live in developing countries. Over 1 billion people still lack access to safe drinking water and 2.6 billion are without access to adequate sanitation. About 80% of all diseases in developing countries are water-related, leading to an estimated 1.7 million deaths each year. On present trends the world is roughly on course to meet the MDG target of halving the proportion of people without access to safe drinking water, but will fall short by about half a billion people on sanitation.

Achieving water security thus presents, as in the cases of food and energy, multiple challenges ranging from global supply to household access. Much needs to be done by governments at local and national levels and by co-operating regionally to promote more investment and more efficient and sustainable water resource management. A doubling of annual investment to around USD 35 billion per year is needed to achieve the water and sanitation MDGs, and even larger sums are required for operation and maintenance of existing infrastructure and water resources management. There is an essential role for international donors in helping to finance this investment, and for the development and deployment of new low-cost and affordable technologies.

Key areas for wider international co-operation are:

• promoting a more integrated approach to water, food, energy, and trade policy, including careful consideration of subsidy regimes and the use of biofuels;

• tackling the impact of climate change and climate variability on water scarcity and access;

• rationalising and strengthening the framework for international governance on water.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Water, food, energy, and trade policy

Agriculture accounts for about 70% of water use globally, as well as being a major source of water pollution from nutrient and pesticide pollutants. The anticipated growth in world population to 9 billion by 2050 will mean increased demand for food, and with the anticipated change in diets, increase in bioenergy production, and growth in urban and industrial use of water, competition for water resources will be intensified. There is increased awareness of the interaction of water, agriculture, and energy policies. Whilst policies are beginning to shift at national level towards more sustain-

able agricultural water management, government decisions result in the systematic under-pricing of water for irrigation, aggravating inefficiency and overuse, as well as the inability to finance extension of infrastructure to less favoured areas. OECD studies show that putting the right price on water will encourage people to waste less, pollute less, and invest more in water infrastructure, thus increasing water security. Energy policies, such as subsidising energy for groundwater pumping, also have an important impact on the effective cost of water use. This cannot be tackled by governments on a unilateral basis. Reform of implicit water subsidies needs to be addressed alongside agriculture and energy subsidies.

The next steps include:

• further work on the linkages between and coherence of water, agricultural, and energy policies, including the governance and international structures that provide the means to deliver policy reform in the area of water;

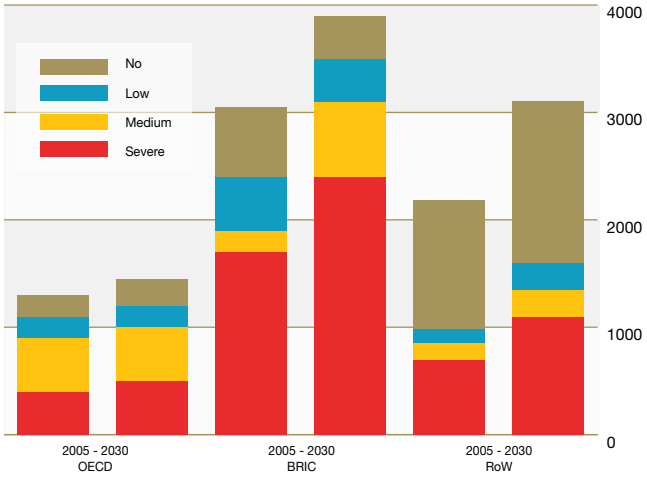
• tackling the way that water is used in agriculture, including the reform of subsidies in order to create incentives for more efficient water use and more investment in water infrastructure.

(ii) Climate change and water scarcity and access

The IPCC report on climate change and water (2008) projected a variety of effects, including increased risk of flooding and drought in many areas, increased water stress, and increased water pollution, with multiple impacts on food security and the operation of existing water infrastructure – including hydropower, structural flood defences, and drainage and irrigation systems. The report identified the arid and semi-arid tropics and Asian and African mega deltas as areas of particular vulnerability. It also noted that many regions are unable to cope even with current climate variability, leading to extensive flood and drought damage.

Nearly four billion people will be living under water stress by 2030

Millions of people living under severe water stress



Source: OECD (2008), Environmental Outlook to 2030, and OECD (2009), The Economics of Climate Change Mitigation: Policies and Options for Global Action beyond 2012, OECD, Paris.

A series of dialogues on water and climate change were held on the occasion of COP 16 in Cancun with a focus on the importance of putting water management at the centre of international discussions on climate change adaptation.

The next steps include:

• agreement on ambitious and binding emissions targets or actions in order to contain the increase in average global temperature to a limit of 2oC above pre-industrial levels (see also Topic 9);

• enhanced co-operation between national water authorities to share experience on adaptation;

• development and deployment of new and existing water-saving technologies.

(iii) International governance

The World Water Council, established in 1996, is a high-level international stakeholder platform dealing with water policy topics and issues, including transboundary issues. It has organised a series of World Water Forums, the next of which will be held in Marseille in 2012. UN Water is a co-ordinating mechanism for the UN entities dealing with issues related to all aspects of freshwater and sanitation. Other international fora include the World Water Congress and the Stockholm World Water Week.

The next steps include:

• further dialogue on collective action issues, including transboundary water management and regional water policy frameworks, in preparation for the next World Water Forum in 2012;

• ensuring more co-ordinated international discussions on water under the auspices of the UN.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD will continue to support international efforts to improve water security and access to safe drinking water and sanitation, and to better manage the increasing competition for scarce water resources, including the use of water to sustain ecosystems. It will continue to focus on activities where it has a comparative advantage: analysing the economic and financial aspects of water

management, including water pricing; linking the challenges in this sector to wider policy issues, including trade policy, climate change, agriculture and energy policy, and innovation; and helping to establish an objective information base to support policy development and governance reforms at sub-national, national, regional, and international levels.

(i) Water, food, energy, and trade policy

As part of its Green Growth strategy, the OECD is developing its work in three areas. The first is the pricing of water, the impact of this on the sustainable management of water resources, particularly in agriculture, and the policy responses needed at national and international levels, including the action needed on agricultural tariffs and subsidies. The second is financing water management, broadening this to take into account the impact of climate change and extending it to include the effectiveness and efficiency of water allocation and catchment management policies. The third is analysing the coherence between water, energy and agriculture policies across the OECD countries and providing guidance for ensuring that these policies are mutually supportive rather than pulling in opposite directions.

(ii) Climate change and water scarcity and access

In addition to the work referred to in Topic 9, the OECD is stepping up efforts in water and adaptation to climate change, including the development of general policy guidance for donors and developing countries; in-depth work on agriculture, water, and climate change; and costing and financing aspects of adaptation to climate change in the water sector, including the issue of scaling up existing approaches. It supports water policy reforms in countries of Eastern Europe, Caucasus and Central Asia to better factor in climate change through national policy dialogues undertaken in co-operation with the UN Economic Commission for Europe (UNECE) and the European Union Water Initiative (EUWI).

(iii) International governance

The OECD is involved in preparations for the 2012 World Water Forum, and co-ordinates regularly with UN bodies on water-related work.

Energy security



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

We live in a world of growing energy demand and interdependence. Energy security is central for sustainable economic growth and poverty reduction. It is also inextricably linked to other global challenges: energy systems are the major contributors to climate change, representing around 60% of total current greenhouse gas emissions. But despite rising global energy use, many developing countries lack access to adequate, affordable and reliable energy supplies, severely constraining growth, productivity, and employment. Many poor households still have no access to modern energy services. The IEA World Energy Outlook 2010 (IEA/WEO, 2010) estimates that 1.4 billion people around the world still lack access to electricity, projected to fall only marginally to 1.2 billion by 2030. Some 2.7 billion rely on the traditional use of biomass, with a projected increase to 2.8 billion in 2030. Household air pollution from the use of biomass is projected to lead to over 1.5 million premature deaths per year in 2030. Prioritising access to safe, clean, reliable and affordable energy will have immense social and economic benefits.

Achieving energy security thus presents the same multiple challenges as food and water security, ranging from global supply to household access. Action is required by national governments working with the private sector, co-operating regionally, and with financial support from the international community to help boost investment, in particular to increase access. According to the IEA/WEO-2010, investment of USD 36 billion per year, or only 0.05% of average annual global GDP, would provide universal access to modern energy services by 2030. So far investment has been significantly below this level, revealing the urgent need for promoting a new architecture for financing. However, the challenges are also inextricably linked to wider global policies. High global energy and food prices have brought greater international focus on the economic impacts of energy supply disruptions and high and volatile energy prices. Energy use is distorted by inefficient subsidies. Energy security cannot be separated from the challenge of climate change (see Topic 9) and universal energy access.

Key areas for international co-operation are:

- analysing the economic impact of high and volatile energy prices;
- phasing out inefficient fossil fuel subsidies;
- promoting clean, efficient, and safe energy sources for all in the future in order to meet the interlinked challenges of ensuring energy security and limiting climate change.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Analysing the economic impact of high and volatile energy prices

World oil prices averaged USD 29 per barrel in 1999-2001 (in 2008 dollars) and rose to USD 97 in 2008, before dropping by two-thirds and then bouncing back despite the uneven recovery. Whilst the sharp hike in prices brought benefits to oil exporters, it also had a major negative impact on many of the poorest oil importing countries. Price volatility has been taken up as a more general issue

Number of people without access to electricity and relying on the traditional use of biomass, 2009 (million)

	Number of people lacking access to electricity	Number of people relying on the traditional use of biomass for cooking
AFRICA	587	657
Sub-Saharan Africa	585	653
DEVELOPING ASIA	799	1937
China	8	423
India	404	855
Other Asia	387	659
LATIN AMERICA	31	85
Developing countries	1438	2679
World	1441	2679

Source : International Energy Agency (IEA) 2010: Energy Poverty: How to make modern energy access universal.

by the G20, which has asked for further work from the IEA, IEF, OPEC and IOSCO to improve the availability of data on production and consumption, monitor market developments, provide further forecasts, and make proposals for the improved regulation and enhanced transparency of the oil market.

The next steps include:

• follow-up work within the G20 and other processes: to improve the availability of data on oil markets and their regulation, transparency, and functioning; to produce joint outlooks/forecasts for oil market supply and demand; and to extend work on volatility to other fossil fuels;

• further work on the economic impact of high and volatile energy prices and on the linkages between volatility in the oil market and other markets, in particular the food market.

(ii) Phasing out fossil fuel subsidies

The IEA/WEO 2010 estimates that fossil fuel consumption subsidies amounted to USD 558 billion in 2008 and USD 312 billion in 2009 (of which USD 252 billion was incurred in developing countries; subsidies in countries with low access to modern energy at household level amounted to USD 71 billion). By comparison, estimated agriculture subsidies in OECD countries amounted to USD 384 billion in 2009, global official development assistance amounted to USD 120 billion in the same year, and providing universal access to modern energy services by 2030 would require additional spending of USD 36 billion per year. Eradicating fossil fuel subsidies would enhance energy security, reduce emissions of greenhouse gases, and bring economic benefits. OECD analysis based on IEA data finds that removing fossil fuel consumption subsidies could reduce GHG emissions by 10% in 2050 compared to business-as-usual, while also improving the economic efficiency of countries implementing the reforms. Subsidies impose a significant burden on national budgets, discourage efficiency of fuel use, can create shortages and can result in smuggling and illicit use of subsidised products. They also crowd out investments that could be used to expand energy access. Only a small proportion goes to the poor due to their lower consumption levels – though phase-out policies need to be carefully designed to avoid depriving the poor of basic needs.

Considerable momentum is now building globally on this issue. In 2009, G20 leaders committed to phase out and rationalise inefficient fossil fuel subsidies, as did APEC leaders. A joint report was prepared by the IEA, OPEC, the OECD and the World Bank for the G20 Summit in Toronto in June 2010. The G20 Summit in Seoul in November 2010 reaffirmed the commitment above, with timing based on national circumstances and targeted support to the poorest, and mandated follow-up action in 2011.

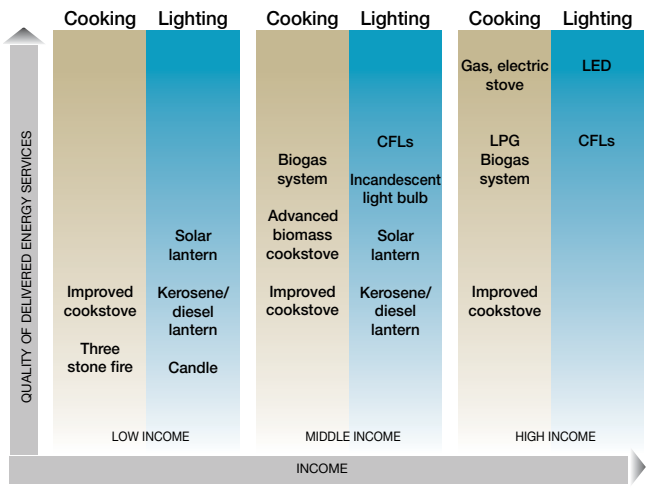
The next steps include:

• implementation of commitments made within the G20 and other processes to rationalise and phase out subsidies;

• monitoring of progress by international organisations;

• review of country progress at the G20 Summit in 2011.

The quality of energy services and household income



Note : the World Energy Outlook maintains adatabase on electricity access and reliance on the traditional use of biomass, which is updated annually.
Source : IEA databases and analysis.

(iii) Promoting clean, efficient, and safe energy sources for all

The IEA projects that global energy demand increases in its New Policies Scenario by 36% by 2035, with fossil fuels remaining the dominant energy source in 2035. Existing commitments for emissions reductions by 2020 do represent major action, but recent IEA analysis shows that even if implemented fully they are collectively not enough to put the world on a path that would give us even a 50-50 chance of avoiding a warming of 2°C above 19th-century temperatures. Furthermore, ensuring that every citizen in the world benefits from access to electricity and clean cooking facilities by 2030 will require scale up of international effort and a new adequate financing mechanism. Promoting low carbon investment is crucial for tackling climate change and would play a tremendous role in ensuring universal access to sustainable and modern energy. The need to stimulate investment in clean energy technology and energy and resource efficiency has been endorsed in the G20 and other processes, and a number of initiatives are underway, including under the Clean Energy Ministerial.

The next steps include:

• further action to promote co-operation in research and development of low-carbon technologies, and regulatory measures;

• stimulating investment, including through the use of taxation policies.

HOW CAN THE OECD, WORKING WITH OTHER ORGANISATIONS, HELP TO ACHIEVE THIS?

Current work of the IEA includes fossil fuels consumption subsidy reform, diversification of energy sources, renewable energy, climate change policies, market reform, energy efficiency, development and deployment of clean energy technologies, energy technology collaboration and outreach, financing mechanism to ensure universal modern energy access and the development of an 'Energy Development Index' as a basis for target-setting and monitoring access to modern energy. In close co-ordination with the work of the IEA, the OECD undertakes work on the linkages between energy and other policies, including climate change, taxation, and innovation. The IEA and the OECD can further contribute on the issues above as follows:

(i) Analysing the impact of high and volatile energy prices

The IEA has a key role to play, alongside other international organisations, in the work which is now underway within the G20 and other processes, specifically in the production of reports on data availability, the functioning of energy markets, and outlooks/forecasts for supply and demand.

(ii) Phasing out inefficient fossil fuel subsidies

The OECD and IEA will continue to play an analytical and monitoring role. Both have been asked, along with the World Bank and OPEC, to further assess and review progress made in implementing G20 commitments in 2009 and 2010, and to report back to the G20 Summit in 2011. This will include new and updated data on fossil fuel consumption subsidies from the OECD and IEA, analysis of the impacts of subsidy reform, and case studies of successful reform efforts.

(iii) Promoting clean, efficient, and safe energy sources for all

The OECD is undertaking work on energy efficiency and the development of renewable energy as part of its Green Growth Strategy, to be launched in 2011, following up related work in the 2010 Innovation Strategy. A first major study under this strategy examines specifically how the tax system can be used to create incentives for 'green innovation', and an OECD/IEA report on green growth and energy is planned for release in the near future. The IEA, while supporting the scaling up of efforts to achieve universal access to modern energy, will continue to pursue its three goals of improving energy security, enhancing energy efficiency, and promoting environmental sustainability.

part IV SOCIETY

Development is ultimately about people and improving their lives. This section of the report examines six topics, starting with conflict and fragility, moving on to the four interconnected issues of labour, education and skills, migration, and health, and concluding with the theme of measuring progress in societies.

Tackling conflict and fragility requires collective action on a very broad range of policies, including defence and diplomacy. The focus in this topic is on the specific linkages to the economic and corporate governance challenges explored in Part II and their contribution to reducing conflict. There is a strong linkage, too, with resource security, also covered in Part II.

Providing decent employment lies at the heart of reducing poverty and creating the potential for better lives for all. There is a strong link to the issue of core labour standards, and beyond this to the action needed to equip people with the skills needed for the job market and thus to policies in the education sector. The topic on migration examines the implications of international migration for development, including remittance flows, skill transfer, and the 'skill drain' from developing countries. There are particular concerns about the impact of this in the health sector; the health topic examines this and the linkages to the earlier topic in Part I on science, technology, and innovation.

The importance of safety from violent conflict, decent employment, education, and health all illustrate the importance of developing broader measures of how we measure progress in societies, beyond GDP per capita, without losing sight of the centrality of reducing poverty. This topic concludes the section, and the report.

The following topic summaries examine in more detail where we are on each of these challenges, what needs to happen next, and what the OECD can contribute. The MDGs focused attention on the issues of health and education, and the issue of gender which runs throughout these challenges. The economic crisis has brought a new and sharper focus, including within the G20 process, to the issue of jobs and the need to develop employment-related skills in order to generate growth and reduce poverty. It has coincided with increased interest in how we measure progress – though the origins of this debate go back much earlier.

At the same time, there is a large agenda of unfinished business. Conflict and fragility continue to hold back progress towards the MDGs in many of the poorest countries in the world. Unemployment rates are higher in developing countries than OECD economies and the challenges will increase because of demographic trends. Progress on primary education needs to be complemented by a drive to develop employment-related skills. Migrant communities and diasporas have a larger role to play in skill transfer. The cost to these communities of transferring remittances needs to be reduced. Limiting 'skill drain' and maximising the contribution of technology and innovation are essential to achieving MDG health targets. We need to build on the MDGs to refine the way in which we measure progress, taking all of these wider social dimensions into account. All of this is achievable only with collective action.

The OECD is developing its work on the cross-cutting linkages between economic and corporate governance and conflict and fragility. It has been active on education, employment, labour, and social policy, and their importance for economic growth and development in its Member countries, since its foundation. It will build on this expertise, working alongside other specialist international organisations, to increase its contribution to taking these issues forward in the wider development context, sharing its own policy experience and contributing to wider collective action. Providing reliable and objective statistics in areas ranging from economic growth to educational attainment and comparative expenditure on health systems has similarly been a hallmark of the OECD's work since its foundation. It is now stepping up its contribution to the wider international effort to measure progress in our societies.

Conflict and fragility



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

While many countries are making progress towards achieving the Millennium Development Goals (MDGs), a group of countries affected by weak capacity, problematic state-society relations, deep social divides and/or the legacy of violent conflict is lagging 40 to 60% behind other low and middle-income countries in MDG achievement. It is in these countries that one billion of the world's six billion people live, where half of the world's children die before the age of five, and one third of all people live on less than USD 1 a day. About 35 of the countries considered fragile in 1979 were still fragile in 2009, and the gap with other developing countries has been widening since the 1970s.

Many of the causes of conflict are local, including political, economic or social exclusion and competition for control over resources. Hence, much needs to be done by governments at the national level to address issues of exclusion and distribution. However, important factors that influence conflict are regional or global in nature, for instance the relative ease with which illicit trade and financial flows can be initiated, hidden and exploited; the manner in which investments are made (in particular in extractive resources); abundant and easily accessible markets in security goods and services; and increasing resource scarcity. Hence, collective action needs to complement national action.

Some of these global influences, like organised crime and illegal arms trade, largely lie outside the core remit of OECD and are not dealt with here. They require actions through the UN system and regional organisations, along with stakeholders. Yet others are integrally connected to economic governance, trade and investment.

This topic focuses on three economic policy issues directly related both to conflict and fragility and to the OECD's mandate and expertise, where collective action is needed:

- improving economic governance;
- ensuring trade takes place on positive and inclusive terms;
- contributing to responsible and conflict-sensitive investment.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Improving economic governance

Economics play a considerable role in violent conflict. The costs of conflict have fallen over the past decades and potential revenues increased. Illicit flows, including illicit trade, make it possible to finance conflicts and to profit from them. Governance and regulation that can prevent and intercept such flows are particularly weak in fragile and conflict-affected states where corruption is highest, tax revenue is lowest and controls are least effective. Illicit flows in total account for over USD 1 trillion annually, more than ODA and FDI combined. Currently, for every dollar of aid going into fragile states, about USD 10 flow out illicitly. Several international agreements address these issues.

The UN Convention Against Transnational Organized Crime and the OECD's Anti-Bribery Convention and their associated monitor-

ing processes are having a positive influence. In 2009, the OECD made progress in closing down tax havens in the context of the G20. The UN Convention against Corruption (UNCAC) overarches anti-corruption efforts.

The next steps include:

• continuing to close down tax havens to remove linchpins in the global system of illicit flows;

• strengthening the enforcement capacity, knowledge and techniques of fragile and conflict-affected states to combat money laundering;

• increasing incentives for leaders to act responsibly.

(ii) Ensuring trade takes place on positive and inclusive terms

Trade can make a significant contribution to post-conflict economic recovery by creating jobs and prospects for a better life in conflict-affected and fragile states. Yet trade usually drops between 12% and 40% during and after civil wars and can take 20-25 years to recover. The required infrastructure is often destroyed. However, (illicit) trade in humans, drugs, natural and environmental resources, counterfeit goods and firearms can also fuel conflict and undermine public authority and revenues. Initiatives to increase transparency of natural resource revenues and supply chains, such as the Extractive Industries Transparency Initiative, the Kimberley Process and the OECD's Guidance for Responsible Mineral Supply Chains go in the right direction. Yet they are often partial or difficult to enforce.

The next steps include:

• assessing trade finance needs in low-income countries and in particular how trade infrastructures can be improved in countries emerging from conflict;

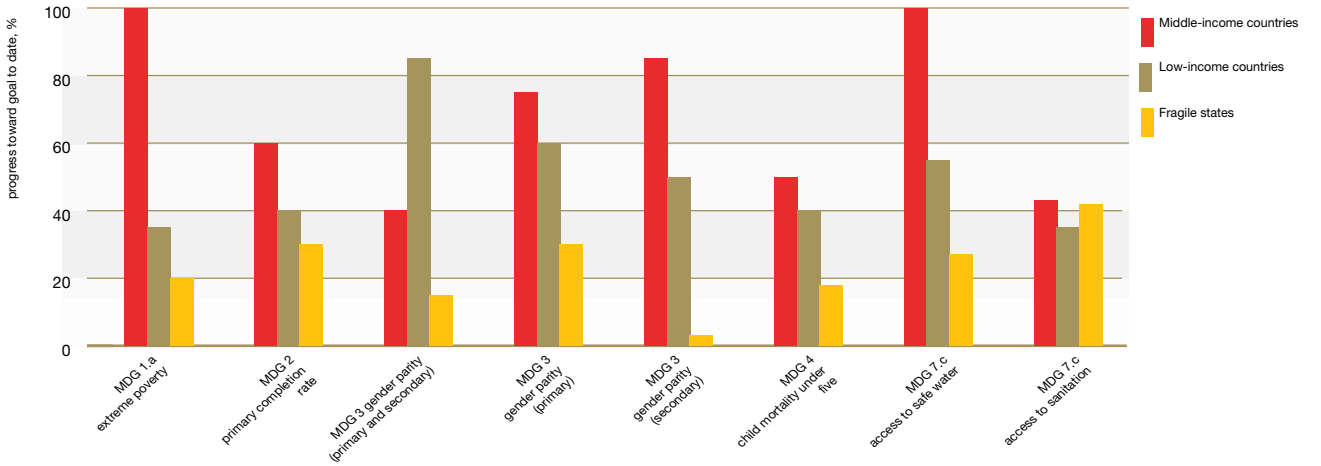
• ensuring that existing voluntary guidance, which seeks to prevent trade (as well as investment), from fuelling conflict or contributing to human rights violations becomes legally binding in G20 countries where appropriate;

• reviewing the key sources and flows of illicit trade, existing global regulations and their effectiveness as a basis for further global initiatives.

(iii) Contributing to responsible and conflict-sensitive investment

Investment is critical to equitable and sustainable development. Extractive resources (primarily minerals, oil and gas) are by far the major target of foreign direct investment in fragile and conflict-affected countries. The manner in which such investments are made, and in particular how the resulting revenues are used, can have a major negative impact on development (the so-called "resource curse"). Few fragile countries have managed resource extraction well. Although general principles have been developed, such as the OECD's "principles of corporate governance", global standard setting is a long way off, as resource competition, industry profits and consumer demands are strong.

Fragile states have made the least progress toward the MDGs



Source : World Bank staff calculations based on World Development Indicators database.
Note : Most recent data as of 2009.

The next steps should include:

• developing global standards for responsible investment in extractive resources;

• including the development of modalities for joint management of natural resources through instruments such as joint wealth funds with mixed national/international boards of trustees to balance value maximisation to citizens with investment incentives for enterprises;

• improving the use of official risk guarantee mechanisms to stimulate investment in fragile and conflict-affected countries.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD has been working on the topic of conflict and fragility for a number of years. In particular, its International Network on Conflict and Fragility (INCAF) has focused on peace-building and state-building issues. INCAF has produced key insights in state-building processes, the role of security, justice and armed violence in fragile states and financial/risk management challenges to donors.

The OECD serves as the Secretariat to the International Dialogue on Peacebuilding and Statebuilding with the g7+ that includes a focus on issues such as capacity development, risk management and aid financing. Increasingly, the OECD as a whole will focus on development issues beyond aid, to which this report testifies.

As a result, more and more horizontal work can be expected that links broader development issues with investment, trade and aid challenges.

(i) Improving economic governance

The OECD can help make further progress on closing down tax havens, ensuring banking transparency, preventing asset freezing, recovering assets and promoting anti-money laundering in the context of the G20. It can also contribute by promoting co-ordination between its Members to stem illegal earnings at the source and by making the act of transfer more difficult (see Topic 8).

(ii) Ensuring trade takes place on positive and inclusive terms

The OECD can work with the WTO to develop additional support measures if existing trade finance systems are not adequate for fragile and conflict-affected countries. The OECD should also encourage its members and the EU to translate existing guidance and principles for responsible trade into legislation that can be monitored and enforced, including by closely monitoring the implementation of its guidance on responsible mineral supply chains.

Finally, the OECD has already started further analysis of global drivers of conflict and fragility to gain a better understanding of the issues at stake and global regulatory gaps.

(iii) Contributing to responsible and conflict-sensitive investment

The OECD can use its Risk Awareness Tool and Guidelines for Multinational Enterprises to create consensus on global standards for international investment, in particular for natural resource extraction in conflict-affected and fragile states (see also Topic 3). This could include developing governance structures and technical systems with the World Bank that enable responsible natural resource extraction by better combining risk guarantees for enterprises on long-term investment with efforts to ensure strong and predictable profits for national governments and benefits from resource revenues that accrue to citizens.

Finally, the OECD can gather evidence from Afghanistan and other countries to analyse how public risk guarantee mechanisms can help support and increase private investment flows into fragile states.

Labour



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Labour issues are central to the prospects for achieving fair and sustainable development. The ILO estimates that more than a billion women and men are unemployed, underemployed, or working poor. An estimated 300 million new jobs will be needed by 2015 to absorb new entrants to the labour market, most of them youth and women. But even among those at work, earnings, working conditions and career prospects are often meagre. Around 40 to 45% of the world's employed are unable to earn enough to lift themselves and their families above the USD 2 per day poverty line, and millions work in hazardous conditions. Throughout the world, the poorest and least protected – often women, children, the low-skilled and migrants – are among the most affected. More than 200 million children in the world today are involved in child labour, and at least 12.3 million people are trapped in forced labour. The recent global economic crisis has raised even further the daunting challenges of tackling unemployment and under-employment that affect millions of workers, many of whom are trapped in low-paid and insecure jobs, often in the informal sector and without basic social security coverage.

Domestic policies can play a major role in promoting more and better jobs for all, by fostering investment, technology adoption, enhancement of human capital through education and training, and better employment outcomes through effective labour market and social policies. However, as in the other topics covered by this report, there is clear scope for co-ordinated, collective action by governments.

Key areas for international co-operation are:

• promoting job-rich growth, through sound macro-economic policy, efficient financial and product market regulations, multilateral trade negotiations and 'green growth' strategies, and inclusive labour market and social policies;

• strengthening monitoring and implementation of core labour standards as defined by the ILO, which provide a minimum set of common rules for labour in the global economy, including through investment rules and guidelines;

• promoting the development of new skills that respond to market needs, facilitate the adoption of new technologies, and boost productivity and growth in developing countries.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Promoting employment and job growth

The global economic crisis of 2008-2009 quickly developed into a global jobs crisis. Among OECD countries, 17 million people joined the ranks of the unemployed from 2007 to the end of 2010, and a similar number did so in developing countries. Globally, unemployment reached 210 million in mid-2010, but many more workers in the developing world are at risk of falling into extreme poverty. The G20 Summits have underlined the need to place job creation, social protection and decent work at the heart of the economic recovery, and the ILO Global Jobs Pact adopted in June 2009, together with the OECD Reassessed Jobs Strategy, provide comprehensive frameworks for promoting a strong and job-rich recovery.

The next step is:

• maintaining political focus and effort, including through further international consultation and collaboration, as mandated by the G20 Pittsburgh Summit, to assess the evolving employment situation and the impact of policies put in place, and to identify further required measures. These issues were further discussed at the first G20 Labour and Employment Ministerial meeting in Washington (April 2010). The OECD in collaboration with the ILO, provided background documentation for this meeting on labour market developments in the downturn and early phases of the recovery and on the key policy options to promote job creation.

(ii) Strengthening monitoring and implementation of core labour standards

The ILO's Fundamental Principles and Rights at Work were reaffirmed in the ILO Jobs Pact in 2009. Implementation is being more closely monitored. The OECD Guidelines for Multinational Enterprises (MNEs) have been adopted by 42 developed and developing countries. But although co-operation has been strengthened, a number of increasingly important outward investors have not yet joined this dialogue. A consultation has been launched to strengthen the Guidelines (see also Topic 3).

The next steps are:

• continued efforts to strengthen monitoring and implementation of core labour standards;

• renewed efforts to broaden multilateral co-operation on responsible business conduct by both the OECD and emerging country MNEs within the framework of strengthened OECD Guidelines for Multinational Enterprises.

(iii) Promoting the development of new skills

The recent crisis has revealed the importance of skill mismatches, unequal access to basic education and lifelong learning, both in developed and developing countries. Less-skilled workers were among those most affected by the recent economic crisis (OECD Employment Outlook, 2010). The recent Pittsburgh and Seoul G20 Summits highlighted the need to adopt education and training policies that increase human capital and employment in quality jobs, boost productivity, and enhance potential growth.

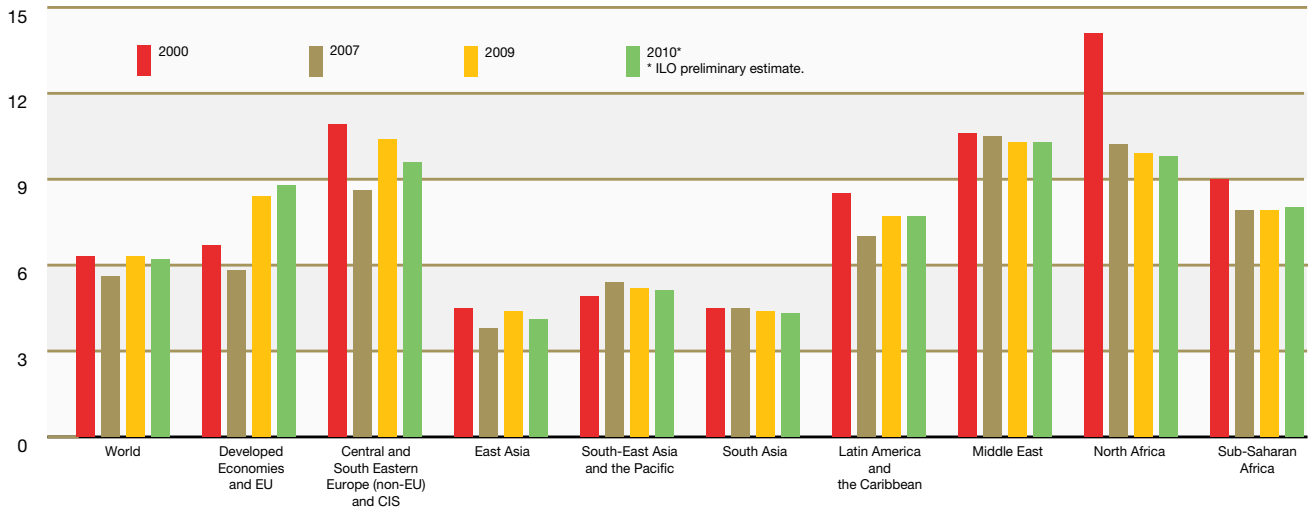
The next steps include:

• development of internationally comparable skills indicators, as requested by G20 leaders at Seoul in 2010;

• additional efforts to improve the measurement of skills and skill mismatches, and the identification of future skills needs;

• enhanced co-operation with developing countries to help develop more efficient, effective, and sustainable educational policy that provides the skills demanded by employers and thus contributes to stronger productivity growth and the creation of better jobs.

Global Employment Trends



Source: ILO Global Employment Trends 2011.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD can contribute through its policy monitoring and analysis on employment, education, and training, as well as through its standard-setting role on investment. Employment work covers analysis of employment and labour market and social policies and is closely linked to work on macro-economic policy. Work on education covers the monitoring and outcomes of educational systems and the link between skills and work.

The OECD is developing a comprehensive Skills Strategy that will assist countries in improving economic and social outcomes through better skills and their effective utilisation. The Strategy will also provide useful insights for developing countries. Investment work covers the promotion of corporate responsibility, including efforts to promote improved labour standards.

The OECD, together with the ILO, the World Bank, and UNESCO, is also contributing to two Actions in the area of Human Resource Development in the context of the G-20 High-Level Development Working Group. The actions are aimed at creating internationally comparable skills indicators and enhancing national employable skills strategies in developing countries.

More generally, the OECD, working together with the ILO, the World Bank, and UNESCO, can contribute to the above priorities as follows:

(i) Promoting employment and job growth

Monitoring labour market developments and policy responses to the economic crisis and early phases of the recovery, as mandated by the G20 Summits in Pittsburgh and Seoul, including labour market developments and policy challenges in emerging and developing countries; helping to assess how labour market and social protection policies can sustain economic growth whilst helping to tackle poverty and exclusion, drawing from the policy experience of OECDs and a growing number of emerging and developing countries; assessing the implications for developed and developing countries of a shift towards a low-carbon economy within the framework of broader OECD 'green growth' strategies, including the jobs potential and key labour market challenges; and helping to make broader policy connections between labour market and social policies and macro-economic policy, financial regulation, and trade.

(ii) Strengthening monitoring and implementation of core labour standards

Updating and strengthening provisions relating to labour standards in the OECD Guidelines for Multinational Enterprises, in consultation with developing economies and other international organisations, and strengthening monitoring of their implementation.

(iii) Promoting the development of new skills

Creating internationally comparable indicators on the supply of skills, skill mismatches, and labour market outcomes by skills in the context of the G-20 High-Level Development Working Group;

Providing, through the Programme for International Student Assessment (PISA), internationally comparable measures of the competences of 15-year olds in reading, mathematics and science;

Improving the instruments used to anticipate the evolution of labour demand and its implications for the demand for skills by adapting the Programme for the International Assessment of Adult Competencies' (PIAAC) instruments for skills measurement and utilisation to the needs and characteristics of emerging and developing countries;

Sharing its work on vocational education to promote the use and effectiveness of vocational training in developing countries;

Helping to enhance the national employable skills strategies that will build, maintain, and improve skills over the lifecycle of workers in all sectors of the economy;

Within the framework of the G20 Multi-Year Action Plan on Development, working with the ILO, UNESCO and World Bank to support a group of low income countries to ensure that their national strategies to develop skills improve productivity and employment.

Education and skills



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Progress in education, training, and human resource development are essential for achieving sustained economic growth and poverty reduction, and for responding to the changes in technology and demographics that are re-shaping labour markets. Education improves productivity, employability, nutrition and healthcare, and general prosperity. Education systems need to provide equitable opportunities – starting in early childhood and continuing throughout life. They need to equip people with knowledge, skills and tools to stay competitive and engaged. Within this broad framework, specific targets on primary education are set out in the MDGs: universal primary education and the elimination of gender disparity in primary education. There is a strong link between the gender disparity target and other topics: lack of education for girls contributes to high adolescent birth rates, jeopardising health and holding back social and economic advancement.

The MDGs have stimulated significant increases in spending by governments, and have increased support from the wider international community. Education frequently accounts for a large share of GDP in developing countries, in some cases consuming up to one-third of national budgets. Major advances have been made in getting more children into primary school, including in many of the poorest countries in the world. Whilst challenges still remain, there is now a growing focus on the issue of the quality of education provided, and on the linkages between education and employment – how the education system can help develop job-related skills needed to match employer and market needs. There are also increasing concerns about the implications of large youth cohorts that can put education and training systems under significant stress and also lead to a rapidly-expanding labour supply that economic growth and job creation cannot match, resulting in high youth unemployment.

Governments need to take the lead in addressing these challenges, both in setting the right policy frameworks and in providing the necessary public resources. The international community has an important supporting role to play in providing additional financial resources and expertise. The sharing of evidence and good practice between diverse systems is also extremely valuable.

Key areas for wider international co-operation are:

- developing internationally comparable ways of measuring the quality of education at all levels;
- identifying gaps between education systems and labour market needs;
- promoting internationally accepted quality assurance standards at higher and vocational levels.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Measuring quality

Reliable comparative international data is essential for measuring quality. Instruments exist at secondary but not other levels. The OECD's Programme for International Student Assessment (PISA) is

a triennial internationally standardised assessment jointly developed by participating countries which reports on the educational performance of 15-year-olds. PISA assesses how far students have acquired the knowledge and skills that are essential for full participation in society. The results of the latest survey covering 65 countries from both OECD and non-member economies were published in December 2010. Surveys have revealed wide differences in the quality of learning outcomes across countries, as well as in the capacity of countries to moderate social inequalities, with only a weak relationship between education expenditures and student performance. There are, however, no corresponding quality measurement tools at primary or higher levels, though the OECD Assessment of Higher Education Learning Outcomes (AHELO) programme is designing criteria to measure outcomes at this level on an international scale.

The next step is:

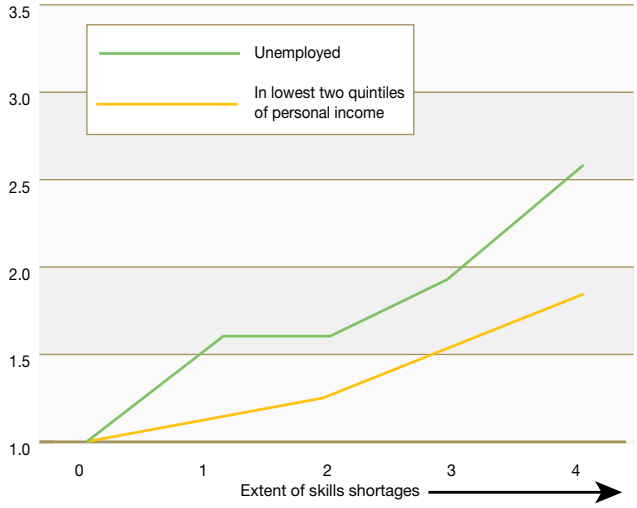
• additional work to improve data and develop internationally comparable means of measuring quality and outcomes at the primary level, and to assess higher education learning outcomes.

(ii) Identifying gaps between education systems and labour market needs

Education at all levels is critical in order to develop a skilled labour force, attract domestic and inward investment, deliver public services, and foster innovation. Investment in adult and vocational training is often insufficient, bypassing the informal sectors, with weak links to employment markets. There has been a recent focus in the G20 process on the importance of employment-related skills better matched to employer and market needs as key components of overall growth and labour market strategies. International organisations, including the OECD, have been asked to examine comparable indicators of skills for employment in developing countries, including low-income countries (see also Topic 14), to assist them in identifying gaps in their education systems for basic-level employable skills, and to identify links between education, health, gender gaps, and lifelong skills development.

How poor skills raise the risk of economic and social disadvantage (16-65 years-olds)

Increased likehood of unemployment, low income



Source: OECD staff, using data from Programme for International Student Assessment (PISA).

The next step is:

• interim reporting from international organisations to the 2012 G20 Summit on development of comparable skills indicators, linking this to gaps in education systems.

(iii) Promoting internationally accepted quality assurance standards

Internationally accepted standards can contribute to improving the quality of education. Whilst National Qualification Frameworks exist in a number of developing countries, as well as at the regional level (African, Arabic, etc.), there is no consistency of criteria across countries. This is true also for cross-border educational services, which have been growing and have the potential to be an important component of national capacity building and development strategies if managed well and of consistent quality. The UNESCO/OECD Guidelines for Quality Provision in Cross-border Higher Education have begun to address this issue.

The next step is:

• working towards international validity and portability of qualifications in a way which generates positive spillovers rather than contributing to skill-drain.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL INSTITUTIONS, HELP TO ACHIEVE THIS?

The OECD provides comparative data and analysis on education policy-making to help build efficient and effective educational systems and improve learning outcomes. Its statistics and indicators, published annually, provide a strong evidence base for international comparisons of all aspects of education systems. Its policy analyses facilitate peer learning across countries as new policy options are explored and experiences compared. Its future-oriented educational research helps shape policy agendas by identifying upcoming issues while drawing upon the overall breadth of the OECD's policy work. The OECD publishes country reviews of education policies in over 40 OECD and partner countries. It collaborates closely with UNESCO and multilateral and regional development banks.

This has proved to be a powerful combination for supporting education reform efforts and interventions globally. More specifically, the OECD will further contribute to the above priorities as follows:

(i) Measuring quality

Continuing discussions with UNESCO on the extension of PISA to 9-year-olds; broadening its new work on Assessment of Higher Education Learning Outcomes (AHELO) to benefit emerging and developing countries; and extend its education policy reviews to a wider group of emerging and developing countries.

(ii) Identifying gaps between education systems and labour market needs

Continuing to co-operate with UNESCO on the role of post-secondary and tertiary vocational education in paving pathways to jobs as part of the Vocational Education and Training project; continuing work with the EU on the Programme for the International Assessment of Adult Competencies (PIAAC), which covers the linkages between education, skills and the labour market; launching of work on a new 'Skills Strategy' in co-operation with the ILO to examine the links between skills, better jobs and higher productivity and how they feed into better jobs, higher productivity and ultimately better economic and social outcomes; drawing together lessons from the policy analysis in the OECD reports on Jobs for Youth and Learning for Jobs and extending and tailoring this analysis to address the particular challenges facing emerging economies, including large youth cohorts arriving on the labour market; and carrying out pilot country reviews of emerging economies to deliver policy advice.

(iii) Promoting internationally accepted quality assurance standards

Improving quality standards internationally, such as through the Guidelines on Quality Provision in Cross-border Higher Education, developed jointly by UNESCO and the OECD. The Guidelines are designed to promote access to information on higher education services offered abroad, or by foreign providers in a particular country.

Migration



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

It is estimated that more than 200 million people, or around 3% of the world's population, live outside their country of birth. This figure includes migration in all directions, both within the South and the North, and between the South and North. Within this overall figure, total migrants from developing countries are around 171 million. Available data suggests that nearly half of this total reside within other developing countries (mainly immediately neighbouring countries). A similar number (around 75 million) reside in OECD countries.

This section assesses the implications of this flow of people for development, as distinct from the benefits for developed countries or migrants themselves. Migration carries both benefits and costs. On the positive side, it leads to very large remittance flows to developing countries, estimated at USD 325 billion in 2010 (out of a global total of USD 440 billion). Because substantial sums go through unofficial channels, the actual figures are almost certainly much higher. The money received is an important source of income in many developing economies. It also creates opportunities for the transfer of a wide range of skills when migrants return, either temporarily or for good, and through diasporas. But on the negative side, it can also lead to the drain of scarce skilled resources.

There are strong links to other topics in the report, including climate change (which will add to migratory pressures and potentially impact on conflict and fragility), financial and labour market policies, and health.

Governments can and need to take action to help maximise the benefits and minimise the costs of migration, including by encouraging remittances and inward investment from diasporas, providing opportunities for return migration, and improving incentives to retain scarce skilled workers.

Key areas for wider international co-operation are as follows:

- helping to make remittances cheaper, easier, and more secure;
- facilitating the transfer of a wide range of skills, including through return migration and diasporas;
- limiting the drain of scarce, skilled resources;
- increasing the brain exchange and developing strategies for a possible "brain-re-gain".

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Helping to make remittances cheaper, easier, and more secure

Officially recorded remittances to developing countries are estimated to have risen by 6% to USD 325 billion in 2010, marking a healthy recovery from the 5.5% decline registered in 2009, and are forecast to rise again in 2011 and 2012 to over USD 370 billion, subject to the pace of the recovery. Remittances amounted to 1.9% of GDP for all developing countries in 2009 and were over 5.4% of GDP for low-income countries (even though this group accounted for

less than 10% of the total). Evidence suggests that remittances help to reduce the level and severity of poverty and play an important role in providing income security for poor communities.

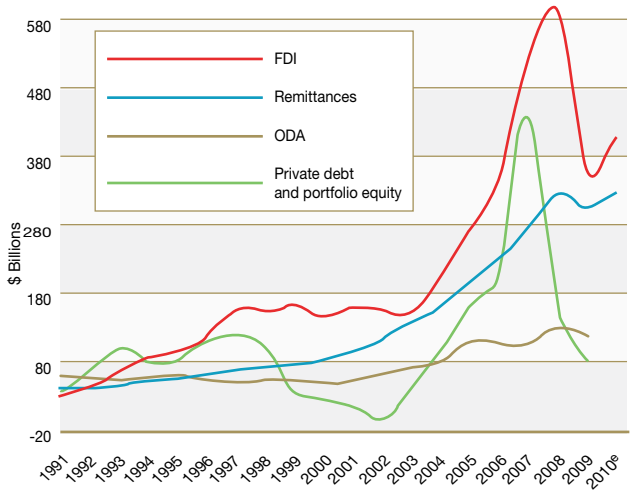
Commitments have been made to simplify and reduce transactions costs, including a commitment from the G8 in 2009 to work towards the objective of reducing the global average costs of transferring remittances from 10% to 5% in five years. Increasing competition and structural and regulatory changes in the global remittance market have in fact led to a fall in average costs from 9.8% in Q4 2008 to 8.7% in Q1 2010. However, average costs remain above the 5% target (and the costs of South-South remittances are estimated to be even higher than the global average). There is also been growing interest in the potential of mobile phone technology for cross-border remittances and in the potential of innovative financing mechanisms leveraging on remittances such as diaspora bonds and the securitisation of future remittance flows.

The next steps include:

• further action to reduce the global average costs of transferring remittances to 5% by 2014, in line with the General Principles for International Remittances Services and related international initiatives;

• enhancing the integrity of money transfer systems, including cross-border remittances using mobile phone technology; and developing regulatory frameworks for innovative financing mechanisms.

Remittance remained resilient compared to private capital flows during the global economic crisis and have begun to recover in 2010



Source: World Development Indicators (September 2010), Global Economic Monitor, and World Bank staff estimates.

(ii) Facilitating the transfer of skills, including through return migration and diasporas

Research shows that developing countries also benefit from labour migration (temporary or permanent) of low and middle skill workers, as well as managers and engineers; the return of long-stay migrants; and contact with technologically sophisticated diasporas. Returning migrants can be a major source of entrepreneurship, technology, marketing knowledge and investment capital. Diasporas can also play a positive role, contributing to technology transfers and adoption by strengthening trade and investment linkages, and acting as a bridge between foreign technology and markets and local entrepreneurs.

The next step is:

• development of a multilateral framework for co-operation between countries of origin and host countries, including ways of removing disincentives for return migration, such as portability of social security rights; and ways of promoting the engagement of diasporas.

(iii) Limiting the drain of scarce, skilled resources

There remain particular concerns about the impact of skilled migration on economically isolated and smaller low-income countries, and in certain sectors, especially health and education. Recent years have seen the development of codes of conduct to avoid active recruitment of essential workers in less developed countries, in line with that of overseas recruitment of doctors and nurses adopted in the United Kingdom. The WHO Global Code of Practice on the International Recruitment of Health Personnel was adopted by the 63rd World Health Assembly in May 2010.

The next steps include:

• monitoring the impact of low, middle and highly skilled migration in critical sectors, such as education and health;

• effective implementation of the global code of practice on the international recruitment of health personnel.

HOW CAN THE OECD, WORKING WITH OTHER ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD works with other international organisations, including the ILO, the UN Population Division, the World Bank, the International Organisation for Migration and the Council of Europe, and actively participates in the Global Forum for Migration and Development under the auspices of the UN. Its annual International Migration Outlook monitors migration movements and policies, and analyses migration and labour market issues, economic and social aspects of migration, education and vocational training, and inte-

gration of immigrants, as well as the links between migration and development. This work implies cross-directorate activities. The Database on Immigrants in OECD Countries (DIOC) provides comprehensive information on demographic characteristics and labour market outcomes of immigrant and native-born populations by educational level and country of birth. The DIOC is currently being updated and extended to cover partner countries. The OECD can contribute to taking forward work on the issues above as follows:

(i) Helping to make remittances cheaper, easier, and more secure

Monitoring the impact of the current crisis on migrant communities and hence on potential remittance flows, in co-operation with the World Bank; and analysing the use of remittances and ways of facilitating and reducing the costs of transfers.

(ii) Facilitating the transfer of skills, including through return migration and diasporas

Monitoring migration policies to facilitate voluntary return migration, as well as to reduce the obstacles to the mobility of a wide range of skilled migrants; and co-operation with the Council of Europe on the role of diasporas in facilitating the development of sending countries.

(iii) Limiting the drain of scarce, skilled resources

Collaboration with the World Health Organization on the global health workforce crisis and, in particular, the need to address concerns related to international migration of health workers; sharing of member-country experience on the international mobility of health workers in the Global Forum.

Health



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Good health and health care are essential not just for economic and social development but in their own right, and as a gender issue. Three of the eight MDGs focus on health: child mortality, maternal health and fighting HIV/AIDS and other diseases. Although average life expectancy has increased over recent decades in most countries, many statistics remain shocking. Child mortality has been reduced significantly but pneumonia and diarrhoea continue to kill 3.8 million children each year, despite both conditions being preventable and treatable at reasonable cost. Inadequate access to clean water and sanitation accounts for 1.8 million child deaths each year. Infectious diseases respect no boundaries as shown by the recent SARS and influenza epidemics.

Sound domestic policies, supported by effectively functioning health systems and basic infrastructure and financed through domestic revenue and financial aid from international public and private sources, will continue to be essential. But collective international action is also needed if these issues are to be addressed effectively. There are strong links to earlier topics, including science, technology and innovation, food water and energy security, and migration.

This topic focuses on three key issues:

• promoting innovation through incentives and mechanisms to promote research into diseases which particularly affect developing countries;

• facilitating the availability of medicines at affordable prices in developing countries and using flexibilities – already part of the TRIPS agreement – and respecting public health and intellectual property rights;

• ensuring responsible recruitment practices in the health sectors of developed countries, in order to avoid the drain of scarce health professionals from developing countries.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT

(i) Promoting innovation

Communicable diseases such as malaria and tuberculosis remain an important challenge in developing countries. Unfortunately, the health innovation system has failed to deliver the new medicines, vaccines and diagnostics required for neglected infectious diseases. The Global Forum for Health Research estimates that only 10% of global health research is devoted to conditions that account for 90% of the global disease burden. New mechanisms have been developed to help stimulate research and bringing new products onto the market. These include public-private partnerships funded by philanthropic foundations and governments which have already produced a new pipeline of drugs and diagnostics for diseases like tuberculosis and malaria, advanced market commitments for new vaccines, and new global purchasing arrangements. These innovations are changing the landscape for neglected diseases.

The next step is:

• greater emphasis by the developed world to encourage innovation for neglected diseases through better incentives to develop new products and bring these to market.

(ii) Facilitating the availability of medicines at affordable prices

Currently, most of the burden of disease in developing countries (with the exception of HIV/AIDS) is due to diseases that can be treated with generic medicines. The major challenge is delivering effective health care where and when it is needed, rather than intellectual property rights restricting access to modern health care. However, in some cases there is an issue of the affordability of patented medicines in the developing world.

A number of features and flexibilities have already been built into the TRIPS agreement to support development objectives. This includes the right to produce medicines under "compulsory licences" for a public health emergency and the 2001 Doha Declaration on TRIPS. "Paragraph 6" allows generic medicines made under "compulsory licences" to be exported to countries that cannot produce the medicines themselves. In addition, under TRIPS, low income countries benefit from a transition period to 2016.

So far, compulsory licensing has only been used once, and this has led to questions about whether the system is working effectively. There remains an outstanding question of how to ensure that countries that need patented medicines can buy them at an affordable price for critical public health issues such as HIV/AIDS.

The next steps include (as under Topic 5):

• developing mechanisms such as patent clearing houses and patent pools that provide developing countries access to health technologies and free user rights of unutilised patents for developmental purposes;

• re-examining the operation of current rules for IPRs, including the flexibilities provided, in order to ensure that these strike the right balance between incentives for innovation and the public benefit that flows from the dissemination of patented knowledge into the marketplace.

(iii) Ensuring a responsible approach to the recruitment of health personnel

Health systems in developing countries face many challenges including not only lack of financing but also shortages of qualified health personnel (see table right). International migration is not the main cause of healthcare shortages in developing countries, nor would its reduction be enough to meet these. The need for health workers in developing countries, as estimated by WHO, largely outstrips the numbers of immigrant health workers from those countries working in OECD countries. However, in countries that have particularly high emigration rates, emigration exacerbates the acuteness of health workforce problems and further weakens already fragile health systems.

As estimated by the WTO, in 2000, all African-born doctors and nurses working in OECD countries represented 12% of the total shortage for the region. The corresponding percentage in South-east Asia was 9%. Countries with expatriation rates of doctors above 50% (which means there are as many working in the OECD countries as there are working in their home countries) comprise small island states in the Caribbean and the Pacific, along with five African countries. Several French-speaking African countries also have high expatriation rates (above 40%).

A number of initiatives have been taken at both national and international levels to help ensure responsible recruitment practices in the health sectors of developed countries, including both bilateral agreements and codes of conduct. The World Health Assembly of May 2010 adopted a Global Code of Practice on the International Recruitment of Health Personnel, which includes an extensive monitoring system.

The next steps are:

• supporting the effective implementation of the Global Code of Practice on the International Recruitment of Health Personnel, including efforts to monitor trends in migration of health workers and the impact on health systems of developing countries;

Estimated critical shortages of doctors, nurses and midwives in OECD countries, by WHO region

Who region	Total stock	Estimated shortage	Number of doctors and nurses
Africa	590198	817992	98329
Americas	93603	37886	199314
South-East Asia	2332054	1164001	101469
Eastern Mediterranean	312613	306031	71551
Western Pacific	27260	32560	212280

Sources : OECD International Migration Outlook, 2007 based on World Health report 2006 with OECD calculations.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD undertakes work on a wide range of health issues including: the collection and analysis of health data and indicators; measuring the performance of health care systems; analysis of how to improve health sector efficiency and value for money; pharmaceutical pricing policies; biotechnology policies; chemical safety; and preventing unhealthy lifestyles. On the specific issues above the OECD can further contribute as follows:

(i) Promoting innovation

The OECD has undertaken extensive analytic work on improving access to medicines and the link to innovation. It has been at the forefront of highlighting the need for accelerating the development and delivery of new medicines that disproportionately affect developing countries, including through the Noordwijk Medicines Agenda, agreed at an OECD High Level forum. Its report on Coherence for Health: Innovation for New Medicines for Infectious Diseases (2009) showed ways of improving the availability of medicines for infectious diseases through strengthened coherence in health, trade, science and technology, development co-operation and finance.

(ii) Facilitating the availability of medicines at affordable prices

The OECD reviewed pharmaceutical pricing policies in Pharmaceutical Pricing Policies in a Global Market (2008). Its report on Value for Money in Health Care (2010) reviewed new approaches to rewarding innovation through risk-sharing agreements, and it is organising a dialogue on such innovative policies with major emerging economies. It will shortly release reports on collaborative mechanisms in life sciences which will explore in some detail the patent pool/clearinghouse issue, and on knowledge markets and life sciences.

(iii) Ensuring a responsible approach to the recruitment of health personnel

The OECD, in co-operation with the WHO, has carried out extensive data and analytical work on the transnational implications of global imbalances in the supply and demand for health care workers, leading to the publication The Looming Crisis in the Health Care Workforce: How Can OECD Countries Respond? (2008). The OECD is providing technical support to the WHO to define guidelines for a minimum dataset to monitor trends in the migration of the health workforce, in order to facilitate the implementation of the new Global Code of Practice on the international recruitment of health personnel.

Indicators of progress



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Development is ultimately about people and improving their lives. Economic growth is a central but not the only factor in creating better lives. Measuring progress needs to consider a much wider range of indicators, such as health and environmental conditions, education levels, as well as areas that are intrinsically more difficult to measure, such as subjective well-being. Monitoring this progress requires both reliable statistical data and assessment frameworks based on internationally agreed goals. Since 1990, the UNDP has been monitoring progress in all countries with the Human Development Index (HDI), and, since 2000, the UN and the World Bank have been compiling data and producing indicators to monitor progress towards the Millennium Development Goals (MDGs).

Political and public momentum in this area has continued to grow. In 2007, the Istanbul Declaration on Measuring and Fostering the Progress of Societies – jointly adopted by a wide number of international organisations – highlighted a broad international consensus on the need to 'undertake the measurement of societal progress in every country, going beyond conventional economic measures such as GDP per capita.' The Commission on the Measurement of Economic Performance and Social Progress established by the French President in 2008 created further momentum around the need to develop broader measures of progress. G20 leaders at their September 2009 and May 2010 summits in Pittsburgh and Toronto, respectively, called for measurement methods 'to better take into account the social and environmental dimensions of economic development' as an inherent part of the commitment to implement the new Framework for Strong, Sustainable and Balanced Growth. Key areas for wider international co-operation are as follows:

- developing new measures of well-being and progress;

- sharing experience across national statistical agencies and help enhance capacity in developing countries.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Developing new measures of well-being and progress

A consensus has now emerged on the need to complement standard economic measures with a range of indicators covering other dimensions of people's well-being and societal progress. The first efforts are being directed at better measuring material well-being. What happens at the level of the entire economy does not necessarily tell us what happens to individuals and households. For example, standard numbers, such as GDP, do not account for income inequalities (i.e. how economic resources are distributed among various population groups). Similarly, they do not cover the many important services that households produce at home. These include, for example, childcare, cooking, care for the elderly, and volunteer activities. Taking such dimensions into consideration will give a very different picture of performance and progress across countries.

Most people would agree that there is more to life than money. Indicators of quality of life should include, for example, health conditions; the conditions of housing and the local environment; political participation and social connections; and the various risks that shape people's feeling of security.

But can current well-being be sustained over time? There is a need to develop better metrics on how our production and consumption patterns impact on the environment. Taking a broader perspective, sustainability indicators should also encompass measures of human and social capital, knowledge, and innovation that need to be built and sustained across generations. The next step is:

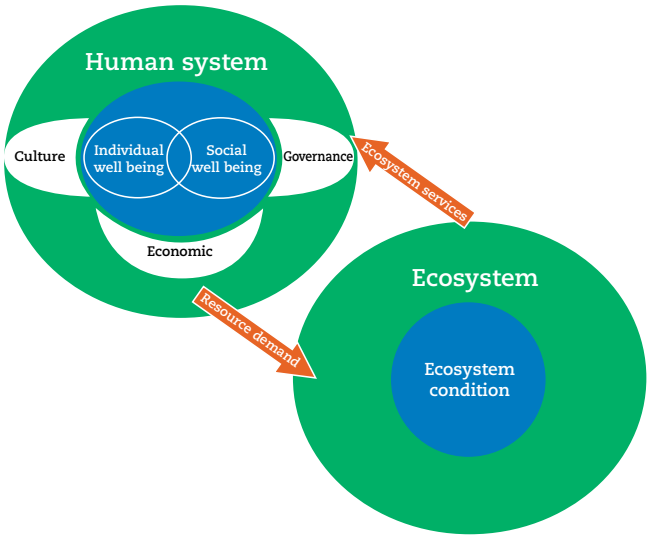
• Enhanced dialogue with developing countries' National Statistical Offices to determine the key progress indicators relevant to different development patterns and consistent with the broad approach underlying the MDGs.

(ii) Sharing experiences and enhancing capacities

The enhancement of national statistical capacities of developing countries is being supported and monitored by the global Partnership in Statistics for Development in the 21st Century (PARIS21), formed by international organisations, bilateral donors, and representatives of low- and medium-income countries. There has been a remarkable improvement in the development of statistical capacity in many IDA-eligible countries over recent years, but progress has been much lower in sub-Saharan African countries. A key concern is the degree to which MDG indicators and economic and environmental aggregates are based on international estimates, rather than on actual national statistics. PARIS21 promotes the adoption of medium-term National Strategies for the Development of Statistics (NSDS), with supporting milestones. As of November 2010, 92 out of 117 low-income and lower-middle-income countries were engaged in this process: 55 countries were implementing NSDS, whilst 28 countries were at the design or approval stage. The next step is:

• Continued support for the development and implementation of nationally driven statistical development strategies, including through the PARIS21 partnership.

The Global Project Framework



Source: The Global Project on Measuring the Progress of Societies: A Toolkit for Practitioners.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

The OECD is one of the world's largest and most reliable sources of comparable statistical, economic, and social data. It works closely with the UN system, the World Bank and regional development banks, and other regional organisations. It launched the Global Project on Measuring the Progress of Society which was instrumental in raising awareness and advocating the need to expand the set of indicators to measure countries' performance beyond standard economic data. The OECD has organised a series of World Forums on Measuring Progress in collaboration with other international organisations in Palermo (2004), Istanbul (2007), and Busan (2009). The 4th World Forum will be held in New Delhi in 2012 and will be preceded by regional preparatory conferences, including in Latin America, Asia, the Middle East, and Africa, where indicators work-specific to developing countries will be discussed.

The OECD will contribute to taking forward work on the above issues as follows:

(i) Developing new measures of well-being and progress

The OECD is currently undertaking research and developing indicators to provide a comprehensive picture of well-being (material well-being, quality of life, and subjective well-being) and sustainability (measures of the various types of capital that underpin sustainability). It is also working on measures of environmentally sustainable growth as part of the OECD 'green growth' strategy. In 2011, it will release a report on well-being in OECD and emerging economies. The 2011 Perspectives on Global Development will examine ways to measure and foster social cohesion in developing countries.

(ii) Sharing experience and enhancing capacity

Both the OECD work on Measuring Progress and the series of World Forums represent important opportunities to share experience between national statistical agencies, and among international organisations and experts. In addition, the OECD will continue to host and support the PARIS21 partnership.

APPENDICES

Checklist of key areas for international co-operation
Acronyms
Selected further reading
Acknowledgements

better policies for better lives

Better Policies for Development

Checklist of key areas for international co-operation identified in the report:

1. MACRO-ECONOMIC POLICY

(i) Securing a strong, sustained, equitable and balanced global recovery
(ii) Addressing capital mobility
(iii) Strengthening the arrangements for global policy co-ordination

2. TRADE

(i) Keeping markets open
(ii) Keeping trade flowing
(iii) Taking forward multilateral trade liberalisation

3. INVESTMENT

(i) Keeping markets open and transparent
(ii) Improving international rules for investment
(iii) Promoting responsible value-added investment
(iv) Promoting international standards for responsible business conduct

4. FINANCIAL REGULATION

(i) Strengthening financial policy, regulatory and supervisory frameworks
(ii) Improving financial surveillance and disclosure
(iii) Improving institutions of global financial governance

5. SCIENCE, TECHNOLOGY, AND INNOVATION

(i) Facilitating technology transfer
(ii) Promoting research and innovation to meet global and social challenges
(iii) Strengthening global co-operation and improving international governance

6. TAX

(i) Raising capacity in tax administrations
(ii) Tackling offshore non-compliance
(iii) Ensuring consistent application of international standards on transfer pricing
(iv) Optimising transparency in MNE reporting

7. ANTI-CORRUPTION

(i) Enforcing OECD anti-corruption instruments
(ii) Implementing the UN Convention against Corruption (UNCAC)
(iii) Improving co-ordination between international organisations and with the private sector

8. ILLICIT FINANCIAL FLOWS

(i) Stemming illegal earnings at their source
(ii) Making the act of transfer more difficult
(iii) Identifying and returning illegally transferred funds at their destination

9. CLIMATE CHANGE

(i) Reducing global emissions
(ii) Supporting climate-resilient and low-carbon growth in developing countries
(iii) Scaling up finance in support of both adpatation and mitigation in developing countries

10. FOOD SECURITY

(i) Liberalising trade and promoting responsible agricultural investment
(ii) Limiting price volatility, and mitigating its impact on the most vulnerable
(iii) Spreading the benefits of science, technology, and innovation
(iv) Tackling related environmental and energy issues

11. WATER SECURITY

(i) Integrating water, food, energy, and trade policy
(ii) Tackling the impact of climate change
(iii) Rationalising and strengthening the framework for international governance

12. ENERGY SECURITY

(i) Analysing the economic impact of high and volatile energy prices
(ii) Phasing out fossil fuel subsidies
(iii) Promoting clean, efficient, and safe energy sources for all

13. CONFLICT AND FRAGILITY

(i) Improving economic governance
(ii) Ensuring trade takes place on positive and inclusive terms
(iii) Contributing to responsible and conflict sensitive investment

14. LABOUR

(i) Promoting employment and job growth
(ii) Strengthening monitoring and implementation of core labour standards
(iii) Promoting the development of new skills

15. EDUCATION AND SKILLS

(i) Measuring quality
(ii) Identifying gaps between education systems and labour market needs
(iii) Promoting internationally accepted quality assurance standards

16. MIGRATION

(i) Helping make remittances cheaper, easier, and more secure
(ii) Facilitating the transfer of skills, including through return migration and diasporas
(iii) Limiting the drain of scarce, skilled resources

17. HEALTH

(i) Promoting innovation
(ii) Facilitating the availability of medicines at affordable prices
(iii) Ensuring a responsible approach to the recruitment of health personnel

18. INDICATORS OF PROGRESS

(i) Developing new measures of well-being and progress
(ii) Sharing experiences and enhancing capacities

AHELO ---------- (OECD) Assessment of Higher Education Learning Outcomes

APEC ---------- Asia-Pacific Economic Cooperation

ATAF ---------- African Tax Administration Forum

BCBS ---------- Basel Committee on Banking Supervision

CCXG ---------- Climate Change Experts Group

CGIAR ---------- Consultative Group on International Agricultural Research

COP ---------- (UNFCCC) Conference of the Parties

DIOC ---------- Database on Immigrants in OECD Countries

EITI ---------- Extractive Industries Transparency Initiative

EUWI ---------- European Union Water Initiative

FAFT ---------- (OECD) Financial Action Task Force

FDI ---------- Foreign direct investment

FLEGT ---------- (EU) Forest Law, Enforcement, Governance and Trade initiative

GHG ---------- Greenhouse gas

GMOs ---------- Genetically modified organisms

GDP ---------- Gross domestic product

IAIS ---------- International Association of Insurance Supervisors

ICSID ---------- International Centre for Settlement of Investment Disputes

IEA ---------- International Energy Agency

IEF ---------- International Energy Foundation

ILO ---------- International Labour Organization

IMF ---------- International Monetary Fund

INCAF ---------- (OECD) International Network on Conflict and Fragility

ICT ---------- Information and communication technologies

IOPS ---------- International Organisation of Pension Supervisors

IOSCO ---------- International Organization of Securities Commissions

IPCC ---------- Intergovernmental Panel on Climate Change

IPRs ---------- Intellectual property rights

LICs ---------- Low income countries

OPEC ---------- Organization of the Petroleum Exporting Countries

MAP ---------- Mutual assessment process

MENA ---------- Middle East and North Africa

MNEs ---------- Multinational enterprises

NEPAD ---------- New Partnership for Africa's Development

NGOs ---------- Non-governmental organisations

ODA ---------- Official development assistance

PIAAC ---------- Programme for the International Assessment of Adult Competencies

PISA ---------- (OECD) Programme for International Student Assessment

PCD ---------- Policy coherence for development

REDD Plus ---------- (United Nations Collaborative Project on) Reducing Emissions from Deforestation and Forest Degradation

SSBs ---------- standard setting bodies

StAR ---------- (UN/World Bank) Stolen Asset Recovery Initiative

STI ---------- Science, technology and innovation

TRIPS ---------- (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights

UNCAC ---------- United Nations Convention Against Corruption

UNCBD ---------- United Nations Convention on Biological Diversity

UNCTAD ---------- United Nations Conference on Trade and Development

UNECE ---------- United Nations Economic Commission for Europe

UNESCO ---------- United Nations Educational, Scientific and Cultural Organization

UNFCCC ---------- United Nations Framework Convention on Climate Change

UNODC ---------- United Nations Office on Drugs and Crime

WEO ---------- World Energy Outlook

WTO ---------- World Trade Organization

SELECTED FURTHER READING OECD

Part I ECONOMIC GROWTH

Topic 1: Macro Economic Policy

G20 (2010): Seoul Development Consensus for Shared Growth:
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OECD Development Centre (2010): Perspectives on Global Development: Shifting Wealth:
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OECD/UNCTAD/WTO (2010): Fourth Report on Trade and Investment Measures:
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World Trade Organisation (WTO) (2011): Harnessing Trade for Development in Least-developed Countries:
http://www.wto.org/english/res_e/booksp_e/harnessing_trade_dev_e.pdf

Topic 3: Investment

G20 (2010): Multi-Year Action Plan on Development: private investment and job creation pillar:
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OECD (2006): Policy Framework for Investment:
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Topic 4: Financial Regulation

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Financial Stability Board (FSB) (2011): Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability:
http://www.financialstabilityboard.org/publications/r_110415a.pdf

OECD (2009): Policy Framework for Effective and Efficient Financial Regulation:
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OECD (2010): Good practices for Mitigating and Financing catastrophic risks:
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OECD/Canada's International Development Research Centre (CRDI) (2010): Innovation and the Development Agenda:
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World Trade Organisation (WTO) website: TRIPS material on the WTO website:
http://www.wto.org/english/tratop_e/trips_e/trips_e.htm

World Trade Organisation (WTO) website: Least developed countries' priority needs in intellectual property:
http://www.wto.org/english/tratop_e/trips_e/ldc_e.htm

Part II ECONOMIC GOVERNANCE

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G20 (2010): Multi-Year Action Plan on Development: domestic resource mobilisation pillar:
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OECD (2010): The Global Forum on Transparency and Exchange of Information for Tax Purposes: Background Information Brief: http://www.oecd.org/dataoecd/32/45/43757434.pdf

OECD/Global Forum on Transparency and Exchange of Information (2010): Tax Co-operation 2010: Towards a Level Playing Field: http://www.oecd.org/document/12/0,3746,en_21571361_43854757_46098764_1_1_1_1,00.html

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OECD (2010): Model Tax Convention on Income and on Capital:
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G20 (2010): Anti-Corruption Action Plan:
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2010 OECD Recommendation on Principles for Transparency and Integrity in Lobbying:
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2009 Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions:
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2006 Recommendation on Bribery and Export Credits:
http://www.oecd.org/officialdocuments/displaydocumentpdf?cote=td/ecg(2006)24&doclanguage=en

2003 Recommendation for Managing Conflict of Interest in the Public Service:
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2000 OECD Guidelines for Multinational Enterprises:
http://www.oecd.org/dataoecd/56/36/1922428.pdf

Topic 8: Illicit Financial Flows

See topics 6 and 7 above, including:

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Part III THE ENVIRONMENT AND NATURAL RESOURCE SECURITY

Topic 9: Climate Change

OECD (2011): Recent OECD work on Climate Change:
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Topic 10: Food Security

Food and Agriculture Organisation (FAO) (2009): Declaration of the World Summit on Food Security:
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OECD (2008): OECD Environmental Outlook to 2030, OECD Publishing, Paris:
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http://www.iea.org/Papers/2011/CEM_Progress_Report.pdf

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Better Policies for Development

RECOMMENDATIONS FOR POLICY COHERENCE

This report examines the ways in which wider policies can be used to support our common development objectives. It focuses on areas requiring collective action by the entire international community, and complements the OECD's continuing work on aid effectiveness and monitoring aid flows.

It starts from two premises. First, that policies ranging from trade and investment to tax and fiscal transparency, corporate governance, climate change, resource security, and social policy have a profound impact on the prospects for achieving sustainable development. Second, whilst these require action by national governments and regional organisations in both developed and developing countries, in today's interconnected world they also require collective action by the entire international community.

The report covers 18 development policy topics divided into four broad categories: sustainable economic growth, economic governance, the environment and natural resource security and society. Together these reflect the OECD's mission to promote better policies for better lives. Each topic is divided into the following three sections:

- Why is international co-operation important for development?
- Where are we now and what needs to happen next?
- How can the OECD, working with other international organisations, help to achieve this?

The full text of the report is available online via ***www.oecd.org/development/policycoherence***

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