

OECD Annual Report 2009

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

OECD



Annual Report 2009

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Preface



OECD Secretary-General, Angel Gurría.

The OECD has faced many challenges in the last 50 years, but perhaps none as great as the current global crisis. Response to the crisis has been swift and massive. But despite some cautious optimism, the immediate future does not offer much relief. The global economic system must undergo many structural changes if we are to avoid a repetition of this scenario. The job ahead is substantial and requires great perseverance. This is a key feature of the OECD, which has consistently worked with governments with a long-term view, to address structural problems through enhanced global co-operation.

The crisis has left virtually no area of policy making untouched. It has brought many long-simmering issues, such as tax evasion, income inequality, good governance and competition issues, back to the centre stage. But other substantive, medium and long-term matters, such as climate change and poverty reduction, which were at the forefront of most government agendas only one year ago, are adding to the sense of urgency.

This crisis presents opportunities as well as challenges, and the OECD is seizing these opportunities to formulate policies that will lead to a stronger, cleaner, fairer world economy. Over the past year, the OECD has pressed for a "stronger" world economy through its work in areas such as regulation; governance; trade (especially Doha); investment and competition; and, of course, developing policies for sustainable growth. Work on anti-corruption, corporate governance and tax evasion has sought to restore trust in globalisation by making it "cleaner". So has, literally, our work on environment and climate change, another face of "cleaner". Finally, our work on employment and social inclusion, education, health care and economic development is key to developing a "fairer", more participative world economy. The OECD is the global standard setter in many of these fields. It helps governments to determine where policy changes are needed and how governments can implement those reforms.

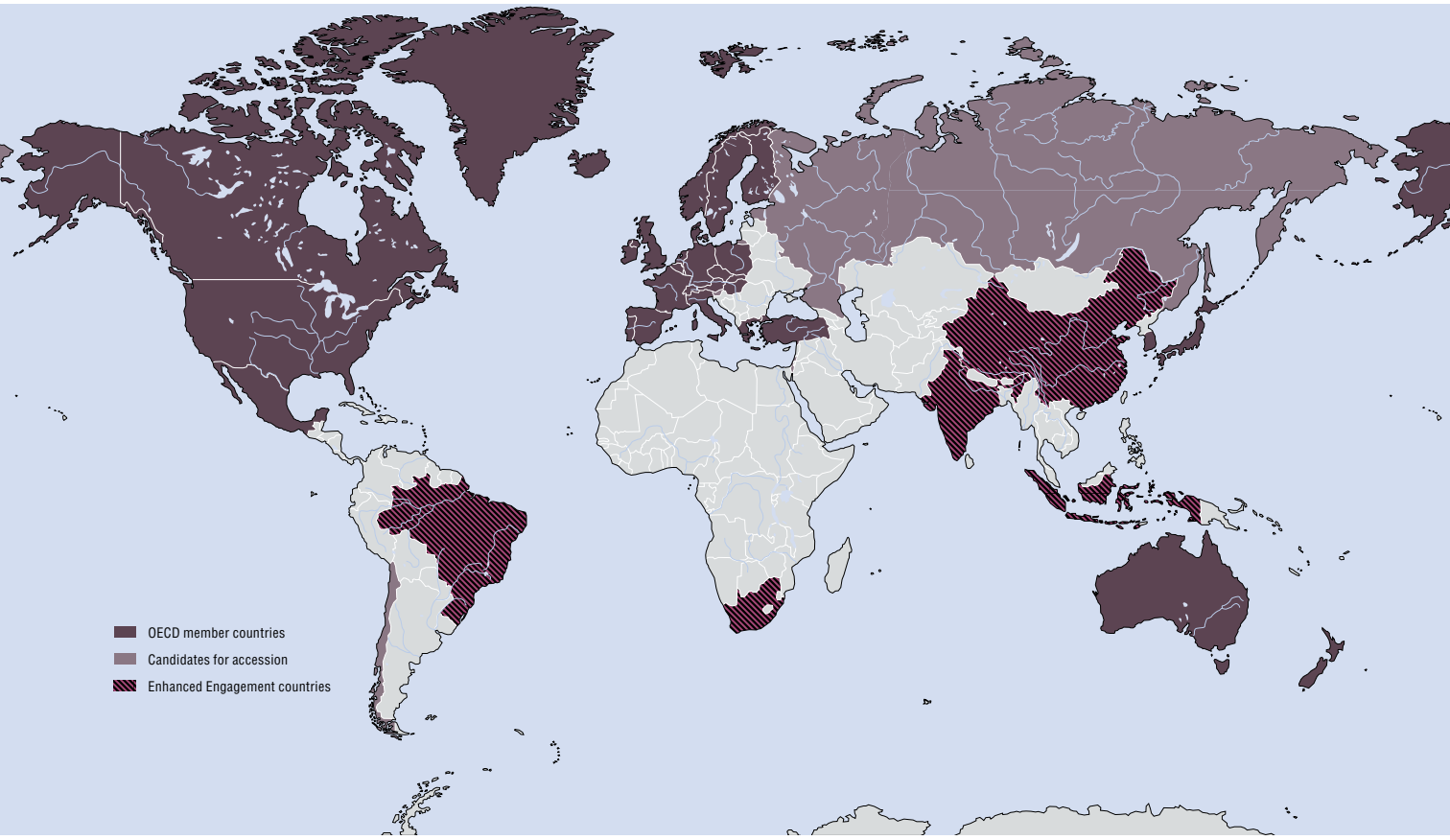
It is not surprising that the focus of much of this year's *Annual Report* is on the Organisation's analysis of and response to the crisis. The OECD's unique ability to address the complex nature of the global crisis, which affects virtually every aspect of policy making, is presented and developed in the pages that follow. We will continue working with member and non-member countries, as well as with other international organisations, to establish the basis for a better world economy. ■



The OECD at a glance

www.oecd.org/aboutoecd
webmaster@oecd.org

OECD share of world GNI (current USD): 71.9%
OECD share of world trade: 60.5%
OECD share of world population: 18%
OECD GDP growth in 2008: 0.7%
OECD share of world official development assistance: 94.9%
OECD contribution to world CO_2 emissions: 45.9%
OECD share of world energy production: 32.6%
OECD share of world electricity consumption: 56.8%



OECD member countries with year of accession

www.oecd.org/membercountries
www.oecd.org/infobycountry

Australia, 1971
Austria, 1961
Belgium, 1961
Canada, 1961
Czech Republic, 1995
Denmark, 1961
Finland, 1969
France, 1961
Germany, 1961
Greece, 1961
Hungary, 1996
Iceland, 1961
Ireland, 1961
Italy, 1962
Japan, 1964
Korea, 1996
Luxembourg, 1961
Mexico, 1994
Netherlands, 1961
New Zealand, 1973
Norway, 1961
Poland, 1996
Portugal, 1961
Slovak Republic, 2000
Spain, 1961
Sweden, 1961
Switzerland, 1961
Turkey, 1961
United Kingdom, 1961
United States, 1961

Candidates for accession

www.oecd.org/accession

Chile
Estonia
Israel
Russian Federation
Slovenia

Enhanced Engagement countries

www.oecd.org/enhancedengagement

Brazil
China
India
Indonesia
South Africa

The OECD: what is it?

The OECD, which traces its roots to the Marshall Plan, groups 30 member countries committed to democratic government and the market economy. It provides a forum where governments can compare and exchange policy experiences, identify good practices and promote decisions and recommendations. Dialogue, consensus, peer review and pressure are at the very heart of OECD.

The Organisation's mission is essentially to work for a stronger, cleaner, fairer world economy. It helps governments and society reap the full benefits of globalisation while tackling the economic, social and governance challenges that can accompany it. The Organisation places a high priority on deciphering emerging issues and identifying policies that work in order to help policy makers.

The world economy is in the midst of the most severe financial crisis since the Great Depression. The OECD is working with world's governments and other organisations to overcome the crisis and get our economies moving again. As part of its Strategic Response to the Financial and Economic Crisis, launched in 2008, the OECD has intensified efforts to support governments, covering key areas of the financial sector, the real economy, social policy, environment, development and innovation. It is undertaking new analysis to help policy makers address the crisis and to shape the world economy of tomorrow. The OECD is also actively engaged to work with G8, G20 and other global fora, while addressing regional issues in Europe, Africa, Latin America and Asia-Pacific. Building on its deep and longstanding co-operation with non-OECD countries around the world, it is also monitoring the impact of the crisis on emerging and developing countries.

These are the issues the OECD's work will continue to build on in the immediate. The critical areas will be to assist governments making the best of their stimulus packages and social policies in order to reap a win-win outcome, supporting short-term activity and putting growth on a more sustainable path over the long-term. These are actually the important policy issues for discussions at this year's OECD Ministerial Council meeting (MCM) held in Paris on 24-25 June 2009. The objective is to continue to use the OECD's unique analytical and policy advice capacities to produce timely and valuable insights for governments to address growth challenges.

In addition to the analysis and advice it provides on a vast range of economic issues, the OECD is one of the world's largest and most reliable sources of comparable statistical, economic and social data. OECD databases span areas as diverse as national accounts, economic indicators, trade, employment, migration, education, energy and health.

The OECD produces internationally agreed instruments, decisions and recommendations to promote rules of the game in many areas such as combating bribery in international business transactions, information and communications policy, taxation and the environment. Non-members are invited to subscribe to these agreements and treaties.

Helping ensure development beyond the OECD's membership has been part of the Organisation's mission from the start. The Organisation maintains active relationships with business, labour, civil society and parliamentarians. These stakeholders benefit from and make valuable contributions to the work of the OECD. It also shares expertise and exchanges views with more than 100 other economies.

Chile, Estonia, Israel, Russia and Slovenia are currently holding membership talks with the Organisation. In addition, Enhanced Engagement programmes have been launched for Brazil, the People's Republic of China, India, Indonesia and South Africa. Enhanced Engagement is a fundamental proposal by the OECD member countries to forge a more structured and coherent partnership, based on mutual interest, with these five major economies. ■

Fast facts

Established: 1961

Location: Paris, France

Membership: 30 countries

Budget: EUR 303 million (2009)

Secretariat staff: 2 500

Secretary-General: Angel Gurría

Publications: 250 new titles/year

Official languages: English/French

Selected events



US President visits the OECD

(Left to right)
US President George W. Bush and OECD Secretary-General Angel Gurría during a visit to the OECD in June 2008.



Internet Ministerial

(Left to right)
OECD Secretary-General Angel Gurría with President of Korea Lee Myung-bak during the OECD Ministerial meeting on the Future of the Internet Economy held in Seoul in June 2008.



G8 Summit

OECD Secretary-General Angel Gurría attended the G8 Summit hosted by Japanese Prime Minister Yasuo Fukuda in Japan in July 2008.



Visit by New Zealand Prime Minister

(Left to right)
Prime Minister of New Zealand Helen Clark and OECD Secretary-General Angel Gurría during a visit to the OECD in July 2008..

Visit to Spain

(Left to right)
Spanish Prime Minister José Luis Rodríguez Zapatero greets OECD Secretary-General Angel Gurría at the Palacio de la Moncloa in Madrid in September 2008.



Visit of French Minister of Foreign and European Affairs

(Left to right)
OECD Secretary-General Angel Gurría welcomes French Minister of Foreign and European Affairs Bernard Kouchner, Chairman of the first European Union-Central Asia Forum on security issues held at the OECD in September 2008.



Visit to European Parliament

(Left to right)
OECD Secretary-General Angel Gurría greeted by the President of the European Parliament Hans-Gert Pöttering in Brussels in November 2008.



Visit to Turkey

(Left to right)
OECD Secretary-General Angel Gurría met with Turkish President Abdullah Gül during his official visit to Turkey in December 2008.



Selected events (continued)



Visit of Russian Deputy Prime Minister

(Left to right)
OECD Secretary-General Angel Gurría welcomes
Russian Deputy Prime Minister and Minister of Finance Alexei Kudrin at
the OECD in December 2008.



Visit of the Netherlands Prince

Prince Willem-Alexander of the Netherlands,
Chairman of the UN Secretary-General's Advisory Board on Water
and Sanitation, before his intervention at the OECD Global Forum
on Sustainable Development in December 2008.



Meeting with Heads of International Organisations

(Left to right)
ILO Director General Juan Somavia,
WTO Director General Pascal Lamy,
German Chancellor Angela Merkel,
OECD Secretary-General Angel Gurría,
World Bank President Robert Zoellick and
IMF Managing Director Dominique Strauss-Kahn
meet in Berlin in February 2009.



Visit by Slovenian Prime Minister

(Left to right)
Prime Minister of the Republic of Slovenia Borut Pahor
received by OECD Secretary-General Angel Gurría at the OECD
in February 2009.

Visit to Slovakia

(Left to right)
OECD Secretary-General Angel Gurría with President of the Slovak Republic Ivan Gašparovič in Bratislava in February 2009.



Visit by Finnish Prime Minister

(Left to right)
Prime Minister of Finland Matti Vanhanen received by OECD Secretary-General Angel Gurría at the OECD in February 2009.



Visit by President of Romania

(Left to right)
OECD Secretary-General Angel Gurría receives President of Romania Traian Basescu at the OECD in May 2009.



Visit by Chilean President

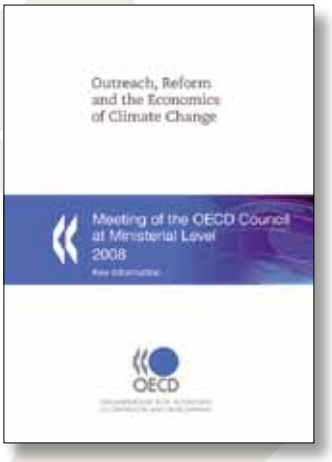
(Left to right)
OECD Secretary-General Angel Gurría greets President of Chile, Michelle Bachelet during a visit to the OECD in May 2009.



Ministerial Chair's summary 2008

www.oecd.org/mcm2008

France had the great privilege of chairing the OECD Ministerial Council meeting (MCM) 2008, which focused on the theme: *Outreach, Reform and the Economics of Climate Change*. Following up on the landmark decision of the MCM 2007, we welcomed for the first time the participation of the Candidate countries (Chile, Estonia, Israel, Russian Federation, Slovenia) and the Enhanced Engagement countries (Brazil, India, Indonesia, People's Republic of China, South Africa) in all sessions at this year's MCM. In that context, ministers also welcomed the Report on Accession and the Report on Enhanced Engagement: *Towards a Stronger Partnership Between Major Emerging Economies and the OECD*. We also benefited from consultations with representatives from business and industry (BIAC), trade unions (TUAC) and civil society more broadly at the OECD Forum.



The current economic situation

Ministers discussed the shocks which have hit the global economy over the past year and how best to respond. They agreed that the overall performance has been better than could be expected but called for continued close policy co-ordination to facilitate the expected upturn. On the financial market front, the situation has improved since March but current credit conditions are restraining investment. Commodity prices have risen tremendously and driven up headline inflation but may not rise further in the near term. Concerning housing markets, continued cooling is expected in most OECD countries. Ministers attributed the OECD countries' resilience to the headwinds in their economies to their structural reforms and sound macroeconomic policies pursued over recent years.



(Left to right)
OECD Secretary-General, Angel Gurría, and French Minister of Economy, Industry and Employment, Christine Lagarde, Chair of the annual OECD Ministerial Council meeting held in June 2008.

Ministers also discussed economic developments in the major non-OECD countries, especially their influence on OECD countries, which are part of a relationship that has evolved over time. They recognised that rapid growth in emerging market economies is one factor boosting commodity prices, as well as a welcome source of demand supporting activity in OECD countries. Ministers agreed, therefore, that it is in the interest of all to support healthy emerging economies. Ministers took note of the recent rise in food and commodity prices, and in particular oil prices, and agreed on the need to closely monitor the social and economic impact of such trends.

Ministers were concerned about inflationary pressures and indications that inflationary expectations may be drifting upwards. Ministers agreed that attention needs to be paid to fiscal balances, especially where inflationary pressures persist, and to pursue structural reforms.

The pursuit of relevance for a better world economy – Strategic orientations for the OECD

Ministers congratulated the Secretary-General on his strong leadership, as reflected in the report on the *Pursuit of Relevance for a Better World Economy*. This report underlines the important achievements of the OECD, sets out ways to improve delivery of the best policy alternatives to OECD members and explores the key challenges to sustainable growth in a medium to long-term perspective. Ministers expressed their strong support for the Organisation to deliver on its challenging tasks.

Ministers welcomed the progress in the ministerial mandates of previous years. This includes, in particular, the agenda on Enlargement and Enhanced Engagement, the Innovation Strategy and the Political Economy of Reform initiative. They welcomed the efforts pursued by the Organisation to co-ordinate better with other international organisations and encouraged the Secretary-General to move forward in this direction. Enhanced Engagement partners and Candidate countries expressed their appreciation for the opportunity to strengthen their links with the OECD.

Ministers showed strong appreciation of the OECD's positive contributions based on the high-quality policy advice, multi-disciplinary perspectives and peer-learning approaches which make the OECD uniquely placed to expand its engagement with new actors and collectively address key global challenges. They called for the OECD to continue to prioritise and focus on those issues where its comparative advantage could be fully exploited.

Ministers recognised that new challenges continue to emerge to which the OECD will need to adapt and respond. They agreed that the economics of climate change, pressure on resources, inequality and global poverty remain high priorities for the OECD and should be among the themes pursued. Ministers welcomed the reflection on the role of the OECD in the global governance architecture and encouraged the OECD to pursue its vision in this area. The OECD is considered an ideal partner to fill some of the gaps in addressing global challenges. They adopted the Declaration on Policy Coherence for Development. Ministers from Estonia and Slovenia adhered to the Declaration.

The economics of climate change

Ministers recognised that climate change is one of the greatest challenges that the global economy is currently facing and agreed that urgent policy action is needed. Ministers agreed that each country will need to devise its own comprehensive mix of policies, depending on national circumstances. Many ministers observed that market instruments, including taxes and carbon-trading schemes, financial and tax incentives, removal of subsidies, loan guarantees, and elimination of tariffs on environmental goods and services are key to addressing climate change. These mechanisms must be complemented with other instruments, especially investment in clean technologies, regulatory instruments and standards, and sectoral approaches.

Ministers emphasised the importance of international co-operation in addressing both climate change mitigation and adaptation. Many ministers stressed that the principle of common but differentiated responsibility and respective capability for addressing climate change is fundamental for achieving an ambitious and affordable international agreement. Some participants stressed the need for financing mechanisms and arrangements to help share the costs of action amongst countries and thus build growing international support for climate change policies. To keep the cost of action low, such mechanisms will have to include all major emitters of greenhouse gases, in terms of both countries and sectors. An effective post-2012 international framework on climate change and the related national policies will need to stimulate innovation and contribute to the development, deployment and diffusion of low-carbon technologies and practices – in particular energy efficiency, carbon capture and storage technologies, renewables and nuclear energy. The diffusion of technologies to developing countries, in particular, needs to be accelerated.

The OECD, with at least 20 years' experience working in this area, can play a significant role in international efforts by providing economic analysis to address climate change. Ministers called on the OECD to continue appropriate work in this area, in collaboration with the International Energy Agency (IEA) and other international organisations. Ministers suggested, variously, that future work could analyse and compare concrete national and international policy options to reduce greenhouse-gas emissions from a wide range of activities; analyse incentives for major emitters to take part in international action, including understanding the impacts of climate change on different regions and sectors, and the benefits and co-benefits of action; assess the impact of alternative policies on competitiveness, carbon leakage, financing, technological development and transfer; consider how policies could provide certainty to private investors and remain flexible at the same time; and analyse the economic costs, benefits and distributive aspects of climate change adaptation and mitigation policies. Many ministers recognised that OECD analysis is a valuable input to the G8 Summit in Hokkaido, the climate Conference of Parties (COP)14 in Poznań in December 2008 and the COP15 in Copenhagen in 2009. The recent Development Assistance Committee (DAC) Statement of Progress on Integrating Climate Change Adaptation into Development Co-operation was welcomed.

Political economy of reform

The Chair began by presenting the reform strategies she deemed effective in the light of her own experience, emphasising the timetable and simultaneous implementation of reforms. Mexico, Slovenia and Sweden offered lessons on the political economy of fiscal and labour market reforms. In the informal discussions, ministers found that presenting a balanced "package" of reforms was often helpful in gaining public acceptance and overcoming resistance from special interest groups. They agreed that advisory mechanisms, such as *ad hoc* commissions, were particularly useful in designing an ambitious reform programme. Ministers highlighted the importance of conveying a clear message speaking directly to citizens, in order to increase understanding of the case for reform. They pointed out that the approach to reform depended on country contexts. In many cases, building broad coalitions transcending political majorities can be instrumental for successful implementation.

They underlined the value they attach to the OECD's longstanding contributions to the design, implementation and political economy aspects of reform, based on its methods of evidence-based comparative analysis and peer review. Ministers looked to the OECD for continued analysis of the political economy of reform and increased support to governments in their domestic reform processes.

The multilateral trading system

Ministers welcomed the timely opportunity provided by the OECD MCM for a frank exchange on the state of multilateral trade negotiations and future priorities. Representatives from Argentina; Hong Kong, China; Bank for International Settlements (BIS); European Free Trade Association (EFTA); IMF; the World Bank; and the WTO took part in this discussion.

They underlined the need for more open markets, for trade in agricultural and industrial goods and services, and called for a swift, ambitious and balanced conclusion to the Doha Round of WTO negotiations. In the current context of economic uncertainty and market turbulence, international trade can make an important contribution to global growth and development, and can help, in the long run, respond to global challenges such as poverty reduction and climate change. It can also help attenuate the problems caused by high food prices by exploiting the potential of markets to balance global supply and demand.

There is a pressing need to deepen and improve understanding of the implications of open markets and international trade, and to build a solid case for further trade liberalisation. In this respect, ministers called upon the OECD to engage actively in communicating the important contribution that open markets make to improving global growth, security, and prosperity. As tariffs continue to be reduced, non-tariff measures need to be addressed so that domestic objectives can be achieved without creating unnecessary obstacles to international trade. Ministers indicated that they look to the OECD for analysis and advice in this area, and, in particular, endorsed

current work aimed at developing an innovative approach to quantifying trade restrictions in the services sector.

Sovereign wealth funds (SWFs)

SWFs have become a key player in the new financial landscape. Ministers welcomed the benefits that SWFs bring to home and host countries and agreed that protectionist barriers to foreign investment would hamper growth. They recognised the rapidity by which the OECD has responded to the mandate given by the G7 finance ministers and other OECD members. Ministers praised the Report by the Investment Committee on SWFs and the guidance they give to recipient countries on preserving and expanding an open environment for investments by SWFs while protecting legitimate national security interests. They expressed their support for the work at the IMF on voluntary best practices for SWFs as an essential contribution and welcomed the continuing co-ordination between the OECD and the IMF. Ministers looked forward to future work on freedom of investment by the OECD, including surveillance of national policy developments. They adopted the OECD Declaration on SWFs and Recipient Country Policies and were joined by ministers from Chile, Estonia and Slovenia, who adhered to the Declaration. This Declaration constitutes another example of the OECD's capacity to set international standards.

Key challenges for growth and prosperity

Ministers from OECD's Enhanced Engagement countries, Candidate countries and member countries discussed the role that the OECD can play in addressing key challenges to growth and prosperity in the world economy. Ministers of Enhanced Engagement countries and member countries confirmed their resolve to continue to work in partnership in order to develop specific Enhanced Engagement initiatives allowing for a more focused, comprehensive and coherent dialogue and co-operation. The Secretary-General was invited to continue to explore and develop recommendations to Council on how to expand the OECD's relations with other selected countries and regions of strategic interest, noting with satisfaction the growing interest of countries from southeast Asia in OECD activities since their last meeting.

Ministers focused in particular on urgent policy challenges, including food-price inflation and its linkages to broader issues such as alternative fuels, climate change and impacts on distribution of income and growth within economies. They welcome the analysis and recommendations of the OECD work on food prices and the *OECD-FAO Agricultural Outlook*. Causes and consequences of the recent price hike were discussed and there was broad agreement that the OECD should contribute to developing the right medium and long-term policy responses which need to include the development, agriculture, environment and investment dimensions. They encouraged the OECD to pursue work on the impacts of demography on economic and social performance and competitiveness of countries. They endorsed the need for further efforts to encourage increased investments and productivity growth, particularly in less developed countries, with a view to strengthening the supply side of global agriculture. They also underlined the potential price

distorting effects of protectionism and subsidies. They stressed the need for improved information, education and skill development in the field of agriculture. Ministers welcomed further work aimed at continuing to monitor developments in agricultural markets and promote sound international policy responses to address the long-term structural factors driving food prices.

OECD reform of financing

The ministers agreed on a major reform of financing of the OECD that, in the context of its enlargement, will ensure that the Organisation has a solid financial foundation in the long term. This reform will preserve the OECD's influence, relevance and excellence, permit a broader and deeper engagement with major non-member economies, and allow the OECD to continue to meet emerging priorities. With this agreement, OECD members have reflected the great importance they attach to the OECD and to the benefits they receive from OECD membership. The Chair expressed her deep appreciation to the leadership of Ambassador Neple from Norway who has skilfully achieved a successful outcome and praised the previous work of Ambassador Smidt from Denmark as well as the secretariat for their commitment and support. ■



Ministers who attended the annual OECD Ministerial Council meeting on the steps of the Château de la Muette in June 2008.

Spotlight

Restoring growth

www.oecd.org/crisisresponse

The trigger of the financial and economic crisis was the collapse of the subprime mortgage market in the United States; but that was really only "the canary in the coal mine". The fundamental cause of the global financial crisis was excess global liquidity, which fuelled, among other things, a housing market bubble, driven by a complex combination of regulatory, market and policy failures. What makes this financial crisis unique is its global reach, having spread at an extraordinary pace from the United States to other countries and leading to a widespread loss of confidence.

Governments and their monetary authorities have taken unprecedented action to rebuild confidence in the financial system and restore the normal functioning of money and credit markets. They provided equity for troubled financial institutions, injected liquidity and established interbank loan guarantees. Although these measures have managed to avert a financial meltdown, they have not been sufficient yet to restore trust necessary for the normal functioning of credit markets, so segments of the financial system remain under stress.

More systemic financial sector stabilisation is needed to encourage capital markets to resume intermediation and for banks to resume lending. It is necessary, for instance, to identify and separate troubled assets from good ones and to reduce uncertainty among market participants about the valuation of these assets and the capital regulation to be applied. Some countries are moving into this direction, but it takes time to implement, not least because of the complexity of the issues involved.

At the same time, financial institutions are hugely leveraged, housing market adjustments are underway, and steep falls in real estate and equity prices are decimating wealth. These forces are already dragging down GDP



A trader checks share prices in front of the German DAX index board at the Frankfurt stock exchange.

in OECD countries and reducing the pace of growth in the major emerging market economies, largely because of sharp declines in investment and industrial production and a massive slowdown in world-trade growth. Unemployment rates are rising steeply and inflation is falling, a result of the recent sharp decline in commodity prices and widespread spare capacity.

Not surprisingly, the economic outlook is gloomy everywhere. Moreover, the risks and uncertainties surrounding the outlook are higher than usual, and predominantly on the downside. They include further failures of financial institutions as the recession deepens and the number of insolvencies rises, and the possibility that emerging market economies will be hit harder by the downturn in global trade and foreign investor risk re-assessments.

Against this backdrop, concerted and comprehensive action is needed to boost demand and cushion the impact of the recession. Macroeconomic policy has in fact already been significantly eased. Central banks around the world have cut their policy interest rate, in many countries, to levels close to zero or to unprecedented lows. Further reductions in interest rates are required in countries where rates are still at a high level. In addition, the monetary-policy responses already implemented have gone some way to compensating for the tightening financial conditions through liquidity injections and other unconventional measures.

However, because of the financial stress and malfunctioning of credit markets, the monetary transmission mechanism has weakened. Given the severity of the global recession, fiscal stimulus over and above the support provided through automatic stabilisers is essential. However, fiscal stimulus packages need to be evaluated on a case-by-case basis in those countries where room for budgetary manoeuvre exists. It is vital that discretionary action be timely and temporary and designed to ensure the maximum effect on economic activity, while being consistent with the long-term objectives of the society. International co-ordination is one way to bolster the effectiveness of fiscal policy, especially in economies where trade and financial flows are closely integrated.

With high public debt in many OECD economies, it will be equally important to establish a credible fiscal framework to ensure long-term public finance sustainability, especially in the face of spending pressures associated with ageing populations. More generally, the extraordinary measures taken to stabilise financial markets will need to be withdrawn as soon as an economic recovery takes hold. Improvements in financial regulation, corporate governance, taxation and other policy domains will be needed to support such exit strategies. International co-operation will be crucial in order to improve the resilience of the global financial system and provide a level playing field nationally and across jurisdictions.

The experience of the past year has highlighted the importance of continuing with structural reforms that boost growth and strengthen the resilience of our economies to better withstand and absorb shocks. In this respect, governments must resist the pressure for inward-looking, protectionist policies. That would repeat one of the mistakes of the early 1930s and exacerbate the economic downturn. ■

Spotlight

Climate change and the economy

OECD work confirms that tackling climate change should not be delayed, and that ambitious action to reduce greenhouse gas (GHG) emissions is economically rational. The economic crisis provides no room for complacency. At most, it might slightly reduce global emissions temporarily, after which an upward trend will resume. Delaying action on climate change would only mean larger cuts later.

Ambitious mitigation goals should be achieved through a policy mix, with an emphasis on price-based instruments. To build support for action, countries need to use least cost policies to achieve significant emission cuts. To keep the costs low, the policy mix should include a strong emphasis on putting a price on GHG emissions, *e.g.* through cap-and-trade schemes, to discourage the behaviour that generates emissions and encourage emitters to seek abatement options wherever they are cheapest. But no single instrument will be sufficient to tackle the wide range of sources and sectors emitting GHGs. Given market and information barriers, price instruments will need to be complemented by standards (*e.g.* building codes, electric appliance standards) and measures to boost innovation and facilitate the uptake of cleaner technologies.

Pricing carbon will lead to additional financing flows for clean technologies, and can be a critical spur for the deployment of new technologies. Thus, a carbon price path consistent with achieving a stabilisation of GHG concentrations in the atmosphere at 550 ppm (or about 450 ppm CO_2 only) could lead to a four-fold increase in world energy R&D spending by 2050. At the same time, major new breakthroughs will be needed to bring down the costs of climate action over the long-term, and the private sector is unlikely to invest sufficiently in R&D given the gap between the social and private expected returns from these investments. Government has an important role to play in supporting R&D, including to reverse the dramatic trend in

DID YOU KNOW…
that exempting energy-intensive industries from measures to reduce greenhouse gas emissions would make it 50% more costly to stabilise atmospheric concentration of these gases at a moderately ambitious level by 2050?



declining public energy-related R&D expenditure that has been occurring in OECD countries since the early 1980s.

Subsidies to emission reductions are not economically efficient. Recent OECD analysis puts the cost of current support policies to first generation biofuels in the EU, the US and Canada as high as USD 1 000 per ton of CO_2 saved, a very expensive way to reduce GHG emissions, given that the recent prices of CO_2 in the EU Emissions Trading Scheme are in the USD 15-30 range.

All large emitters will need to participate in mitigation action. Achieving even moderate climate targets will be impossible through action in developed countries alone. Also, much of the lower-cost emission abatement opportunities are located in developing countries. Therefore, their participation will be essential to keep the global costs of actions manageable. But the location where action is taken has to be decoupled from who pays for that action. Financing will be needed to support mitigation as well as adaptation in developing countries.

Much of the financing will need to come from the private sector, and the OECD is examining how public policy frameworks can best encourage the necessary private financing flows to support climate-friendly investments. But public sector financing is also critical – not least to build trust between developed and developing countries, so that each will fulfil their part of the bargain. An important question is how to scale this up, especially in the current economic situation, and how to better target it to ensure effective emissions reductions and adaptation. The OECD already tracks bilateral ODA financing to support climate mitigation in developing countries, and is considering how to track adaptation financing. Work is underway to examine how best to target government funding to complement and leverage private financing. This was one of the key issues discussed at the Joint High-level Meeting of the OECD Environment Policy and Development Assistance Committees on 28-29 May 2009.

DID YOU KNOW…
that removing fossil fuel energy subsidies in non-OECD countries would cut world greenhouse gas emissions by at least 10% in 2050?

Concerns about the potential carbon leakage and competitiveness impacts of climate policies are often exaggerated. Unless only very few countries take action against climate change, carbon leakage rates and competitiveness effects of climate policies are very small. A scenario of only the EU taking action shows that about 20% of the emission reductions in the EU would be offset by emission increases in other countries. However, once all industrialised – the Annex I countries of the UNFCCC – take action, this leakage rate would be reduced to 9% of emissions. Border tax adjustments or grandfathering domestic emission permits can reduce carbon leakage, but at a cost overall to the economy. If carefully designed, sector-wide agreements covering energy-intensive industries may offer a cheaper and more constructive alternative to mitigate fears of leakage.

Going forward, the OECD will be working after Copenhagen to help countries implement what they decide at COP15 through the development of effective policy mixes. OECD is examining how to build up a global carbon market, how to link financial and technology support for developing countries with their effective mitigation action, and how to monitor and assess the GHG impacts of mitigation actions or policies. The OECD will also continue to provide advice on the political economy of reform for climate change policies. ■

Spotlight

Are we growing unequal?

www.oecd.org/els/social/inequality

After three years of intense study, the OECD released a major report on trends and driving factors of income distribution, *Growing Unequal?* The main finding is that income inequality has widened in more than three-quarters of OECD countries over the past two decades – but government action can make a difference. Greater inequality of resources has a price: politically, it can fuel populist and protectionist sentiments. On the economic side, it means a waste of human resources implied by a large portion of the population being out of work or trapped in low-paid, low-skilled jobs.

In 2005, the average income of the richest 10% of people across the 30 member countries was nearly nine times that of the poorest 10%, and around one person in ten had an income below half of the national median. Country variations are large, with the lowest inequality indicators found in the Nordic countries, higher ones in the United States, and the highest in Mexico and Turkey.

The increase of both income inequality and relative poverty was moderate but significant, and widespread. Where inequality increased (*e.g.* in Canada, Germany, Norway and the United States during the past five years), it was usually due to rich households faring much better than low-income households and, in some countries, also much better than middle-earners. These trends, however, have not been universal. A few countries have been able to reduce the gap between rich and poor recently. The two poorest and most unequal OECD countries, Mexico and Turkey, grew much more unequal between the mid-1980s and mid-1990s but succeeded in substantially reducing inequality since 1995.



DID YOU KNOW…
that, since the 1980s, income inequality has increased in over three out of four OECD countries?

Poverty changed most over the past two decades between age groups. Older people now have a lower risk of being poor while the risk has increased for children and young adults. The disadvantage of single-parent households increased further: these families are three times as likely to be poor as the average family.

DID YOU KNOW…
that the risk of poverty for older people has fallen, while poverty among young adults and families with children has risen?

But inequality is not just about income. Publicly provided services, such as education, health and housing, reduce inequality by nearly a quarter. Wealth and financial assets, which are not counted as part of income, are distributed much more unequally. Dynamic factors are important: in general, persistent poverty is much less frequent than poverty at any one point in time; but countries with low annual poverty have also fewer people who are persistently poor. From a longer-term perspective, social mobility between generations also appears to be higher in countries where income inequalities are relatively low.

Which factors are driving inequality trends? The most important factors are found in the labour market. Earnings make up more than 70% of household incomes and their disparity has increased rapidly since the early 1990s. The same is true for income from capital and savings. The distribution of self-employment incomes has also widened. In addition, demographic transition – an ageing workforce, fewer people of working age, many more single parents and smaller households – had an impact on income distribution.

What can be done to reverse the growing trend in inequality? The OECD study identifies several policy areas in which governments can improve effectiveness. For example, government cash redistribution through taxes and benefits remains an important instrument to address income inequality, reducing inequality by one-third and poverty by more than half. But its impact has fallen in the past ten years in many OECD countries.

Policies also need to address growing inequalities more directly, particularly those originating in the labour market. Stronger activation policies are needed to help people without a job find work. However, getting a job will not automatically resolve the problem, especially if the job is unstable and low-paid. Active employment policies need to be complemented with welfare-in-work policies that encourage people to work and supplement the income of working families to reach a decent standard of living. Finally, better training and education measures should aim to equip people with the skills they need in tomorrow's labour market. Better education is an effective way to achieve growth that benefits all, not just the elites, and it is the key to upward social mobility.

Policy action on inequality will be all the more important as OECD economies enter a period of economic slowdown with sharp increases in unemployment. In the past 20 years, income inequality did not fall despite prolonged economic growth. As Sir Anthony Atkinson asked at the release of the OECD study, "If a rising tide does not lift all boats, how will they be affected by an ebbing tide?" But there is nothing inevitable about growing inequality. The OECD study identifies country experiences that bucked the trend, such as those of France, Greece, Spain or, more recently, the United Kingdom. Governments can close the gap with effective social and labour-market policies, many of which do not necessarily require higher spending. ■

KEY ACTIVITIES



Economic growth, stability and innovation

Employment, social cohesion and environment

International trade and taxation

Governance

Development and global relations

Statistics

Communications

Economic growth, stability and innovation

Economic growth

www.oecd.org/economics
eco.contact@oecd.org

A gloomy economic outlook



The *OECD Economic Outlook Interim Report* issued in March 2009 sees the OECD area economy in the midst of its deepest and most synchronised recession in our lifetimes. The credit squeeze, negative wealth effects stemming from lower house and equity prices, and a generalised loss of confidence are dragging down economic activity everywhere. In turn, shrinking output and income is further undermining bank balance sheets, magnifying the downturn.

The OECD expects that the ongoing contraction in economic activity will worsen in 2009, before a policy-induced recovery gradually builds momentum through 2010. In the United States, Japan, the euro area, as well as for the OECD economy at large, output will drop sharply this year and improve modestly next year. The major non-OECD economies are not spared from an abrupt slowdown in growth or an outright recession (*see box page 85*).

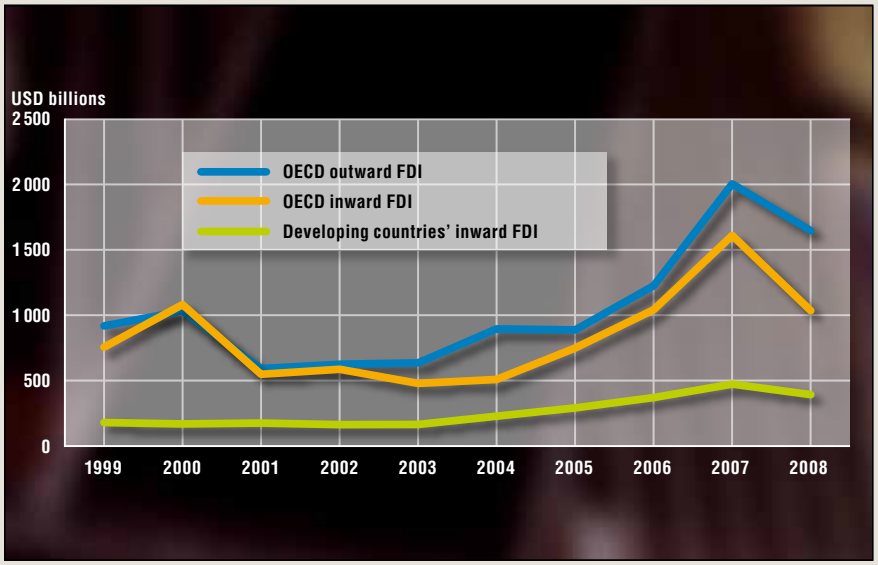
This bleak scenario is driven by sharp declines in consumption and investment, including FDI (*see box page 30*), and a massive slowdown in world trade growth. The impact of the recession on societies will be substantial. Joblessness in all OECD countries will rise sharply, with the



DID YOU KNOW…
that every OECD economy will be in recession in 2009, making this downturn the most synchronised in over half a century?

rate of unemployment peaking in 2010 or early 2011 and, in a majority of countries, reaching double digit levels for the first time since the early 1990s. Another consequence of the highly synchronised recession will be an exceptional degree of slack, which will push down inflation rates to close to zero in several OECD countries, and some will experience falling price levels.

Grim outlook for FDI



DID YOU KNOW…
that FDI flows into developing countries reached USD 470 billion in 2007, more than four times the value of official development assistance?

As the global and financial economic crisis evolves, the outlook for FDI continues to darken. Inflows for 2008 fell by 36% and outflows by 18% (*see above graph*) and may fall further in 2009.

With global growth forecasts for 2009 down sharply from the levels reached in recent years and growth in the OECD economies expected to fall significantly in 2009, firms are much less motivated to invest in new capacity. The freezing of credit markets, combined with sharp declines in equity markets, severely limits the availability of financing, which underpins most international expansion by firms.

While aggregate FDI flows are down, inward FDI into the OECD area from outside are a rare bright spot. Albeit starting from modest absolute levels, merger and acquisition (M&A) activity in the OECD originating from non-OECD sources may have grown by around 25% in 2008 over 2007 levels. Barring a protectionist response from host countries, international investment from key emerging economies, such as China, should rise as both experience and available capital increase in countries that have emerged as important new sources of FDI.

Financial market stresses

The recession stems from the global financial crisis, which began as a subprime crisis in 2007 and entered a new phase with the collapse of Lehman Brothers in mid-September 2008. What followed was a generalised loss of confidence among financial institutions, triggering reactions akin to a blackout in global financial markets. The US financial crisis went global, bringing systemically important bank and non-bank financial institutions to the brink of collapse.



Spreads on major money and bond markets surged to very high levels, drying up liquidity and paralysing credit flow; stock market prices plummeted. Prompt and massive policy action to restore confidence by providing liquidity, asset guarantees and capital appears to have successfully limited the period of panic, but financial institutions need to operate with less leverage and repair their balance sheets. This process of adjustment will take time and impair the flow of credit, and is the key factor weighing on activity going forward.

The financial crisis is not the only development shaping the economic projections. Other important drivers include ongoing adjustments in housing markets and the steep fall in equity prices. Partially offsetting these contractionary forces are the sizeable monetary and fiscal stimulus packages being introduced, and the boost to real household incomes due to sharply lower commodity prices.

The uncertainties surrounding the economic outlook are significantly higher than normal, and predominantly on the downside. They include a longer-than-assumed period before financial conditions normalise, further failures of financial institutions as the recession deepens and the number of insolvencies rises, and the possibility that emerging market economies will be hit harder by the downturn in global trade and foreign investor risk reassessments. Against these risks is the possibility that national and international efforts to resolve problems in financial markets and the large macroeconomic policy stimulae being introduced take hold sooner and prove more effective than anticipated, advancing the start and increasing the pace of the recovery.

Reforms to restore growth



Apart from the essential efforts to contain the crisis and deal with the fallout on demand from the extreme financial market stress, it will be necessary to put the global economy back on a sustained growth trajectory (*see Spotlight on Restoring Growth, page 20*). Pushing ahead with structural reforms, including enhancements in financial regulation and corporate governance, is also needed to help foster sustainable growth. OECD analysis and recommendations aimed at raising long-term growth and strengthening resilience to adverse shocks, featured in the annual *Going for Growth* report and *Economic Surveys*, have recently focused on the importance of taxation policy, investment in infrastructure, education and labour and product market regulation.

Competition

Until recently, no clear set of guidelines was available to help governments consider the market impacts of regulations. The OECD has now produced the Competition Assessment Toolkit to aid policy makers in identifying unnecessary restraints on market activities and in developing alternative, less restrictive measures that still achieve government policy objectives. A major project to implement the Toolkit has started in Mexico, with OECD staff helping to develop new proposals for the minister of economy. The competition reform process was followed by pro-trade reform in 2008, showing the Mexican government's commitment to reform.

In a major new effort to promote more competitive bidding, the OECD developed the Guidelines for Fighting Bid Rigging in Public Procurement by drawing on the experience of more than 30 jurisdictions. The Guidelines provide the most comprehensive strategy available for designing tenders and detecting bid-rigging. The potential savings in public resources are large: in many OECD countries, public procurement amounts to 15% of the GDP and prices can increase by 20% when there is bid-rigging.



(Left to right)
OECD Secretary-General, Angel Gurría, meets with Professor Amartya Sen, 1998 Nobel Prize for Economics, in May 2008.

Making Reform Happen

Realising appropriate policy reforms can help support growth and sustainable development across OECD countries in these challenging times. But implementing the reforms necessary for long-term growth can be challenging in the current context, and it is necessary to ensure that short-term responses do not overwhelm long-term priorities. The crisis puts pressure on limited public budgets, and there may be lack of public awareness or support for reforms or even resistance from groups that may be affected. Evidence shows that implementation is as important as policy design. Even the most rational and economically well-designed policies may fail to be implemented if the process of introducing reforms is not well prepared.



The OECD project, Making Reform Happen, aims to help governments in their efforts to reform by working to identify and better understand the factors behind successful reforms and by providing direct support to member countries in their domestic reform efforts.

A report on effective ways to achieve policy reform, with preliminary findings due July 2009, will be published in early 2010. The report will explore the political economy of reform in policy areas key to sustainable growth, such as social services and pensions, fiscal and tax policy, education, health systems, the labour market, public administration reform, product market reform, regulatory reform, competition policy, and the environment.

The OECD will be able to respond to individual country requests by disseminating its expertise through publications, presentations, country visits by high-level OECD representatives, seminars with key stakeholders, or through direct engagement with countries. During 2008, the OECD assisted Hungary with its reform efforts and produced *Reforms for Stability and Sustainable Growth: An OECD Perspective on Hungary*. ■

Want to know more?

Key activities

- Competition: www.oecd.org/competition
- Country economic reviews: www.oecd.org/eco/surveys
- Cross-country structural policy analysis and advice: www.oecd.org/economics/goingforgrowth
- Economics and growth: www.oecd.org/economics
- Investment: www.oecd.org/investment
- Monetary and financial issues: www.oecd.org/eco/money
- Multilateral macroeconomic surveillance: www.oecd.org/oecdeconomicoutlook
- Public finance: www.oecd.org/eco/public_finance

Key publications

- *Economic Policy Reforms: Going for Growth*
- *OECD Economic Outlook*
- *OECD Economic Surveys* (member countries and selected non-member countries)
- *OECD Journal: Economic Studies*

Key events

- Meeting of the OECD Council at Ministerial Level on Outreach, Reform and the Economics of Climate Change, OECD Headquarters, June 2008
- Annual Meeting of Senior Officials from Centres of Government on Political Economy of Reform: Ensuring Stakeholder Support, Mexico, September 2008
- Latin American Competition Forum, Panama, September 2008
- Annual Meeting of Senior Officials from Centres of Government on Ensuring the Coherence of Reform: Steering from the Centre of Government, OECD Headquarters, October 2009

Science, technology and innovation

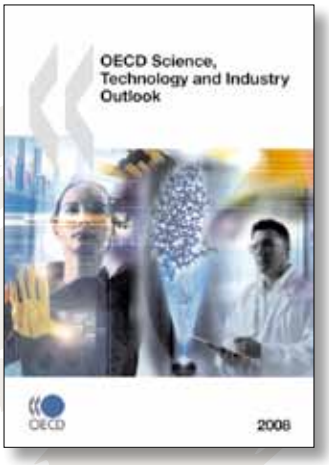
www.oecd.org/science
sti.contact@oecd.org

Recent developments

As the global economy spiralled into recession in 2008, the OECD provided a broad strategic response, including recommendations to promote an innovation-led, green recovery. The key components include fostering research, entrepreneurship and investment in infrastructure, such as broadband networks, human capital and clean technologies. Innovation is a proven driver of growth, and will be key to emerging from the downturn.

During periods of recession, businesses tend to cut investment in research, development and innovation, weakening the prospects for future growth. Entrepreneurs with new ideas and younger companies are particularly vulnerable to financial constraints in a downturn, but large firms also curb spending on R&D during hard times. Estimates for the United States, for example, suggest that a 1% decline in GDP translates into a 0.5% to 1% drop in business R&D – and the effect of a downturn on R&D spending is almost immediate.

Governments can play a vital role in boosting public spending on R&D during this downturn and can ensure that stimulus packages contribute to a lasting recovery. The economic crisis offers policy makers an opportunity to address structural weaknesses and accelerate change, laying the foundation for stronger, more durable growth. Several countries, including Finland and Korea, emerged from past recessions significantly more competitive, thanks to structural reforms and increased spending on innovation and education.



DID YOU KNOW…
that China's business sector spends almost the same share of its contribution to GDP on R&D as the business sector in the European Union?

Boosting innovation

Even before the economic crisis hit, technology and globalisation were changing the way we innovate. Scientists, researchers and entrepreneurs work in open, collaborative markets for knowledge, forging new business models enabled by the Internet (*see box page 35*). Consumers also help drive innovation now. A number of OECD studies in 2008 highlight the importance of international knowledge flows for innovation. Talent pools are highly mobile, and companies tap networks to gain knowledge and share risks and costs.



Inspection of prototype street lamps filled with chlorella seaweed in a laboratory in Libourne, southwestern France. This prototype captures CO_2 and expels oxygen, helping to fight the greenhouse effect.

The Internet economy



A demonstration of the "Touchmaster", a large multi-touch presentation system for multimedia content, at a stand for the upcoming CeBIT fair in Hanover.

With more than 1.4 billion users worldwide, the Internet is transforming industries, driving productivity, and providing an unparalleled platform for innovation and entrepreneurship. At the June 2008 Seoul Ministerial meeting on The Future of the Internet Economy, ministers agreed to support the Internet economy as the emerging foundation for future global growth and prosperity. Internet-reliant businesses now represent an estimated 20% of OECD GDP, and that share is growing.

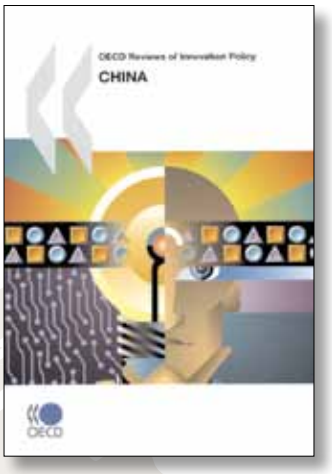
The Internet economy is a driving force for both innovation and growth – even in recession. Many of the world's leading companies were founded in the midst of a downturn, including Microsoft and Google. Economic crisis may well accelerate the shift towards the Internet economy, as aging industries struggle to survive and new digital sectors arise.

The current recession is the first severe contraction to hit economies that are highly dependent on knowledge-intensive industries and the Internet. As a result, many governments are channelling stimulus funds into "smart" infrastructure – the digital technologies that provide a backbone for the Internet – in addition to bridges and roads. They are also investing in green technologies, including smart electricity grids and education. Such investments can boost productivity and ensure a durable recovery by creating a platform for more sustainable growth.

Huge investments in broadband networks with high connection speeds will accelerate the shift to an Internet economy. Web-based services and platforms make it easier for business to collaborate and access new markets through digital distribution. Greater access to online content, services and networks creates opportunities for start-ups and new ways to deliver public services. Online medical consultations, for example, could increase the efficiency of health care, especially for the elderly. The OECD is studying the role of telecommunication investment in broadband networks as an economic stimulus, and will develop recommendations that help ensure government spending produces maximum impact on innovation and growth.

DID YOU KNOW…
that in the OECD area, 26% of individuals ordered or purchased goods or services on the Internet in 2007?

The Innovation Strategy, a three-year project launched in 2007, examines these trends and their implications for policy makers. An interim report for June 2009 maps out a cross-government approach to help countries capture the economic benefits of innovation, with a special focus on using innovation policies as a response to the economic crisis. The final report, due in 2010, will offer data and analysis for updating and adapting policies to a networked, global economy.



Clean innovation

How can governments best harness science, technology and innovation for a green recovery and sustainable growth? The OECD is leading work on innovation for environmental goals, such as mitigating climate change. The aim is to gain a cross-sector view of clean innovation, including how firms can measure and improve economic and environmental competitiveness. Emerging technologies are part of the solution. Nanotechnology applications, for example, can be deployed to enhance access to clean water. Investments in clean technologies foster the emergence of new companies and drive innovation in existing ones. Information and communication technologies (ICT) can be tapped to reduce energy consumption across the economy, boost sustainable manufacturing, and drive consumer demand for greener products. The OECD hosted a high-level conference on the potential of ICT to reduce energy consumption and combat climate change in May 2009 in Helsingor, Denmark.

DID YOU KNOW…
that a single fibre-optic broadband cable could carry 3 billion simultaneous phone calls – enough for everyone in the world to be talking to someone else?

Consumers and the financial crisis

As governments and banks grapple with the economic fall-out from billions of dollars in toxic mortgages, policy makers are keen to understand what could be done to improve the functioning of financial markets for consumers. Improved information, greater understanding of finance and more effective protection from fraudulent and misleading practices are high on the list. An OECD toolkit, drawing for the first time on behaviour research, offers policy makers a new framework on when and how to intervene in financial markets to best protect consumers.

Knowledge markets

In a knowledge-driven economy, the main goods traded are intellectual assets, expertise, know-how and services, giving rise to "knowledge markets". The new model of open innovation raises questions about the adequacy of traditional policies for intellectual property management. Governments around the world are interested in how the Internet allows users to participate in creating, exchanging and disseminating knowledge. The OECD is exploring what this trend means for the evolution of intellectual property, the development of knowledge-market frameworks, the funding of technology-neutral infrastructures, and for measurement and indicators.

DID YOU KNOW…
that the number of mobile phone subscriptions in the OECD is equivalent to 97% of the total population?

Raising the visibility of space applications

Space technologies including earth observation and communications satellites play an increasingly critical role in addressing some of the key challenges facing society. They are used to manage the effects of climate change, protect

the environment, bring education to remote populations and make transport systems more efficient. However, public recognition of the role of space technologies is low. The International Futures Programme, the OECD's strategic foresight group, is launching work on space applications which aims to raise the visibility of the space economy in policy circles. Its most recent contribution is on space technologies and climate change, focusing for example on fresh-water management, marine resources and maritime transport. It sets out the rationale for further developing satellite systems to measure and monitor climate change and mitigate its consequences. The work portrays satellites not just as R&D systems, but as an important component of the information and communication infrastructure for modern societies.



Strengthening international co-operation in research

The Global Science Forum (GSF) is a venue for consultations among officials of research funding agencies. Its activities target specific problem areas and identify opportunities for international co-operation. In 2008, the GSF developed a global plan for large facilities for Nuclear Physics, and established a new public/private partnership for enhancing seismic safety: the Global Earthquake Model (GEM). The GSF also adopted guidelines for strengthening the links between industry and academic mathematics, and for strategic planning and prioritising ("roadmapping") of large research infrastructures. ■

Want to know more?

Key activities

- 2009 STI Scoreboard: www.oecd.org/sti/scoreboard
- Information, computer and communications policy: www.oecd.org/sti/ict
- Innovation and the economic crisis: www.oecd.org/innovation/crisis
- Science and technology policy: www.oecd.org/sti/stpolicy
- The future of the Internet economy: www.oecd.org/futureinternet
- The OECD Innovation Strategy: www.oecd.org/innovation/strategy

Key publications

- *OECD Communications Outlook 2009* (forthcoming)
- *OECD Information Technology Outlook 2008*
- *OECD Innovation Policy Reviews – China*; *Korea* and *Mexico* (forthcoming)
- *OECD Science, Technology and Industry Outlook 2008*
- *OECD Science, Technology and Industry Scoreboard 2009* (forthcoming)
- *Open Innovation in Global Networks*

Key events

- Ministerial meeting on The Future of the Internet Economy, Seoul, June 2008
- High-level Conference on the Potential of Information and Communications Technologies to Combat Climate Change, Helsingfor, Denmark, May 2009
- OECD Roundtable on Consumer Empowerment and Business Behaviour: A Win-Win Relationship, OECD Headquarters, June 2009

Industry and entrepreneurship

www.oecd.org/sti/industry-issues
www.oecd.org/enterprise
www.oecd.org/cfe
sti.contact@oecd.org
cfe.contact@oecd.org

Recent developments

Governments across much of the industrialised world have responded to the economic crisis with massive support packages for troubled banks, insurers, auto makers and other industries. In some cases, governments have taken ownership stakes in ailing firms in exchange for capital injections. The goal of these rescue packages is to stabilise the economy, but they also carry the risk of impeding the structural change needed for a durable recovery.

A key challenge for policy makers is to take advantage of the structural changes forced by the crisis to redeploy resources from ailing companies and sectors to those that offer the largest long-term economic and social benefits. Policy makers should avoid bailing out companies that were performing poorly before the crisis, and which have ailing business models. Governments also need to recognise that national solutions may be insufficient as industries are highly dependent on global value chains.

Entrepreneurs will be instrumental in laying the foundation for future growth as they play a vital role in driving innovation and developing new markets. The OECD is studying the dynamics of high-growth entrepreneurs and ways to support them through education and financing. In 2008, the





DID YOU KNOW…
that, in 2005, half of business R&D in the US was conducted by companies that were less than 25 years old?

OECD completed a comprehensive review of entrepreneurship policies in Denmark, assessing the effectiveness of policies in helping businesses innovate and grow, and highlighting areas for policy improvement.

Sustainable manufacturing and eco-innovation

A severe economic crisis combined with acute environmental challenges may accelerate the transition to a cleaner, more sustainable approach to value-creation. Leading companies around the world are already adopting clean-production initiatives, but such scattered efforts lack impact when it comes to mitigating climate change.

To achieve breakthrough reductions in energy consumption, carbon emissions and toxic waste, companies need reliable tools to measure clean processes. The OECD's flagship project on sustainable production aims to create guidelines for measuring energy consumption, $C0_2$ emissions, other types of pollution, and water consumption throughout the product life cycle, developing benchmarks for a clean approach to value-creation. To initiate international dialogue, the OECD organised the Conference on Sustainable Manufacturing at the Rochester Institute of Technology in New York in September 2008.

DID YOU KNOW…
that counterfeited products include food, drinks and medicines, and that counterfeited parts have been found in motor vehicles and aircraft?

Counterfeiting and piracy

Intellectual property is one of the essential engines of innovation and growth across economies, but it is undermined by counterfeiting and piracy. In 2008, the OECD published its Phase I report, *The Economic Impact of Counterfeiting and Piracy*, which highlights the high cost to innovation and growth associated with the pirating of physical products. It also covers the impact of counterfeited goods on health and safety, and the increasing role of organised crime in the production and distribution of counterfeited and pirated goods. The Phase II report on digital piracy addresses the problem of suppliers willing to provide pirated content over the Internet at virtually no cost to the consumer. Both studies assess what can be done to combat these illicit practices.



Software

The OECD has launched a research project to help understand the nature of innovation in the software sector. The final report highlights how software has become a vitally important component of economic activity in today's world, but warns that skills shortages, regulation and capitalisation issues persist as long-term challenges.

Steel

Most of the world's steel demand is linked to fixed capital investment, especially building construction which, in turn, is highly dependent on capital availability. The world's steel demand is also linked to consumer durable industries, particularly automobile manufacturing. These industries are in sharp decline and, as a result, demand for steel has contracted at an unprecedented pace since mid-2008, triggering a drop in prices by more than 50% and massive layoffs.

DID YOU KNOW…
that a typical car produced in 2009 has more lines of software code than in Microsoft Vista?

Financing SMEs in the global crisis



(Left to right)
French State Secretary for Trade, Craft Industries, SMEs, Tourism and Services, Hervé Novelli, with OECD Deputy Secretary-General, Pier Carlo Padoan, at the 34th Session of the OECD Working Party on SMEs and Entrepreneurship, held in October 2008.

Small and Medium Enterprises' (SMEs) heavy dependence on bank credit, their main source of external financing, and their limited recourse to financial markets, make them especially exposed to the effects of the credit crunch. The increased aversion to risk and the lack of liquidity in the financial markets caused by the crisis could have an adverse impact on SMEs, especially on those that innovate. A recession leaves scarce room for SMEs to grow themselves out of the crisis.

Governments in OECD countries and other major economies are implementing or developing measures aimed at reducing the pernicious effects of the crisis on SME and entrepreneurship financing. The most common responses appear to be credit guarantee schemes to support debt financing for small businesses, but other measures include fostering equity investments in SMEs by venture capitalists and business angels; promoting liquidity and the availability of working capital by reducing the periods of payment to those SMEs that provide goods and services to governments; and supporting international diversification of SMEs.

The duration of the crisis and its effects on SME financing are still largely unknown, and the success of governments' actions remain to be seen. Collecting precise information to better evaluate the impact of the crisis on SME financing is crucial for policy design; and international co-ordination beyond regional agreements is essential for policy implementation.

DID YOU KNOW…
that even innovative and high-growing SMEs use debt financing as a larger proportion of their capital structure than equity financing?

Producers have reacted by cutting production and cancelling capacity expansion. However, many governments are concerned that further declines could provoke trade frictions. To address these issues, the OECD is collecting information on government stimulus packages and steel in order to foster transparency and greater understanding of the impact on the global steel industry.

Shipbuilding

The economic crisis also raises the risk of trade tensions in the shipbuilding sector. During 2008, the OECD explored the possibility of resuming the Shipbuilding Agreement negotiations that were paused at the end of 2005. Work focused on analysing government subsidies and other support measures aimed at ensuring transparency in the industry.

SME financing

Access to financing continues to be one of the most significant challenges for the creation, survival and growth of SMEs. This challenge is exacerbated now that enterprises operate in the most severe financial and economic crisis in decades. The OECD is organising a High-level Round Table on the Impact of the Global Crisis on Financing SMEs and Entrepreneurship and Policy Responses to discuss the policy responses to help SMEs and entrepreneurs face the crisis and facilitate the recovery phase (*see box page 40*).



In response to the financial crisis, international lending institutions and national governments are affirming their commitment to maintain, and even grow, levels of public spending. This will have an impact on local development, leading to new job creation and investment in new sectors, particularly sustainable development and green technologies.

At a High-level OECD Conference in Venice in 2008, ministers agreed that local agencies need more flexibility when dealing with complex employment and economic problems. A new OECD report, *More Than Just Jobs: Workforce Development in a Skills-Based Economy*, shows how education and training systems are too slow to adapt to business needs; how the local level is the best place to make the workforce more competitive; and how the current policy focus in many OECD countries is ill-adapted to the challenges faced by local areas in the context of globalisation. ■

Want to know more?

Key activities

- Counterfeiting and piracy: www.oecd.org/sti/counterfeiting
- Entrepreneurship and SMEs: www.oecd.org/cfe/sme
- Industry, entrepreneurship and innovation: www.oecd.org/sti/industry-issues
- Local development and employment strategies: www.oecd.org/cfe/leed
- Measuring globalisation: www.oecd.org/sti/measuring-globalisation
- Shipbuilding: www.oecd.org/sti/shipbuilding
- Steel: www.oecd.org/sti/steel
- Tourism: www.oecd.org/cfe/tourism

Key publications

- *Clusters, Innovation and Entrepreneurship* (forthcoming)
- *Computer Viruses and Other Malicious Software: A Threat to the Internet Economy*
- *Entrepreneurship and Higher Education*
- *Flexible Policy for More and Better Jobs* (forthcoming)
- *Innovation in the Software Sector* (forthcoming)
- *Making Local Strategies Work: Building the Evidence Base*
- *Online Identify Theft* (forthcoming)
- *The Changing Boundaries of Social Enterprises*
- *The Economic Impact of Counterfeiting and Piracy*
- *The Impact of Culture on Tourism*

Key events

- High-level Meeting of the OECD Tourism Committee, Riva del Garda, Italy, October 2008
- Employment and Skills Strategies in South-East Asia: Indonesia and the Philippines, Jakarta, December 2008
- Conference on Counterfeiting and Piracy, Madrid, February 2009
- 50th Annual Meeting of the OECD LEED Forum on Partnerships and Local Governance: Building Strong Partnerships with the Private Sector for Better Jobs and Inclusion, Vienna, February 2009
- OECD High-level Round Table on the Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses, Turin, March 2009
- Roundtable on Policy Responses to the Economic Crisis, OECD Headquarters, April 2009
- Conference on Entrepreneurship and Innovation (together with the Kauffman Foundation), Kansas City, June 2009

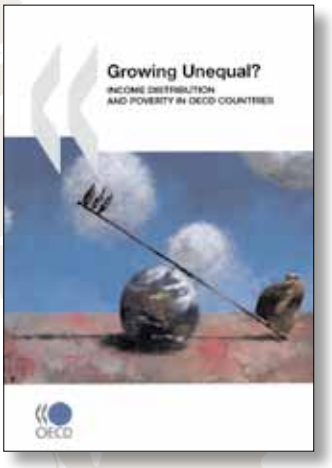
Employment, social cohesion and environment

Employment and social cohesion

www.oecd.org/employment
www.oecd.org/social
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Recent developments

Following a relatively long period of improving conditions, OECD labour markets were severely hit by the financial and economic crisis in 2008. Many countries registered significant job losses, and many more jobs are expected to be lost globally in 2009 as the impact of the financial crisis continues to affect the real economy. Some groups in the labour market, particularly youth, immigrants, low-skilled and older workers, and those on temporary contracts, are likely to bear the brunt of rapidly rising unemployment, and pressure is mounting in many OECD countries to introduce *ad hoc* measures to support them.



Jobs for youth

To the extent possible, it is important that these measures do not undermine overall labour-market efficiency and long-term growth. The OECD has done extensive work in assessing reforms to promote better job opportunities for disadvantaged groups. In particular, the thematic review on *Jobs for Youth* has examined policies to facilitate the transition from school to work and improve the career prospects of youth. These policies will be even more important during the current economic downturn, when many youth will have difficulty finding their first job, while those with a temporary contract



(Left to right)
OECD Secretary-General, Angel Gurría, with Belgian Minister for Immigration and Asylum Policy, Annemie Turtelboom, during a visit to the OECD in September 2008.

may be fired and become trapped into long-term unemployment. Raising the school-leaving age to ensure that youth acquire a minimum skill level, as was done in the United Kingdom and the Netherlands, has proved to be effective, if accompanied by measures to diversify educational choices. Strengthening apprenticeship systems or part-time vocational education for young people may be a way to provide some youth with work experience as they finish their studies. But the main challenge is how to reach those youth who are neither in education nor in the labour market. Some countries, such as the United States, have focused on taking them out of their local neighbourhoods and providing them with remedial education, work experience and adult mentoring in a residential environment.



Sickness and disability

In its third and last report, *Sickness, Disability and Work: Breaking the Barriers*, the OECD shows that sickness and disability policies have gained a central place in the economic policy agenda of OECD countries. This is because more people of working age are relying on sickness and disability benefits as their main source of income, even if many of them can work and often want to work. The OECD report shows, for example, that Denmark and the Netherlands have seen rapid increases in the number of young people claiming disability benefits, while in Ireland and, particularly Finland, disability benefits have been mainly used as a substitute for early retirement, with 70% of all new recipients above the age of 50. In all four countries, new disability claimants increasingly suffer from mental health problems. There are a number of policies options designed to help people with partial disability keep or find a job. Examples include strengthening financial incentives for public authorities, such as benefit offices, to be more active in helping people to move off benefits and back to work. Governments may also require that employers pay more towards a worker's sickness or disability benefit, thereby encouraging them to retain partially disabled workers. In May 2009, the High-level Policy Forum addressed the issues associated with fast-rising unemployment.

DID YOU KNOW…
that, in the Netherlands, absence because of sickness fell from 10% to 4% in the past 15 years?



Migration and employment

Around 4 million migrants entered the OECD area on a permanent basis in 2007 – an increase of 5% over the previous year – mostly for family reunification (44%) and employment (14%) reasons. In addition, around 2.5 million labour migrants came into the area on a temporary basis.

The integration of immigrants into the labour market remains an issue of major concern in most OECD countries. For the first time, *International Migration Outlook 2008* presented a "scoreboard" of immigrant employment, summarising developments and trends over the past five years by gender and in comparison to the native-born population. It also included an analysis of wage differentials between immigrant and native-born workers.

OECD countries are increasingly moving towards a more selective migration policy to attract highly qualified labour immigrants. Direct recruitment by employers has not always been successful in attracting sufficient numbers of the qualified immigrants who are in high demand in OECD countries. More selective policies, based on point systems, are more promising. Nevertheless, the labour-market outcomes of highly skilled migrants have sometimes been

DID YOU KNOW…
that in OECD countries, between one-fifth and one-half of immigrants leave within five years of arriving?

disappointing. To avoid the problem of potential over-qualification, countries should put in place better systems to assess and recognise credentials, especially for regulated occupations, and should test language proficiency more systematically.

Most OECD countries manage such migration through temporary programmes. Some of these programmes, notably those involving jobs

DID YOU KNOW…
that most OECD countries now allow foreign students to search for work after they complete their studies, and grant them a work permit if they find a job?

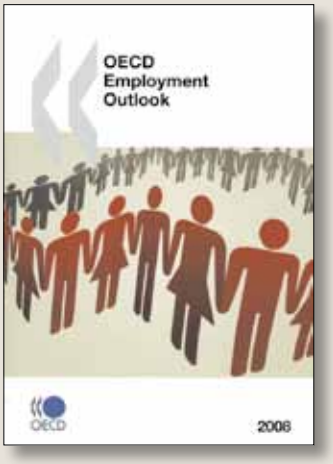
Impact of the crisis on employment

The financial and economic crisis is having a major impact in the labour market of many OECD countries. The unemployment rate reached 7.6% in the OECD area in March 2009, up 2.0 percentage points from a year earlier; and the OECD expects that many more jobs will be lost globally as the financial crisis hits the real economy hard. The appropriate response will vary across countries, depending on the severity of the crisis, the comprehensiveness of existing safety nets, the fiscal room for introducing *ad hoc* temporary measures, and the administrative capacity to implement these measures effectively.

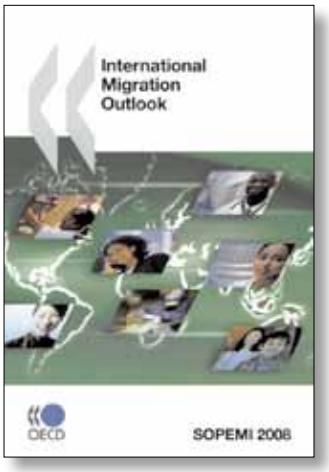


DID YOU KNOW…
that Denmark, Switzerland and Finland are the three OECD countries with the highest life satisfaction while Hungary, the Slovak Republic and Turkey have the lowest life satisfaction?

The OECD Restated Jobs Strategy (RJS) provides a useful framework for assessing policy responses to support those most affected by the economic downturn while preserving the longer-term objectives of promoting greater participation in the labour market and equal job opportunities for all. In particular, the RJS calls for providing adequate income support to the many who are losing their jobs and are at risk of falling into poverty, while at the same time ensuring that their job searches are effective. Income support measures have to be closely linked with measures aimed at promoting the transition back to work. The RJS also suggests avoiding measures aimed at reducing the labour supply, such as early retirement schemes to ease the unemployment pressure, as was done in the 1970s in some OECD countries. These measures did not free up jobs for young people; instead, they reduced the labour supply and were difficult to undo as the economy recovered.



during harvest periods or peak tourist seasons, work well. But demand for low-skilled labour in other sectors, such as home care, food processing and construction, is more permanent, and temporary programmes appear to be ill-suited to meet such longer-term needs. Labour migration needs to be better managed to reduce the risk of illegal employment and irregular migration into these sectors.



New perspectives on return migration

International Migration Outlook 2008 finds that between 20% and 50% of migrants leave the host country within five years after arrival. Most migrants decide to go home spontaneously, driven by individual and family objectives, as well as job opportunities back home. The International Conference on Migration, Return and Development, jointly organised by the OECD, the Italian Ministry of Foreign Affairs and the Institute for International Policy Studies in Milan, and held in October 2008, examined innovative co-operation between home and host countries, including exchanges of information on job opportunities, co-operation between banks, and new forms of partnerships to manage labour migration. ■

Want to know more?

Key activities

- Active labour market policies: www.oecd.org/els/employment/almp
- Employment and labour markets: www.oecd.org/employment/outlook
- Family Database: www.oecd.org/els/social/family/database
- Pension systems reforms: www.oecd.org/els/social/pensions/pag
- Sickness and disability benefits: www.oecd.org/els/disability
- Social indicators: www.oecd.org/els/social/indicators
- Social protection systems: www.oecd.org/els/social
- Youth and the labour market: www.oecd.org/employment/youth

Key publications

- *A Profile of Immigrant Populations in the 21st Century: Data from OECD Countries*
- *Growing Unequal? Income Distribution and Poverty in OECD Countries*
- *International Migration Outlook 2008: SOPEMI 2008*
- *Jobs for Immigrants* (series)
- *Jobs for Youth* (series)
- *OECD Employment Outlook 2008*
- *Sickness, Disability and Work: Breaking the Barriers* (series)

Key events

- Joint OECD-ILO High-level Conference on Corporate Social Responsibility, OECD Headquarters, June 2008
- Seminar on Managing Highly-skilled Labour Migration Workers, jointly organised by the OECD and the Dutch authorities, Amsterdam, June 2008
- International Conference on Migration, Return and Development, jointly organised by the OECD, the Italian Ministry of Foreign Affairs and the Institute for International Policy Studies, Milan, October 2008

Education

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Both individuals and countries benefit from education. For individuals, the potential benefits lie in the general quality of life and in the economic returns of sustained, satisfying employment. For countries, the potential benefits lie in economic growth and the development of shared values that underpin social cohesion.

School leadership and environments

Results from PISA confirm that all schools are not equal, and in some countries the differences between schools are enormous. Across OECD countries, the men and women who run schools are frequently overburdened, underpaid and nearing retirement; often, there is not a wide choice of qualified candidates to replace them. The study, *Improving School Leadership*, published in August 2008, draws on comparative analysis of 22 countries, identifying a range of policy options to help governments improve school leadership. It also reviews innovative practices in several countries. School environments also play a role in fostering excellence and the Centre for Effective Learning Environments (CELE) will continue its work on the quality, sustainability and safety of educational facilities in 2009.



Learning outcomes

The OECD established the framework and terms of reference for the PISA 2012 assessment, adapted the financing mechanisms for PISA and for related longer-term research and developmental work. It developed a strategy to make continued growth in participation in PISA manageable and sustainable, and formulated instruments and questionnaires for the PISA 2009 assessment.



DID YOU KNOW…
that girls and women have now moved clearly ahead of boys and men in education?

Early Childhood Education and Care

National and international research shows that participation in Early Childhood Education and Care (ECEC) is associated with stronger academic, economic and social outcomes. The OECD/EDU ECEC Network is now focusing on the quality of ECEC, examining learning outcomes, transition from preschool to school, and the numbers and quality of ECEC professionals. In the midst of the financial and economic crisis, the issue of access to quality ECEC assumes greater importance for working parents with young children and needs to be addressed by education policy as it will have long-term consequences on human capital.

Tertiary education

The report, *Tertiary Education for the Knowledge Society*, provides a thorough investigation of tertiary education policy in 24 OECD and partner countries. The report focuses on governance, funding, quality assurance, equity, research and innovation, links to the labour market and internationalisation. A companion OECD series – *OECD Reviews of Tertiary Education* – offers an in-depth analysis of tertiary education policies in each of the 14 countries that opted for a country review.

DID YOU KNOW…
that 73% of 18-year-olds are still in education across OECD countries?

Management of higher education

A record number of participants attended the biennial conference of the IMHE (Institutional Management in Higher Education) Programme on *Outcomes of Higher Education: Quality Relevance and Impact*, held in September. A conference in 2009 will examine the impact of the financial and economic crisis on institutions of higher education.

Vocational Education and Training

Vocational Education and Training (VET), long an integral part of national education systems, has been challenged by fundamental shifts in the nature of work and skills required for employment, and changes in the preferences and expectations of young adults and employers alike. In 2009, the OECD will publish a comparative report on how some OECD countries are addressing these challenges, and separate reports on the strengths and weaknesses of VET in seven individual countries.

Migrant education

Country and international experience shows that, on average, immigrants perform less well in education than native students in most countries, and the resulting education shortcomings are associated with poor labour market outcomes and eventual problems with integration into society. In 2008, the OECD began work on strategies to break this cycle of weak performance and exclusion by exploring how the education of migrant children could be improved.

DID YOU KNOW…
that immigrant students are motivated learners and have positive attitudes towards school?

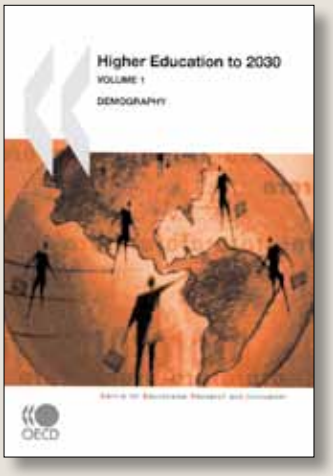
Assessing higher education learning



DID YOU KNOW…
that "educational expectancy" – the number of years of study over a lifetime based on current participation patterns – is above 17 years on average in OECD countries?

Over the past three decades, higher education in OECD countries has changed profoundly. Not only has participation soared but student populations have become much more diverse. In response, systems have expanded and new providers with new offerings have emerged. This long period of expansion has distracted attention from the actual outcomes of higher education, but OECD countries are now looking more closely at how to ensure quality in education.

The OECD has embarked on a study to assess the feasibility of comparing the learning outcomes of students enrolled in different types of institutions across a range of geographic, cultural and linguistic backgrounds. This study, known as the Assessment of Higher Education Learning Outcomes (AHELO), will allow countries to explore different approaches and methodologies separately but coherently. The AHELO study will thus involve three small-scale pilots of instruments that measure outcomes of generic skills and discipline-specific skills in engineering and economics at bachelor degree level. Each of these assessments will be complemented with relevant contextual information and indirect proxies of quality in order to provide insight on the teaching and learning processes and conditions associated with enhanced learning.



The feasibility study is conducted in 11 countries and will involve a small number of institutions in each, chosen to reflect the diversity and range of programmes. The project is managed by the IMHE programme, which brings together governments and higher education institutions to reflect on a range of issues. The first results of the study are expected in late 2010.

Special Education Need (SEN) students

In 2008, the OECD published *Students with Disabilities, Learning Difficulties and Disadvantages: Policies, Statistics and Indicators*, and a similar study focusing on some countries in the Organization of American States. OECD is also reviewing the strengths and weaknesses of transition policies and provision for SEN students in nine OECD countries.

Educational Research and Innovation



The Centre for Educational Research and Innovation (CERI) focuses on longer-term, interdisciplinary issues in education. It held a special 40th anniversary Conference in May 2008 on Learning in the 21st Century: Research, Innovation and Policy. An international conference launched a series of publications entitled *Higher Education to 2030*.

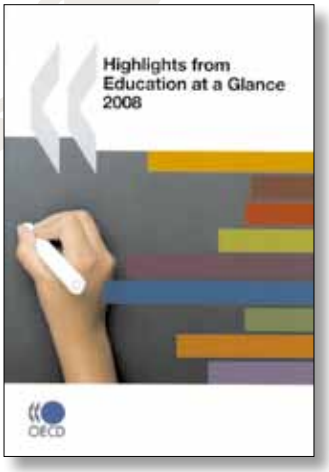
Adult skills

The OECD launched the new international survey of adult skills, known as the Programme for the International Assessment of Adult Competencies (PIAAC), in 2008. Twenty-three OECD members and five non-member economies are participating in the study, which will provide comparable data on the level and distribution of literacy, numeracy and problem-solving skills in a technology-rich environment.

Non-formal and informal learning

Since individuals learn through experience in the workplace, at home, on the Internet, in the community, as well as in classrooms and lecture halls, OECD countries are trying different ways to signal outcomes, no matter where learning occurs. Early in 2009, the OECD published a synthesis report that takes stock of how countries assess and recognise non-formal and informal learning.

Education policy reform and implementation



Chief executive officers of the education ministries of OECD member countries met in Seoul, Korea in September 2008. The meeting generated insights into effective strategies for implementing education policy reform in the areas of schooling, information and communications technologies, tertiary education and lifelong learning.

Supporting education reform in non-member economies

In 2008, the OECD held the second Global Forum on Education in the Dominican Republic, which attracted over 280 participants, and conducted education reviews in South Africa and Chile.

Statistics and indicators

Governments rely on solid information to make decisions about their education systems. The annual publication, *Education at a Glance*, offers a statistical basis for policy debate and decisions. The 2008 report included new material on the policy choices countries make when investing in education, on knowledge and skills available to national economies, and on access to education and completion of tertiary education. ■

Want to know more?

Key activities

- Early childhood education and care: www.oecd.org/edu/earlychildhood/network
- Education indicators: www.oecd.org/edu/eag2008
- Education of migrants: www.oecd.org/edu/migration
- Educational facilities and infrastructure: www.oecd.org/edu/facilities
- Equity in education: www.oecd.org/edu/equity
- Innovation in education: www.oecd.org/edu/ceri
- Higher education: www.oecd.org/edu/higher
- Learning outcomes and skills assessment (PISA): www.pisa.oecd.org
- School leadership: www.oecd.org/edu/schoolleadership
- Teaching and learning effectiveness: www.oecd.org/edu/talis

Key publications

- *Education Today: The OECD Perspective* (forthcoming)
- *Higher Education Management and Policy*
- *Higher Education to 2030, Volume 1, Demography; Volume 2, Technology* (forthcoming)
- *Highlights from Education at a Glance 2008*
- *Improving School Leadership, Volume 1, Policy and Practice*
- *Improving School Leadership, Volume 2, Case Studies on System Leadership*
- *Measuring Improvements in Learning Outcomes: Best Practices to Assess the Value-Added of Schools*
- *Tertiary Education for the Knowledge Society*
- *Top of the Class: High Performers in Science in PISA 2006* (forthcoming)
- *Trends Shaping Education 2008*

Key events

- International Conference on Tertiary Education for the Knowledge Society, Lisbon, April 2008
- International Conference on Improving School Leadership, Copenhagen, April 2008
- Learning in the 21st Century: Research, Innovation and Policy, OECD Headquarters, May 2008
- Inclusion and Integration through Innovation, Wellington, August 2008
- The 2008 IMHE General Conference on Outcomes of Higher Education – Quality, Relevance and Impact, OECD Headquarters, September 2008
- Meeting of Education Chief Executive Officers, Seoul, September 2008
- Higher Education to 2030: What Futures for Quality Access in the Era of Globalisation, OECD Headquarters, December 2008

Environment

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Recent developments

The economic downturn should not weaken efforts to achieve the long-term goal of a low-carbon, climate-resilient economy. The crisis instead presents an opportunity to move towards a stronger, cleaner and fairer world economy. It provides incentives to improve efficiency in the use of energy and materials by getting the prices right, and an opportunity to remove environmentally harmful subsidies, for example, to fossil fuel production and consumption, benefiting both the environment and public budgets. Putting a price on carbon emissions, through carbon taxes or auctioning of emission permits, could generate revenues to help fill gaps in public budgets.



Countries are putting in place stimulus measures that include investments in energy, water, building and transport infrastructures. As these investments will remain in place for decades to come, it is important that they do not lock in polluting modes of production and consumption, but instead promote greener, climate-friendly alternatives. The OECD is assessing the economic costs and environmental benefits of different possible post-2012 frameworks as a support for discussions amongst OECD countries and key emerging economies. The free publication, *Climate Change Mitigation: what do we do?*, presented key findings of the OECD analyses at the UN climate conference in Poznań (COP14) in December 2008. New work will focus on least-cost policy mixes, incentives for major emitters to participate in action, and how to address concerns about carbon leakage and competitiveness impacts of climate policies. This work will be launched ahead of COP15 in Copenhagen in December 2009.

Developing countries are most vulnerable to the impacts of a warming planet and will need support to both reduce emissions and adapt to climate change. Proactive policies should help to "climate-proof" new infrastructure investments by ensuring that they are well designed to cope with the



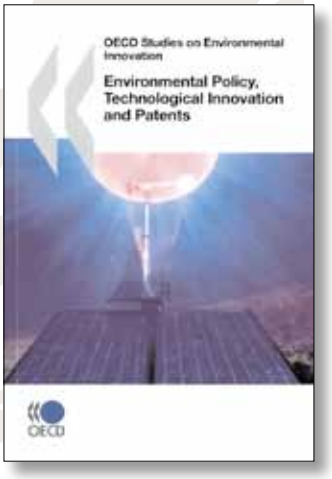
changing climate. *Integrating Climate Change Adaptation into Development Co-operation,* published in May 2009, helps development co-operation agencies assess climate risks and integrate adaptation responses across development activities.

The *OECD Environmental Outlook to 2030* highlights the key environmental challenges where urgent actions are needed: climate change, biodiversity loss, water scarcity and health impacts of pollution. Ambitious environmental goals to address these challenges are achievable and affordable compared to costs of inaction. Indeed, the OECD's recent publication, *Cost of Inaction on Key Environmental Challenges*, shows that economic costs of failing to introduce "sufficiently ambitious" environmental policies considerably slow economic productivity and growth. Some of these costs are already being reflected in public budgets and firms' balance sheets as well as in household budgets (for example, as increased public and private health expenditures).

Eco-innovation

Investment in eco-friendly technologies can represent a new source of growth and "win-win" opportunities for both the environment and economic recovery. New low-carbon technologies are key to reducing the future costs of climate change mitigation. Stimulus packages could support eco-innovation. Examples include offering fiscal incentives for R&D in green technologies.

The OECD is examining policies to promote eco-innovation, and finding ways to measure progress. One study reviews the instruments that countries are using to promote eco-innovation. Another study is examining the effects of taxes on eco-innovation. Indicators to measure eco-innovation based on patenting activity have been developed in the areas of renewable energy, vehicle emissions control and wastewater treatment. New work is identifying how to facilitate trade and the transfer of climate change mitigation technologies. The OECD Global Forum in November 2009 will discuss good practices for promoting eco-innovation, and seek to share OECD country experiences in this area with key emerging economies.



The OECD is also working to gain a better understanding of household environmental behaviour. In late 2009, the OECD will publish policy recommendations for the design of efficient and effective environmental policies targeted at households in the areas of residential energy use, water consumption, transport, organic food consumption, and waste generation and recycling.

Material flows and sustainable materials management

Using materials and resources more efficiently requires a more systematic examination of the environmental impacts associated with their extraction, transportation and use, as well as waste disposal. Countries need a knowledge base on material flows and more integrated approaches towards natural resource, waste and materials management. These issues were examined in two conferences on resource efficiency and sustainable materials management in April 2008, and the OECD Council Recommendation on Resource Productivity was an input to the G8 initiative on the "3 Rs" (Reduce, Reuse and Recycle).

Safety testing of manufactured nanomaterials

OECD countries are addressing the possible safety implications of nanomaterials. The OECD has a wealth of experience with developing methods for the safety testing and assessment of chemical products. OECD and non-OECD governments are working with industry, pooling expertise and funding to test the human health and environmental safety effects of 14 representative nanomaterials.

Water pricing and financing

Sustaining economic development and maintaining ecosystems requires more effective management of water resources. This has become more urgent as we witness increasing pressure on water resources, competition for their use among different economic activities and, in some regions, even conflict. Poor governance of water and sanitation services and inadequate investment are denying billions of people access to basic water services.



DID YOU KNOW…
that in many OECD countries, water spending as a share of GDP will need to increase by 20% to 40% from now to 2030 just to maintain current service levels?

The OECD is addressing the economic and financial aspects of these water challenges. The OECD's findings are presented in *Managing Water for All: An OECD Perspective on Pricing and Financing Water* which was prepared as an input to the 5th World Water Forum, held in Istanbul in March 2009.

Water management policies, such as market-based allocation mechanisms, are increasingly used in the agriculture sector, the biggest consumer of water. Filling financing gaps for water supply and sanitation is becoming an important issue for many OECD countries that must replace ageing water infrastructure and ensure compliance with stricter environmental and public health requirements. As governments plan major spending programmes to stimulate the economy, investment in water and sanitation infrastructure, with the economic, social and environmental benefits it brings, is an attractive option. Meeting the Millennium Development Goal of halving the number of people without access to safe water and adequate sanitation will also require increased financing of those needs in developing countries. Finding the right mix of financing sources for the sector: taxes, tariffs and transfers, or "the 3Ts", requires strategic financial planning. While tariffs play a vital role in achieving sustainable cost recovery, effective tariff design can also contribute to affordability for the poor. The OECD tracks aid flows to the water and sanitation sector, and it published guidance for governments, *Private Sector Participation in Water Infrastructure: OECD Checklist for Public Action*.



Globalisation, transport and environment

Transport underpins economic and social development, allowing more efficient allocation of resources and increased mobility for people. Yet, there are challenges related to the environmental impacts of transport, and globalisation can aggravate these challenges. The Global Forum on Sustainable Development, held in Guadalajara, Mexico in November 2008, discussed major transport trends, the environmental challenges caused by these trends, and policy instruments that can be used to limit negative impacts. ■

DID YOU KNOW…
that ships are responsible for 2% to 4% of global man-made carbon dioxides emissions and up to 15% of other air pollutants?

Want to know more?

Key activities

- Biodiversity: www.oecd.org/env/biodiversity
- Biosafety-Biotrack: www.oecd.org/biotrack
- Chemical safety: www.oecd.org/ehs
- Climate change: www.oecd.org/env/cc
- Environmental country reviews: www.oecd.org/env/countryreviews
- Environmental data and indicators: www.oecd.org/env/indicators
- Innovation and the environment: www.oecd.org/env/cpe/firms
- Nanomaterials (safety of): www.oecd.org/env/nanosafety
- Waste: www.oecd.org/env/waste
- Water: www.oecd.org/water

Key publications

- *Climate Change Mitigation: What Do We Do?*
- *Cost of Inaction on Key Environmental Challenges*
- *Economic Aspects of Adaptation to Climate Change: Costs, Benefits and Policy Instruments*
- *Economics of Climate Change Mitigation: Current Policies and Post-2012 Options* (forthcoming)
- *Environmental Performance Reviews* (series)
- *Environmental Policy, Technological Innovation and Patents*
- *Household Behaviour and Environment* (forthcoming)
- *Integrating Climate Change Adaptation into Development Co-operation*
- *Managing Water for All: An OECD Perspective on Pricing and Financing Water*
- *OECD Environmental Outlook to 2030*

Key events

- Global Forum on Sustainable Development: Transport and Environment in a Globalising World, Guadalajara, Mexico, November 2008
- 5th World Water Forum, Istanbul, March 2009
- Conference on Households' Response to Environmental Policy, OECD Headquarters, June 2009
- Conference on the Economics of Climate Change, OECD Headquarters, September 2009
- Global Forum on Sustainable Development: Policies to Support Eco-Innovation, OECD Headquarters, November 2009

Health

www.oecd.org/health
health.contact@oecd.org

Health is a major contributor to the productive capacity of OECD economies, so improving health system performance is a key concern for OECD countries. It is a major industry, too, accounting for 9% of GDP on average in the OECD and considerably more in some countries. People are living longer and healthier lives which raises expectations for more and better services. The ageing of populations and the cost of new technology also pose challenges for health systems.

DID YOU KNOW…
that the share of GDP allocated to health tends to rise strongly during economic downturns?

Financing health systems

A main concern for policy makers is how to finance growing health spending. According to *OECD Health Data 2008*, a combination of slower growth in spending on health care and expanding economies had led to a stabilisation of health spending as a proportion of GDP in many OECD countries in the middle years of this decade. However, in the longer run, the costs of health care are growing faster than economies as a whole. The financial and economic crisis will therefore be a particular challenge for the sustainability of health systems. With three-quarters of total health spending coming from public funds, pressure to reduce the costs of health care is likely to mount.

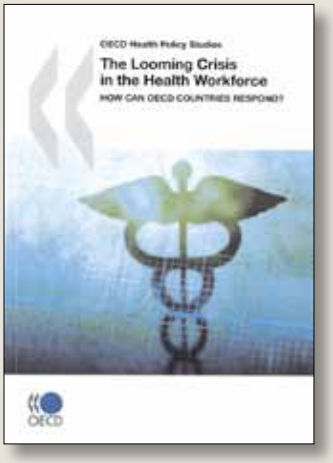


A globalising health workforce



DID YOU KNOW…
that, on average across the OECD, there were fewer medical graduates in 2005 than in 1985?

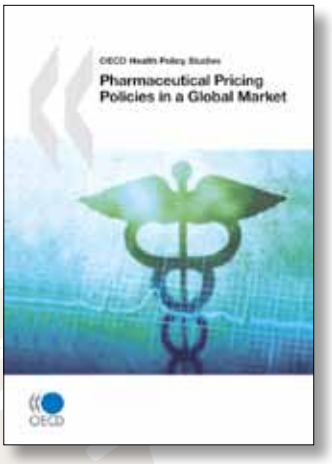
Rising incomes, new medical technology, and increased specialisation of health services are pushing up demand for health care workers in OECD countries. However, the growth in the number of doctors and nurses relative to the population has not kept pace with demand. By 2000, several OECD countries were reporting shortages of doctors and nurses. Reduced working hours, an ageing workforce and a growth in part-time working, all indicate a likely decline in the number of health professionals. Improvements in productivity could help, so there is a need for a continuing policy emphasis on improving training capacity. But training alone will not plug the gap.



In recent years, OECD countries have increasingly resorted to international recruitment of doctors and nurses which is an attractive option both to the individuals concerned and the countries that recruit them. It quickly increases the number of health workers without the long delays involved in training new clinical staff. Migrants often accept hard-to-fill posts in their destination country, evening out imbalances between regions and medical specialties. If there are countries with a surplus and others with shortages, migration can be an efficient way to allocate global resources.

Yet anxieties about the sustainability of this solution – on both ethical and economic grounds – are often justified. There is a serious "brain drain" in some developing countries. A new OECD report (which builds on joint work with the World Health Organization) on the link between international migration and health workforce policies, *The Looming Crisis in the Health Workforce*, calls for greater international co-operation and a more effective policy mix to meet global shortages of nurses and doctors.

Pricing pharmaceuticals



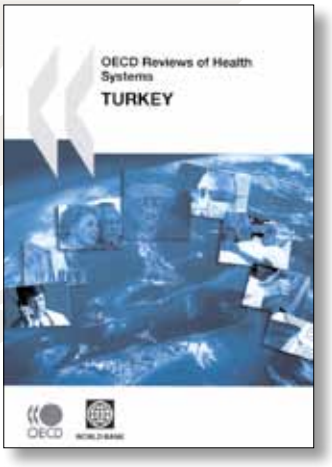
At an average 5% annual increase, pharmaceutical spending is growing faster than other types of health care spending. Such spending has already reached an average of 1.5% of national income, but is as much as 2% of national income in Hungary and the Slovak Republic. A new report, *Pharmaceutical Pricing Policies in a Global Market*, shows how domestic pricing and reimbursement policies can affect the availability of medicines outside national borders, as well as innovation in medicine. The report analyses national differences in the consumption and cost of medicines, and identifies various distortions in the pharmaceutical market which may indicate that prices are not necessarily accurate signals of the value of new drugs.

At present, the most widespread pricing policies appear to be encouraging a lack of transparency in price setting and a convergence of list prices. Prices of innovative products are too often defined by reference to what other countries are prepared to pay, as opposed to the value offered. This causes an inflation of prices, distorts the signals that the market sends about the value of new medicines and may discourage highly desirable investment in R&D.

DID YOU KNOW…
that annual pharmaceutical spending per capita in OECD countries averages USD 404?

Health care reform in Turkey

Several OECD countries are actively engaged in reforms to improve the performance of their health systems. In Turkey, health status has improved rapidly in recent decades, partly as a result of higher health spending. There have also been improvements to the health system, including the introduction of universal health insurance in 2008. Challenges remain, however, including ensuring that the new health system provides value for money and stays affordable. A new report, *OECD Reviews of Health Systems – Turkey*, analyses these challenges and sets out policy suggestions aimed at addressing them.



Measuring performance

The OECD is investing heavily in internationally comparable data and performance indicators as these are essential for monitoring the performance of health systems in OECD countries. *OECD Health Data 2008* provides a solid evidence base to measure and evaluate the performance of health systems. The online edition of *OECD Health Data 2008* includes, for the first time, tables derived from the joint OECD, Eurostat and World Health Organization data collection of health accounts, a standard framework for producing comprehensive, consistent and internationally comparable health expenditure and financing accounts. This allows detailed analyses of health expenditure by types of services and goods, by health care providers and by financing sources.

Policy makers are placing more and more emphasis on improving value for money in health and long-term care systems, for example by orientating public policy to prevent unnecessary illness and thus reduce costs. Shortcomings in health care quality also continue to impose unacceptable costs for societies. The development and testing of health care quality indicators by the OECD is the largest international effort to track health care quality indicators. ■

DID YOU KNOW…
that all OECD countries have achieved universal health insurance coverage for a core set of services with the exception of Mexico, Turkey and the US?

Want to know more?

Key activities

- Health and chemical safety: www.oecd.org/env/health
- Health and the environment: www.oecd.org/env/social/envhealth
- Improving the performance of health systems: www.oecd.org/els/health/policy
- Key health analytical projects: www.oecd.org/health/analyticalprojects
- Measuring health and health spending: www.oecd.org/els/health/data
- OECD health care quality indicators: www.oecd.org/health/hcqi
- Providing good health: www.oecd.org/health
- System of health accounts: www.oecd.org/health/sha
- The economics of health: www.oecd.org/eco/structural/health

Key publications

- *OECD Health Data 2008: Statistics and Indicators for 30 Countries*
- *OECD Reviews of Health Systems*
- *Pharmaceutical Pricing Policies in a Global Market*
- *The Looming Crisis of the Health Workforce: How Can OECD Countries Respond?*

Key events

- Joint European Commission/OECD Conference on Improving Health-System Efficiency: Achieving Better Value for Money, Brussels, September 2008
- WHO-OECD Hosted Dialogue on Migration and Other Health Workforce Issues in a Global Economy, Geneva, October 2008
- OECD High-level Symposium on Pharmaceutical Pricing Policy, OECD Headquarters, October 2008

International trade and taxation

Trade, agriculture and fisheries

www.oecd.org/trade
www.oecd.org/agriculture
tad.contact@oecd.org

International trade as the economic crisis broke

The outlook for international trade was strongly affected by the financial and economic crisis that reverberated around the world as the year progressed. Trade performance weakened considerably in the last half of 2008 and prospects were for a serious contraction of trade volumes in 2009. The rapid rise in prices for food and raw materials – partly linked to the subsidised production of biofuels – was followed by price falls that affected demand and increased market uncertainty.

Despite darkening economic prospects, progress on multilateral trade liberalisation in 2008 slipped through governments' fingers. As multilateral trade liberalisation efforts languished, countries focused on other efforts. Bilateral and regional trade agreements continued to attract strong interest and there have been unilateral initiatives by some governments to liberalise trade so as to strengthen competition and national participation in global value chains. The OECD has also made substantial progress in creating a Services Trade Restrictiveness Index that will improve understanding of the regulatory and institutional frameworks needed for trade in various services sectors.



DID YOU KNOW…
that over 50% of the increase in the use of wheat/coarse grains and oilseeds between 2005 and 2007 was for the production of ethanol and biodiesel, respectively?

While virtually all countries have been seriously affected by the financial and economic crisis, some major economies, such as China and India, have continued to grow, albeit at a reduced rate. Their importance for the world economy is thus greater than ever. Recognising the contrasting situation in many other developing countries, the WTO and OECD have jointly pursued work on Aid for Trade to monitor the effectiveness of aid to developing countries.

Rising protectionism?

There are growing concerns that the economic crisis will prompt protectionist actions. As part of a concerted drive to combat recession, OECD countries have undertaken to abstain from trade protectionism. The OECD is analysing trade-related issues and strongly advocating the benefits of open markets. OECD analysis shows that the costs of protectionism to consumers, to competitive firms, and to society are high. There is simply no better way to spur economic growth than through multilateral trade liberalisation and a rules-based global trading system.

Export credits

The vast majority of world trade is financed and, for large infrastructure and capital goods projects, such financing may be the subject of government support through export credit agencies. The OECD provides a unique forum where governments meet to establish rules on the financial terms and conditions for official export credits as well as to coordinate export credit policies in the context of broader objectives, such as environmental protection, the fight against corruption in international business transactions, and debt sustainability.

The rules of the Arrangement on Officially Supported Export Credits are negotiated, monitored and reviewed in the OECD and are recognised in the WTO Agreement on Subsidies and Countervailing Measures. Recent developments related to the rules of the Arrangement include a two-year renewal of the agreement on untied Official Development Assistance credits, which provides for the public dissemination of individual procurement bids and related contract commitments. In 2009, there will be a comprehensive review of the Arrangement rules on country – and commercial – risk premium rates, and reviews of the rules for the export financing of nuclear power plants, renewable energies and water projects. Discussion will also continue on the global financial crisis and the need for any concomitant adjustment to the rules (*see box page 62*).

Recent developments in agriculture

The 2008 spikes in agricultural commodity prices surprised most economic forecasters, reminding us of the inherent vulnerability of projections to unanticipated developments. In response to good 2008 harvests, falling oil prices and the economic slowdown, prices have since fallen sharply from their peaks. Despite record high prices and incomes in many OECD countries, support to producers of agricultural commodities was estimated as USD 265 billion in 2008, representing 21% of the sector's receipts. The level of support was down compared to previous years, mainly as a result

DID YOU KNOW…
that support to agriculture, as per cent of gross farm receipts, in emerging economies ranged between 3% for South Africa to 11% for Russia in 2007, significantly below the 23% OECD average?

of rising world prices and not because governments took additional steps to reform their farm policies. It is clear that with falling prices, the level of support will increase over the coming period as counter-cyclical-type support systems automatically kick in again. Unless market orientation of the sector in most OECD countries is strengthened, agriculture will remain partially insulated from world market developments, which means that the burden of adjustment will fall mainly on countries with low protection, in particular those outside the OECD area.

In response to price spikes, many countries introduced temporary measures to ease the impact or secure supplies such as reduced import tariffs, export restrictions, price controls or consumer/producer subsidies. Some of these measures affected normal trade flows and exacerbated the situation. Some countries introduced retail price controls for food, modified biofuel policies and some provided additional direct transfers to those most vulnerable.

DID YOU KNOW…
that an average farm in Korea covers 1.4 hectares, in France about 50, in the US close to 200, while in Australia farms are measured in terms of thousands of hectares?

The financial crisis and export credits

In November 2008, OECD member countries, joined by Brazil, Estonia, India, Israel, Romania, the Russian Federation and Slovenia, publicly confirmed their commitment to continue to be reliable partners to exporters and financing banks. These governments expressed their determination to maintain their export credit support and ensure that sufficient capacity would be available to bolster international trade flows, in line with sound underwriting principles, within the limits of their respective international obligations.

This pledge was part of the undertaking, expressed by leaders of the G20 countries in Washington on 15 November, to help emerging and developing economies gain access to finance in the current difficult conditions, including through liquidity facilities and programme support.

The countries also noted that, during previous financial crises, governments developed experience in using their schemes for official export credits and were now applying this experience in an effort to limit the impact of the current crisis on the financing of global trade transactions.

In January 2009, OECD countries agreed two modest adjustments to the export credit rules: to extend the repayment term to 10 years from 8.5 years for a large number of countries (principally emerging markets), and to allow a 50% (instead of 35%) share of participation in state-guaranteed credits in intra-OECD large project-finance transactions. The latter is a temporary measure that will last one year and is expected to help avoid postponing or cancelling large infrastructure projects if there is no private funding, thus contributing to the recovery/stimulus plans announced in many OECD countries.

DID YOU KNOW…
that Brazil's participation in the groundbreaking Sector Understanding on Export Credits for Civil Aircraft marks the first time any non-OECD country negotiated and applied the rules for export credits?

Food security

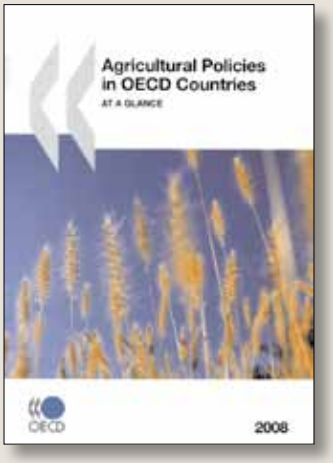


DID YOU KNOW…
that food expenditure accounts for over 50% of family income in low income countries, making lower food prices crucial for poverty reduction and the alleviation of hunger?

Food security concerns captured world attention in 2008 because of exceptionally high and volatile prices. The financial and economic crises have added to those concerns despite the fall in commodity prices from their 2008 peaks. The FAO estimates that another 75 million people fell below the hunger threshold in 2008, bringing the total number of persons going hungry in the world to almost 1 billion.

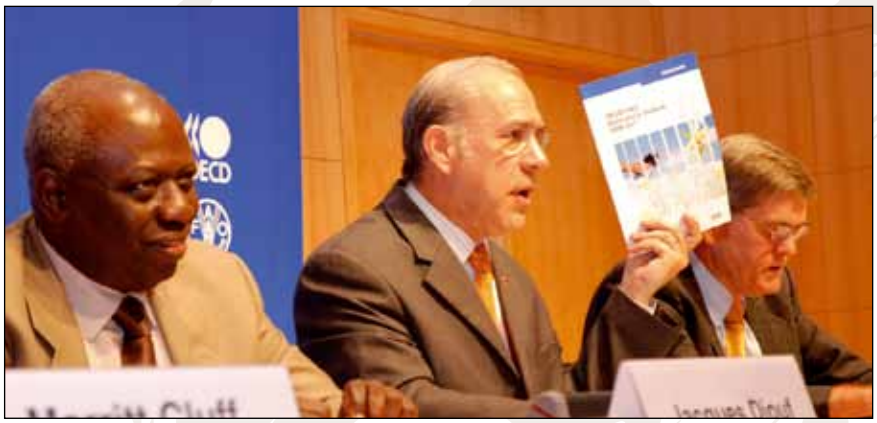
In the short-term, humanitarian aid is required, but in forms, such as cash and food vouchers, that do not undermine domestic markets in recipient countries. In the medium-term, growth and development in poor countries must be fostered to improve consumers' purchasing power. In addition, investments in agricultural productivity, particularly in less developed countries, are required to narrow the gap between actual and potential productivity. This is essential in order to strengthen the supply side of global agriculture. There has been little progress in tackling the causes of low agricultural output, and concerns about climate change add to the complexity of the problems.

The OECD is engaging in a series of follow-up actions to contribute to sound international policies and a comprehensive development strategy. The Organisation is monitoring market developments and prospects, and is preparing an overview of policy experience and advice related to food security, including on how donors can best respond.



The *OECD-FAO Agricultural Outlook 2008-2017* projects commodity prices over the next ten years to be higher, on average, than in the past decade. Thin markets (low imports and exports relative to production and consumption), market imperfections and agricultural policies that insulate domestic markets from global events imply that world market prices fluctuate more to accommodate an external shock. Such volatility is a characteristic of distorted agricultural markets, so there can be considerable variation to any long-term projection. As the sector continues to be buffeted by strong price variability and the recession continues, OECD is developing approaches to risk management in agriculture that aim to distinguish those types of risk that can be handled at farm level by individual farmers, from risk that can be covered by market instruments, and from risks that may require government intervention (*see box page 63*).





(Left to right)
FAO Director General, Jacques Diouf, with OECD Secretary-General, Angel Gurría, at the *OECD-FAO Agricultural Outlook* press conference in May 2008.

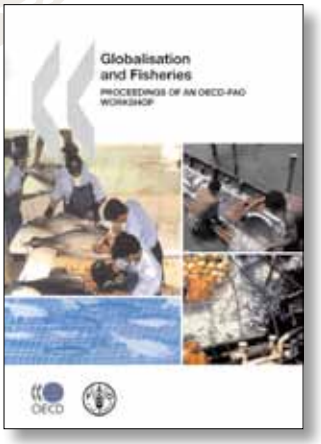
Further reforms could better align policy goals with the choice of policy instrument. For example, while OECD countries continue to give high priority to environmental issues, only 5% of support to producers, on average, is paid to improve agri-environmental performance, although in several countries, some types of support are conditional on meeting environmental requirements and environmental regulations are pervasive everywhere.

DID YOU KNOW…
that greenhouse gas emissions from agriculture decreased by 3% from 1990-1992 to 2002-2004?

Fisheries

Around 25% of global fish stocks are overexploited or depleted. Any effective response must include action to implement sustainable and responsible fisheries-management policies, curb illegal fishing practices, implement domestic and high-seas governance reform, and ensure an appropriate level of surveillance and control.

A globalised fishing industry can generate significant benefits from expanding markets, increasing seafood demand, integrating along the value chain, farming new species, and improving technology for processing and distributing seafood. It is essential that governments provide an enabling environment to take advantage of these benefits, while ensuring that the risks to resource sustainability and social well-being are adequately addressed. ■



Want to know more?

Key activities

- Agricultural policies: www.oecd.org/agriculture/policies
- Agricultural trade: www.oecd.org/agriculture/trade
- Export credits: www.oecd.org/trade/xcred
- Fisheries: www.oecd.org/fisheries
- Trade and development: www.oecd.org/trade/dev
- Trade and environment: www.oecd.org/trade/env
- Trade facilitation: www.oecd.org/trade/facilitation
- Services trade: www.oecd.org/trade/services
- Sustainable agriculture: www.oecd.org/agriculture/env

Key publications

- *Agricultural Policies in Emerging Economies: Monitoring and Evaluation 2009*
- *Agricultural Policies in OECD Countries: At a Glance 2008*
- *Biofuel Support Policies: An Economic Assessment*
- *Environmental Performance of Agriculture in OECD Countries Since 1990*
- *Evaluation of Agricultural Policy Reforms in Korea, 2008*
- *Evaluation of Agricultural Policy Reforms in Japan, 2009*
- *Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa*
- *Globalisation and Fisheries: Proceedings of an OECD-FAO Workshop*
- *OECD-FAO Agricultural Outlook 2008-2017*
- *Overcoming Border Bottlenecks: The Costs and Benefits of Trade Facilitation*
- *Reducing Fishing Capacity: Best Practices for Decommissioning Schemes*

Key events

- Celebration Seminar on Harnessing the Political Economy in Support of an Open Multilateral Trading System, OECD Headquarters, May 2008
- Jubilee Symposium on Global Challenges for Agriculture and the Food Industry, OECD Headquarters, May 2008
- Global Forum on Trade: Emerging Markets in the Global Economy – Opportunities and Challenges, OECD Headquarters, June 2008
- OECD Regional Forum on Trade Facilitation: Challenges and Opportunities for Eastern and Southern Africa, Cape Town, June 2008
- Global Forum on Agriculture: Agriculture Policies in Emerging Economies, OECD Headquarters, November 2008
- Policy Dialogue on Aid for Trade, OECD Headquarters, November 2008
- Symposium on "What Future for Agriculture?", OECD Headquarters, March 2009
- Challenges for Agricultural Research, Prague, April 2009
- Round Table on Eco-Labelling and Certification in the Fisheries Sector, The Hague, April 2009

Taxation

www.oecd.org/tax
ctp.contact@oecd.org

Recent developments

The latest figures show that tax structures are generally stable. However, personal income taxes are no longer the largest source of revenues for OECD countries; social security contributions and general consumption taxes, in the form of value added taxes (VAT or GST) are growing throughout the OECD, except in the United States. In 2007, tax burdens rose in 12 of 26 countries and fell in 12 others, suggesting that the average ratio for OECD countries is likely to remain at recent high levels.

The financial crisis: the Tax response

Countries are responding to the current economic crisis in different ways. Many are cutting taxes in an attempt to stimulate demand and speed recovery. Some countries cannot afford this option due to high public debt or low tax revenue, while others may stimulate the economy through increased expenditure. Most will follow a mix of tax cuts and expenditure increase. If tax cuts are chosen, it is important to maximise their benefits and avoid harm to longer-term growth. A pro-growth tax policy requires tax changes that stimulate both short-term demand and long-term supply, while protecting the living standards of the most vulnerable sections of the community.



At the same time, in the face of reduced revenues and ballooning deficits, governments are strengthening their efforts to tackle all forms of tax abuse. The OECD's work on aggressive tax planning helps member countries to identify and understand new schemes and share successful legislative and administrative responses to them.

They are also working to increase voluntary compliance. Tax administration studies into banks, High Net Worth Individuals and corporate governance are aimed at improving compliance and effective risk management.



DID YOU KNOW…
that the average tax burden in OECD countries, as a proportion of GDP, is close to its historic peak of 36.1%, reached in 2000?

Tackling tax evasion



50th Anniversary of the OECD Model Tax Convention Conference held at the OECD Conference Centre in September 2008.

The global economic crisis and recent cross-border tax evasion scandals have heightened the political drive to ensure rapid implementation of the OECD's transparency and information exchange standards in the tax area. Progress in these areas is part of a broader agenda to improve transparency and global governance, and to restore confidence in financial markets.

DID YOU KNOW…
that over 20 new Tax Information Exchange Agreements were signed during 2008?

Recent moves by major financial centres, such as Hong Kong, Luxembourg, Singapore and Switzerland, endorsing the OECD standard of information exchange will remove strict banking secrecy as a barrier to effective exchange of information for tax purposes. This marks a significant step forward in international tax co-operation and a welcome result of more than 12 years of OECD work.

At a time when governments around the world need to maximise tax revenues in order to address the global economic crisis, it is important to assure honest taxpayers that tax burdens are being fairly shared.

Tax considerations often play a crucial role in an investor's decision to use offshore financial centres. An absence of transparency can prevent tax authorities from correctly applying the tax laws in the investor's home country.

Good access to information, including banking information, is a prerequisite for the effective and fair application of each country's tax laws. The OECD standard requires exchange of information between tax authorities on request in cases of specific tax inquiries and is designed to protect the confidentiality of the information exchanged.



The report, *Tax Co-operation – Towards a Level Playing Field: 2008 Assessment by the Global Forum on Taxation* shows developments in the implementation of the OECD standard in 84 jurisdictions. With the recent endorsements of the standard by Austria, Belgium, Brunei, Chile, Costa Rica, Guatemala, Hong Kong (China), Luxembourg, Macau (China), Malaysia, the Philippines, Singapore, Switzerland and Uruguay, all 84 jurisdictions have now endorsed the OECD standard and the pace of implementation is increasing.

DID YOU KNOW…
that all 84 countries surveyed by the Global Forum on Taxation have now committed to implement the OECD standard of information exchange for tax purposes?

Tax as a tool to stimulate economic growth

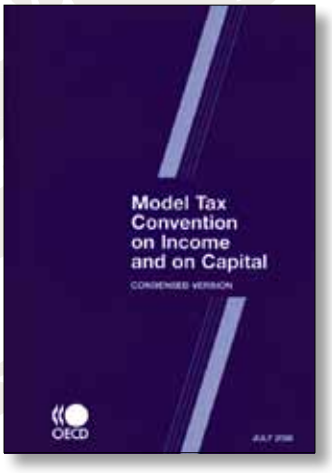
As economies emerge from recession, it may be necessary to raise additional revenues. Pre-crisis levels may not be sufficient unless permanent cuts in expenditure are planned. Governments may thus take the opportunity to change the structure of the tax system to promote long-term economic growth, emphasising investment and productivity growth. The recent project on tax and economic growth suggests that this could require a shift towards taxes that have been shown to be least harmful to growth, such as general consumption and recurrent taxes on immovable property. A tax policy study on the taxation of small and medium sized enterprises (SMEs) examines the ways in which taxes can affect SME creation and growth.

Removing tax barriers to cross-border investment

Double taxation of returns could be a serious barrier to cross-border investment. Clear rules, agreed by both parties, are necessary for taxing income and capital.

The OECD Model Tax Convention has long been used by both member and non-member countries as the basis for negotiating, interpreting and applying bilateral treaties to avoid double taxation. From a few dozen such treaties 50 years ago, the Model today serves as the basis for more than 3 000 treaties in force around the globe.

A major conference marking the 50th Anniversary of the OECD Model was held at the new OECD Conference Centre in September 2008. The conference attracted over 650 participants, including 300 tax treaty officials from the tax administrations of 100 economies, as well as 350 representatives from academia, the business community and international organisations. It showcased the OECD as a truly global forum and provided an opportunity for lively debates on practical problems faced by tax administrations and taxpayers. The 2008 update to the Model was released at the conference.



The arm's-length principle described in the OECD's 1995 *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* has been accepted worldwide as the standard for multinational enterprises to price the cross-border transfer of goods, intangibles and services among related enterprises. The 2008 *Report on the Attribution of Profits to Permanent Establishments* outlined how this principle should apply to allocate an enterprise's profits between its permanent establishment in one country and its operations in another country (*e.g.* the home office).

For more than a decade, multinational enterprises have been engaging in internal restructurings typically aimed at rationalising their supply chains and maximising synergies. These restructurings raise difficult transfer pricing issues and can give rise to serious conflicts between countries and taxpayers. The OECD has developed guidance on how to apply the arm's length principle to such situations.

Effective tax systems for developing countries

Taxation has implications beyond raising revenue. Taxation shapes the environment in which economic activity and investment takes place and provides the basis for the relationship between the individual and the State. Bargaining between governments and citizens over tax can contribute to more effective and accountable States, and better governance.

The founding of the African Tax Administration Forum marks a further step towards recognising taxation as an integral element of the OECD's global development agenda and a way for developing countries to mobilise their domestic resources and thereby meet their Monterrey consensus goals. ■

DID YOU KNOW...
that domestic taxes account for 90% of domestic resources in developing countries?

Want to know more?

Key activities

- Consumption tax: www.oecd.org/ctp/ct
- Dispute resolution: www.oecd.org/ctp/dr
- Exchange of information: www.oecd.org/ctp/eoi
- Harmful tax practices: www.oecd.org/ctp/htp
- OECD tax database: www.oecd.org/ctp/taxdatabase
- Partnerships with non-OECD economies: www.oecd.org/ctp/handbook
- Tax administration: www.oecd.org/ctp/ta
- Tax policy analysis: www.oecd.org/ctp/tpa
- Tax treaties: www.oecd.org/ctp/tt
- Tax treatment of bribes: www.oecd.org/ctp/ttb
- Transfer pricing: www.oecd.org/ctp/tp

Key publications

- *Consumption Tax Trends 2008: VAT/GST and Excise Rates, Trends and Administration Issues*
- *Model Tax Convention on Income and on Capital 2008*
- *Revenue Statistics 2008*
- *Tax Co-operation 2008: Towards a Level Playing Field*
- *Taxing Wages 2007: Special Feature: Tax reforms and tax burdens*
- *The Convention on Mutual Administrative Assistance in Tax Matters: Twentieth Anniversary Edition*

Key events

- FTA Commissioners Meeting: South Africa on the Role of Taxation in Improving Accountability and State Building in Africa, Pretoria, August 2008
- 50th Anniversary of the OECD Model Tax Convention, OECD Headquarters, September 2008
- 5th Forum on Tax Administration, Mérida, Mexico, May 2009
- Value Added Taxes: Looking Back, Looking Forward, Lucerne, Switzerland, September 2009
- 3rd ITD Global Conference on Financial Institutions and Instruments – Tax Challenges and Solutions, Beijing, October 2009

Governance

Public governance

www.oecd.org/governance
gov.contact@oecd.org

Recent developments

The global financial crisis has thrown a spotlight on the importance of good governance principles and a number of key governance challenges: securing the public's trust, limiting the influence of vested interests, maximising the social returns of public investment, building new regulatory frameworks, ensuring that future generations are not left with huge public debt, and exploiting the potential of regions and municipalities as drivers of economic growth. The OECD, based on its longstanding comparative analysis, will continue to work with policy makers in their efforts to rebuild the institutions and processes that underpin the market.



Regulation, risk and public sector modernisation

Risk and regulation became headline news when the financial crisis erupted. The OECD has been looking at how to include risk management in quality regulation in sectors such as health, the environment and network utilities. This analysis shows that better policy coherence and cross-border co-operation are needed to address risk adequately.

A growing number of countries around the world share a commitment to improving policy using regulatory tools. This is evidenced by the recent review of regulatory reform in China. However, reducing the gap between principles and practice remains a challenge. Countries are focusing on



(Left to right)
Greek Minister of the Interior, Procopios Pavlopoulos, with OECD Secretary-General, Angel Gurría, during the Signature of the Memorandum of Understanding between Greece and the OECD on the project "Strengthen Public Administration Reform in Greece", Paris, May 2008.

further reducing administrative burdens and regulatory complexity, and improving impact analysis; these are key aspects of the current OECD review of 15 countries from the European Union. An OECD review of Portugal shows that combining strategies to cut red tape and promote e-government in a single programme can accelerate reform across policy areas.

Integrity and corruption resistance

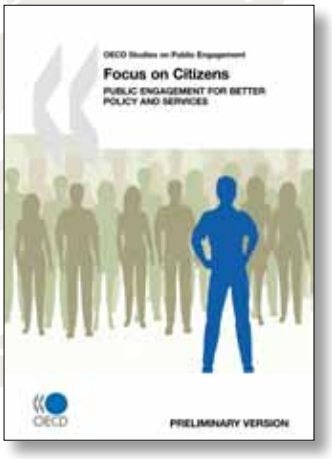
To help countries promote a culture of integrity, transparency and accountability in government, the OECD has developed the Integrity Framework. This Framework sets out instruments, processes, structures and conditions for implementation in public organisations, as well as benchmarks and data on vulnerable areas, such as public procurement, post-public employment and lobbying (*see box page 72*). In October 2008, countries adopted the Principles for Enhancing Integrity in Public Procurement as an OECD "soft law" instrument. A toolkit is also being developed to help countries implement the Principles, and to help detect fraud and corruption in public procurement.

DID YOU KNOW…
that, around the world, approximately USD 400 billion of taxpayers' money is lost annually to fraud and corruption in public procurement?

The OECD carries out peer review exercises known as Joint Learning Studies (JLS) which support reforms to enhance integrity and prevent corruption in countries in the Middle East and North Africa (MENA) region. In 2008, a first JLS was carried out with Morocco. These Studies are part of broader efforts to share OECD experience with the region and to promote dialogue on public management reform among the MENA countries themselves.

Citizen engagement and e-government

The financial crisis has also raised questions about the role of the State. Governments increasingly recognise that good public policy cannot be achieved without engaging a wide range of views. A 2009 OECD report on public engagement for better policy and services includes ten guiding principles for implementing effective policies for openness and inclusion.



E-government is an important tool for innovation in public service delivery, and countries have been investing in these services since the mid-1990s. However, e-government projects do not always deliver all the benefits they promise, and users do not automatically make use of them. To help countries maximise the return on their e-government investments, the OECD has analysed the gap between the supply and use of e-government services, as well as the steps that have been taken to close it.

Budgeting and public expenditures

Governments are extremely concerned about how the fiscal responses to the ongoing financial and economic crises will and should impact their budgetary and public expenditure processes. Higher spending and tax cuts will only make big budget deficits even bigger, but without necessarily addressing long-term fiscal challenges. Without institutional budget reforms, the fiscal futures for many countries look grim, even once the current crisis has passed.

Lobbying



Environmentalists and consumer lobby group members hold a rally in Seoul.

Lobbying is a worldwide practice by which special interests seek to influence policy. Lobbying can provide policy makers with valuable data and insight, and stakeholders with a much-needed voice. However, it also raises concerns that negotiations carried out behind closed doors could override the interests of the greater community. This pushes lobbying on to the political agenda of many countries.

OECD survey findings show that only six national governments have established rules on lobbying, for example by requiring reporting on lobbying contacts. Many national and sub-national authorities are considering developing or updating regulations on lobbying in an effort to boost transparency and confidence in public decision-making. However, given lobbying's political sensitivity, setting standards and rules for enhancing transparency has proved very difficult. Policy makers and legislators must determine whether and how to develop enforceable policies or regulatory frameworks that are balanced, fair to all parties, and adequately address concerns within their own socio-political and administrative context.

The OECD's review of existing legislation and regulations supports the policy debate on how to enhance transparency and accountability in lobbying at national and sub-national levels. The comparative overview of identified good practices and lessons learned provides guidance on developing lobby regulations. The OECD report "Lobbyists, Governments and Public Trust: Building a Legislative Framework for Enhancing Transparency and Accountability in Lobbying" (www.oecd.org/gov/ethics/lobbying) maps out current approaches, models, trends and state-of-the-art solutions. It also presents building blocks, based on acknowledged good practice, for developing a framework for enhancing transparency and accountability in lobbying.

The report highlights the evolution of legislation on lobbying and provides insights on its implementation and impact. Experience shows that this legislation and regulation have developed incrementally, as part of the political learning process. A country's socio-political and administrative context will help determine the shape of any legal framework for lobbying.

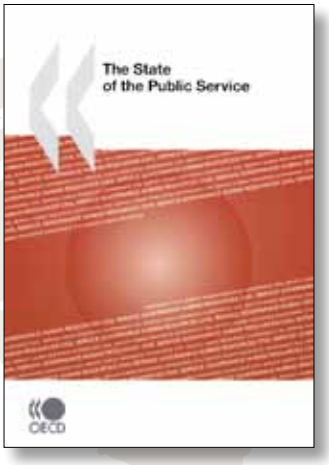
OECD ANNUAL REPORT 2009 – © OECD 2009

OECD is encouraging countries to implement institutional budget reforms that incorporate assessments of the long-term consequences of political actions into budget processes, change the fiscal rules under which countries operate in order to promote fiscal sustainability, and link new stimulus programmes to long-term programmatic reforms using performance information.

Assessing government performance and efficiency

There is great pressure on governments to lower the cost of services and produce more for their citizen's taxes. The OECD carries out comprehensive public service reviews that help governments assess, plan and measure the performance of their public services and the impact of their public sector reforms. Following the review of Ireland in 2008, work has begun on Finland, Greece and Mexico.

The OECD is also developing key indicators of good government and efficient public services to allow benchmarking and, ultimately, linking practices to performance. These will be published in the first issue of *Government at a Glance* in late 2009.



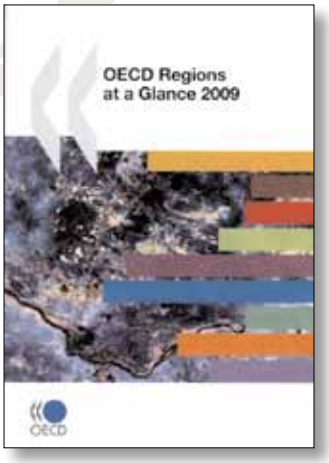
Rural, urban and regional development

Well over one-third of the total economic output of OECD countries was generated by just 10% of OECD regions in 2005, underscoring the untapped potential of the remaining 90%. The performance of regional economies and the effectiveness of regional policy help determine a nation's growth and well-being. Moving away from sectoral subsidies and income support, OECD countries are seeking to promote sustainable growth and development in both urban and rural regions through private investment and local initiatives. Policies to support regional development also need to be co-ordinated across levels of government. Ministers met in March 2009 to discuss how sound regional policies can drive economic growth and help countries face challenges such as globalisation, climate change and increasing the effectiveness of public spending in the current economic climate.

DID YOU KNOW…
that regional disparities in educational attainments within OECD countries are larger than among OECD countries?

Cities are essential engines of growth, but making urban development sustainable is a serious policy challenge. The OECD carries out reviews of major metropolitan regions, looking at their economic performance and how governance of large cities can be improved. It also studies emerging issues such as cities and climate change, since the most innovative policies for tackling climate change lie in local and other sub-national levels of government.

Despite remarkable progress in raising the standard of living of the rural population, the Chinese countryside is lagging behind, posing challenges to sound development. While the government's current strategy is promising, bridging the rural-urban divide requires major governance reforms at all levels and greater focus on investment, rather than on redistributive measures. An assessment of rural policy in China was completed in late 2008. Rural development policy reviews examine the evolution of policies to support rural economies across the OECD and in non-members. ■



Want to know more?

Key activities

- Budgeting and public expenditures: www.oecd.org/gov/budget
- E-government: www.oecd.org/gov/egov
- Fighting corruption in the public sector: www.oecd.org/gov/ethics
- Key indicators of good government: www.oecd.org/gov/indicators
- Public employment: www.oecd.org/gov/hrm
- Public engagement: www.oecd.org/gov/publicengagement
- Regional statistics and indicators: www.oecd.org/gov/regional/statisticsindicators
- Regional, urban and rural development: www.oecd.org/gov/regional
- Regulatory reform: www.oecd.org/gov/regref
- Sigma: www.oecd.org/gov/sigma

Key publications

- *Focus on Citizens: Public Engagement for Better Policy and Services* (forthcoming)
- *Government at a Glance 2009* (forthcoming)
- *OECD Journal on Budgeting*
- *OECD Regions at a Glance*
- *OECD Reviews of Regulatory Reform* (series)
- *OECD Territorial Reviews* (series)
- *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*
- *Regulatory Impact Analysis: A Tool for Policy Coherence* (forthcoming)
- *The State of the Public Service*

Key events

- Forum on Regional Development, OECD Headquarters, March 2009
- Meeting of the Territorial Development Policy Committee at Ministerial Level on Investing for Growth: Building Innovative Regions, OECD Headquarters, March 2009
- OECD Global Forum on Public Governance: Developing a Sound Framework for Integrity and Corruption Prevention, OECD Headquarters, May 2009
- OECD E-leaders Meeting, OECD Headquarters, September 2009
- Meeting of Senior Officials from Centres of Government, OECD Headquarters, 30 September-2 October 2009
- Annual International Rural Development Conference, Quebec, 30 September-2 October 2009
- Roundtable of Mayors and Ministers on Urban Development, Stuttgart, October 2009
- MENA Ministerial Meeting, Marrakech, November 2009

Private sector governance

www.oecd.org/corporate
www.oecd.org/corruption
corporate.affairs@oecd.org
anti-corruption.contact@oecd.org

The financial crisis revealed severe shortcomings in corporate governance (*see box page 76*). Current arrangements often failed to provide the checks and balances that companies need to cultivate sound business practices. As the international standard setter, the OECD launched an ambitious programme to support improvements in corporate governance. For example, bonuses and other forms of remuneration should be decided and monitored in a manner compatible with risk management and corporate strategic objectives with strong input from the board. Financial companies taken into temporary state ownership should be run in compliance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.



Financial markets, pensions and financial education

Since the beginning of the subprime crisis in 2007, the OECD has been analysing the various dimensions of the global financial and economic turmoil with the aim of identifying the policy and structural reform issues that need to be addressed.



IMF Managing Director, Dominique Strauss-Kahn, attended the 8th Global Forum on Competition held at the OECD Headquarters in February 2009.

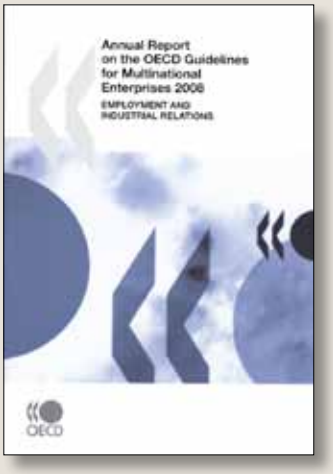
Preventing future crises



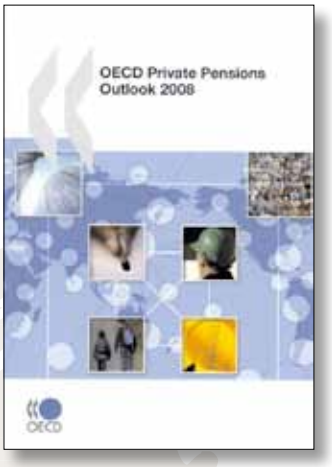
DID YOU KNOW…
that OECD-area banks gained about USD 2.4 trillion in market value globally from 2004-2006, but lost more than USD 2.9 trillion in 2007 and 2008?

After reviewing evidence of the role that corporate governance played in the financial crisis, the OECD agreed to launch an ambitious action plan to support countries in their efforts to develop and implement more effective corporate governance standards along the lines of the OECD Principles of Corporate Governance. A strong corporate governance framework is an essential foundation on which to re-build market integrity and efficiency. This action plan, which is part of the OECD's Strategic Response to the Financial Crisis, is carried out in co-operation with the Financial Stability Forum, other partner organisations and key non-OECD countries. In March 2009, the OECD Steering Group on Corporate Governance organised a global consultation on its work, with representatives from government, business, finance, and unions attending.

The action plan has three main elements. The first centers around improving weak practices. A report will address identified weaknesses in corporate governance areas most closely related to the financial crisis, primarily: board practices and competence; risk management; governance of remuneration policy; and the exercise of shareholder rights. The second element seeks to monitor implementation. Improved implementation and monitoring of agreed standards is an essential complement to regulatory reform, and is possible only through international co-operation. The final element is regulatory impact assessment. Regulation has to be intelligent and adapted to evolving circumstances. The OECD aims to establish a clearinghouse for good assessment practices concerning corporate governance.



The crisis offers an opportunity for reform towards stronger and better financial systems that will foster sustainable long-term economic growth. The OECD has reminded policy makers of the important interplay between deposit insurance systems and other financial safety nets. As part of its strategic response to the crisis, the OECD has issued general guidance to policy makers and regulators, including a checklist of principles that should apply to government intervention and regulation in the financial system.



This second major crisis in less than ten years highlights the key role played by policy makers, regulators and supervisors in promoting prudent management of people's retirement savings. The ongoing financial crisis has dealt a heavy blow to private pension systems; but in recent years, the OECD has contributed new thinking on how best to address pension risks in both defined benefit and defined contribution systems. Revised Guidelines for Pension Fund Governance are being released in 2009, together with a revised set of OECD Core Principles of Occupational Pension Regulation.

The crisis has also underlined the importance of consumers' financial awareness and understanding. The OECD established a network of high-level governmental experts on financial education, created an international Internet-based clearinghouse of financial education initiatives (www.financial-education.org), launched a new international financial education newsletter, and organised major conferences and events on this topic around the world.

Sovereign Wealth Funds

The OECD guidance on recipient country policies towards Sovereign Wealth Funds (SWFs) was completed by OECD and non-OECD governments in October 2008. OECD and partner countries welcome investments from SWFs as a positive force for development and global financial stability. The OECD guidance aims to ensure that investment measures to safeguard national security are not, in fact, disguised protectionism against SWFs. As countries face major financial turbulence, it is all the more important to keep capital inflows moving freely.

The OECD Declaration on SWFs and Recipient Country Policies provides high-level political support and increases its weight as a source of international investment law. The guidance reaffirms the relevance of long-standing OECD investment principles for recipient-country policies towards SWFs, including non-discrimination, progressive liberalisation, and unilateral liberalisation. The guidelines also underscore the fact that OECD investment instruments enshrine the right and the duty of governments to take measures to safeguard essential security interests. Work on SWFs has benefited from the participation of some 20 non-member countries, including Brazil, China, Russia and South Africa.

Anti-corruption

The 38 Parties to the OECD Anti-Bribery Convention, which includes 8 non-OECD governments, have made significant progress over the past decade towards implementing the Convention; but their work is far from over. Through its rigorous, peer-driven monitoring mechanism, the Working

DID YOU KNOW…
that a USD 1 million bribe can amount to a USD 100 million loss in a poor country, through derailed development plans and distorted investment decisions?

Group on Bribery requires that countries work individually and collectively to uphold the Convention and ensure that it remains at the forefront of the global fight against bribery of foreign officials. Israel, a candidate to OECD accession, became the 38th Party to the Convention in December 2008.

China – *Investment Policy Review*

The OECD works with the People's Republic of China on policies to promote effective and responsible investment, especially by foreign investors. The third *OECD Investment Policy Review* of China, published in December 2008, focuses on Chinese government efforts to encourage responsible business conduct against the backdrop of China's increasing outward investment. A Chinese edition of the *Investment Policy Review* was launched in Beijing in March 2009.

Debt management

Debt management offices (DMOs) are deeply involved in fighting the crisis, particularly by launching special funding programmes to finance rescue operations and provide liquidity in co-operation with central banks. The crisis has prompted changes in the operation, organisation and mandate of DMOs. The OECD convened special sessions on public debt management in response to the uncertain environment for debt management policies and operations.

Private sector development

Private sector development programmes, both regional and country-specific, help governments in non-member countries identify reform priorities, support implementation and benchmark progress. Working closely with the non-member countries directly concerned, the OECD's Policy Framework for Investment (PFI) is encouraging reform in the Middle East and North Africa, Central Asia and the South Caucasus, and Southeast Europe. Comprehensive strategies to develop a climate for business are being implemented in Egypt, Kazakhstan, Morocco and Tunisia. ■



DID YOU KNOW…
that on-agency residential mortgage-backed securities in the United States more than tripled from the beginning of 2004 to their mid-2007 peak of about USD 2.3 trillion?

Want to know more?

Key activities

- Corporate governance: www.oecd.org/corporate
- Financial education: www.oecd.org/daf/financialeducation
- Financial markets, insurance and pensions: www.oecd.org/daf/fin
- Freedom of investment: www.oecd.org/daf/investment/foi
- Guidelines for multinational enterprises: www.oecd.org/daf/investment/guidelines
- Insurance: www.oecd.org/daf/insurance
- OECD Anti-Bribery Convention: www.oecd.org/daf/nocorruption/convention
- Private pensions: www.oecd.org/daf/pensions
- Private sector development: www.oecd.org/daf/psd
- Public debt management: www.oecd.org/daf/publicdebtmanagement
- State-owned enterprises: www.oecd.org/daf/corporate/affairs/soe

Key publications

- *Annual Report on the OECD Guidelines for Multinational Enterprises* (forthcoming 2009)
- *Fighting Corruption in Eastern Europe and Central Asia: The Istanbul Anti-Corruption Action Plan: Progress and Challenges*
- *Financial Market Trends, Vol. 2008/1, No. 94; Vol. 2008/2, No. 95*
- *Improving Financial Education and Awareness on Insurance and Private Pensions*
- *OECD Investment Policy Perspectives 2008* (2009 forthcoming)
- *OECD Private Pensions Outlook 2008*
- *Policy Issues in Insurance No. 12: Financial Management of Large-Scale Catastrophes*
- *Private Sector Development in the Middle East and North Africa: Making Reforms Succeed: Moving Forward with the MENA Investment Policy Agenda*
- *SME Policy Index 2009: Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans* (forthcoming)

Key events

- OECD-US Treasury International Conference on Financial Education, Washington, DC, May 2008
- Conference on Financial Education, Consumer Protection and Competition, Queretaro, Mexico, July 2008
- Latin American Regional Anti-Corruption Conference on Commitment and Co-operation in the Fight against Corruption and Transnational Bribery, Mexico City, September 2008
- OECD/IOPS Global Forum on Private Pensions, Mombasa, October 2008
- African Development Bank/OECD Anti-Corruption Initiative for Asia and the Pacific, Singapore, November 2008
- 3rd OECD Forum on African Public Debt Management, OECD Headquarters, December 2008
- 18th OECD Global Forum on Public Debt Management and Emerging Government Securities Markets, OECD Headquarters, December 2008
- NEPAD-OECD Africa Investment Initiative Annual High-level Meeting, Kampala, December 2008

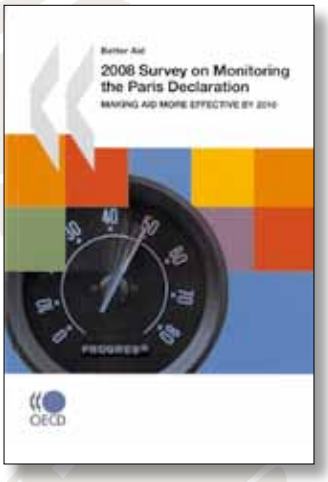
Development and global relations

Development co-operation

www.oecd.org/development
dac.contact@oecd.org
dev.contact@oecd.org

Recent developments

As the food, fuel and financial crises of 2008 made clear, problems that arise in a globalised world call for international solutions. In order to reach the 2010 targets agreed in the Paris Declaration, developing countries cannot be allowed to become the hardest hit victims of the financial crisis. In other words, donors must honour their aid commitments.



Because of its focus on effectiveness and results, the Third High-level Forum on Aid Effectiveness, held in Accra in September 2008, was a milestone for international development co-operation, and the 1 700 participants proved that donors and partner countries are serious about development. One of its major outputs, the Accra Agenda for Action, reaffirms the challenging commitments donors and partner countries made when they endorsed the Paris Declaration in 2005 and signals where efforts need to be improved.

The decisions made in Accra are supported by the *2008 Survey on Monitoring the Paris Declaration*. The first survey to monitor results and progress, conducted in 2006, established a baseline. The data in this second survey revealed the real state of aid effectiveness, pinpointing common challenges and identifying the actions needed to meet the 2010 targets agreed in the Paris Declaration.

Of the countries surveyed, 36% have improved the quality of their public financial management systems. Donors' programmes were found to be better harmonised and aligned with country needs. But fragmentation, that is, aid that comes in too many small slices from too many donors, is



President of the African Development Bank Group, Donald Kaberuka, at the 8th International Forum on African Perspectives, co-organised by the OECD Development Centre and the African Development Bank, held at the French Ministry of Economy, Industry and Employment in June 2008.

a serious obstacle to aid effectiveness. According to the *2008 Survey of Aid Allocation Policies*, it creates high transaction costs and makes it difficult for partner countries to manage their own development.

Maintaining aid during the crisis



DID YOU KNOW…
that aid is expected to decrease in 51 recipient countries between 2005 and 2010, mainly in Africa and Asia?

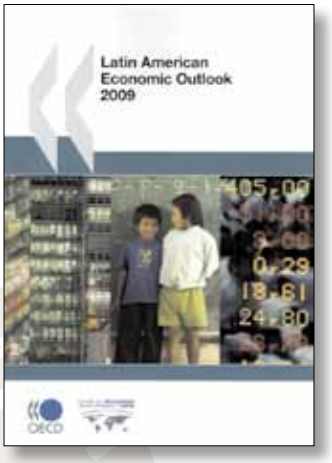
Given the financial crisis and economic slowdown in most donor countries, there is a general fear that aid budgets will be slashed – as happened after the recession in the early 1990s. Between 1992 and 1997, Overseas Development Assistance from DAC donors fell from 0.33% to 0.22% of gross national income. The fall was smaller in volume, representing about 20% in real terms, because growth resumed over this period.

The Secretary-General of the OECD, together with the Development Assistance Committee Chair, issued a statement calling on the world's major donor countries to stand by their development pledges in order to prevent the " … financial crisis from generating an aid crisis", which would have a devastating impact on developing countries already struggling with the global food crisis and rising oil prices. The "Aid Pledge" was based on the "OECD Trade Pledge" which, in the mid-1970s, helped maintain an open trading system after the first oil price shock. The Aid Pledge urges DAC members to " … reaffirm their aid commitments and refrain from any budgetary action that is inconsistent with such commitments".

This Aid Pledge, as well as a trade pledge in support of developing nations, received strong support at the Doha Conference on Financing for Development in November. As the OECD Secretary-General urged, Doha "… is an emergency meeting on how to […] protect the vital resources identified in Monterrey [the 2002 Conference on International Development Co-operation] so that the […] crisis does not turn into a development catastrophe, with consequences lasting for decades long after the crisis is over. […] Let us push the Monterrey agenda forward on all fronts".



Weathering the crisis with local resources



For developing and emerging economies to meet the new international economic challenges, local resources need maximum mobilisation. Hence, the annual *African Economic Outlook* highlighted issues related to education and training for work in African countries and urged for the implementation of policies to build human capital. Indeed, the absence of an appropriately trained work force contributes to the continent's economic weakness. The *Latin American Economic Outlook* (LEO) concentrated on reforming and refining the tax and spending systems of Latin American countries to make more fiscal resources available. The 2009 edition of the LEO found that discrepancies in educational achievement in Latin America could be partly attributed to poor use of fiscal resources, compared to OECD countries generally.

Studies of the informal sector and the role of gender in society and, particularly in the work place, will feature in the forthcoming *Global Development Outlook* which will be published in 2010. The gender work is underpinned by the Gender, Institutions and Development Database and the OECD's new Wikigender. A study by the Development Centre, entitled *Is Informal Normal?*, looks at the reality of employment in developing countries and recommends policies both to reduce informal work and to provide better protection for those who are involved in it.

DID YOU KNOW…
that 60 % of the West African population is under 25 years of age?

Emerging and developing regions facing the economic crisis may find some useful guidance in the Development Centre Study entitled *Black Sea and Central Asia: Promoting Work and Well-Being*. The study recognises that failing to maintain investment in education and training, health care and social safety nets initially crippled recovery in post-transition countries and led to high social costs.

The Sahel and West Africa Club



The Sahel and West Africa Club (SWAC) provides a platform for discussions between West African actors and OECD member countries. Together with governments, regional institutions, private sector and civil society organisations, the SWAC promotes the regional dimension of development and supports the formulation and implementation of joint or intergovernmental policies. The SWAC's work covers 18 countries including the 15 member countries of the Economic Community of West African States (ECOWAS), plus Cameroon, Chad and Mauritania.

West Africa's population of about 330 million is growing rapidly and will exceed 400 million by 2020. Despite advances in democracy, an adaptable private sector and strongly growing urban networks, West Africa remains one of the poorest regions in the world. With the exception of Cameroon, Cape Verde, Côte d'Ivoire, Ghana and Nigeria, the majority of West African countries are classified as least developed countries.

All SWAC activities are guided by a regional approach. The revision process of the Food Aid Charter, co-ordinated by the SWAC and its partners, shows how aid effectiveness can be improved through regional co-operation. The first

ECOWAS/SWAC Report on Resources for Development highlights regional co-operation and promotes debate on the region's future. With maps, statistics and analyses, the SWAC's *Regional Atlas* describes West Africa, its population and settlements, territories, economy and vulnerabilities. West African mobility and migration challenges are analysed within the new OECD series "West African Studies".

West Africa has not been spared by the global financial crisis. The SWAC will continue to monitor and analyse the impact of the crisis on West Africa. Its new quarterly review, the *West Africa Observer*, highlights major political, economic and social trends in the region. Up-to-date information on West Africa will also be available from mid-2009 (www.westafricagateway.org). ■

Want to know more?

Key activities

- Africa: www.oecd.org/dev/publications/africanoutlook
- Aid effectiveness: www.oecd.org/dac/effectiveness
- Aid for trade: www.oecd.org/dac/aft
- Aid statistics: www.oecd.org/dac/stats
- ECOWAS/SWAC West Africa Information Gateway: www.westafricagateway.org
- Environment and development: www.oecd.org/dac/environment
- Gender equality and development: www.oecd.org/dac/gender
- Peer reviews: www.oecd.org/dac/peerreviews
- Policy coherence: www.oecd.org/development/policycoherence
- Untied aid: www.oecd.org/dac/untiedaid
- West Africa: www.westafricaclub.org

Key publications

- *2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010, Better Aid* (series)
- *African Economic Outlook 2008: Technical Skills Development*
- *Aid Effectiveness: A Progress Report on Implementing the Paris Declaration, Better Aid* (series)
- *Business for Development 2008: Promoting Commercial Agriculture in Africa*
- *Development Aid at a Glance 2008: Statistics by Region*
- *Latin American Economic Outlook 2009: Fiscal Policy and Development*
- *OECD Journal on Development: Development Co-operation Report 2009: Volume 10 Issue 1*
- *Regional Atlas on West Africa*
- *Regional Challenges of West African Migration: African and European Perspectives*
- *West African Mobility and Migration Policies of OECD Countries*
- *West African Perspectives: Resources for Development*

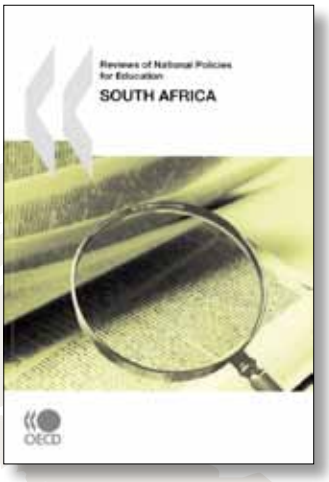
Key events

- DAC High-level Meeting, OECD Headquarters, May 2008
- 8th International Forum on African Perspectives, OECD Headquarters, June 2008
- 3rd High-level Forum on Aid Effectiveness, Accra, September 2008
- Launch of the OECD *Latin American Economic Outlook 2009*, San Salvador, October 2008
- Follow-up Conference on Financing for Development, Doha, November 2008
- 25th Annual Meeting of the Food Crisis Prevention Network (RPCA), OECD Headquarters, April 2009

Global relations

www.oecd.org/nonmembers
ccnmcont@oecd.org

In its earlier days, the OECD's social and economic policy dialogue was limited to its members. Over the past 15 years, however, the OECD has expanded its global relations and engaged with non-members on cross-border issues such as investment, tax, public and corporate governance, and the environment. A considerable number of non-member governments now attend OECD meetings, sign OECD instruments and engage in peer review processes.



Participation in OECD activities allows non-members to tap into the combined policy expertise of a diverse group of economies, facilitating their own processes of economic reform and integration in the global economy. As the global economic crisis spreads around the world, the OECD has sought to co-ordinate a strategic response that engages both its members and non-members. This has brought a renewed focus on its role in the global economy.

A more inclusive OECD

In addition to launching membership talks, also known as "accession" talks, with Chile, Estonia, Israel, Russia and Slovenia, the OECD has offered "Enhanced Engagement" to Brazil, the People's Republic of China, India, Indonesia and South Africa, with a view to possible membership. Enhanced Engagement is a framework for a more focused, comprehensive and mutually beneficial relationship with these select partner countries who had already established a strong connection with several areas of OECD work. Enhanced Engagement partners are invited to participate in the wide range of OECD's regular work, including peer review studies, a unique OECD activity whereby individual governments' efforts and performance are critically examined by a panel composed of officials from other countries.



(Left to right)
OECD Secretary-General, Angel Gurría, meets Chinese Premier, Wen Jiabao, at the China Development Forum in Beijing in March 2009.

How are non-OECD emerging markets holding up?



Customers shop during a sale in a mall in Jakarta.

The global economy is now in the deepest recession in over 50 years. Initially, many had hoped that emerging market economies (EMEs) would be relatively unscathed because they appeared to be "decoupled" from the OECD, and their financial markets had not been closely linked to the advanced markets at the centre of the financial crisis. However, this hope has been dashed. Although performance varies, virtually all EMEs are facing significant falls in growth and, in many, output is contracting. Some have experienced steep currency depreciations, including Brazil, Russia, South Africa and Ukraine; and some have home-grown problems, such as Estonia with its housing market collapse.

The recession, which began in the OECD area, is being transmitted to EMEs through three main channels. First, global trade is collapsing, set to decline at double digit rates in 2009. As a result, EMEs that depend on exports to the OECD area are suffering large declines in demand. China is clearly in this category, and although growth will remain strong by OECD standards, it will fall well short of the very high rates of recent years. Brazil and India, by contrast, depend less on international trade and may therefore be somewhat sheltered.



Second, access by EMEs to international capital markets has been severely curtailed, reflecting turmoil in OECD financial markets and, more specifically, a sharp increase in concern about risk. This so-called "flight to quality" has increased interest rate premia to non-OECD borrowers, and total capital inflows to developing countries are set to decline from close to USD 1 trillion in 2007 to less than USD 200 billion in 2009. Moreover, migrant worker remittances, which are important for sub-Saharan Africa and the Philippines among others, are falling as global labour markets deteriorate.

Third, the fall in world demand has cut commodities' prices and therefore the export earnings of commodity exporters. Among the most affected are Indonesia (an important oil producer), Russia (which has become increasingly dependent on oil and gas exports), and Ukraine (which depends on iron and steel exports).

The first *OECD Economic Surveys* on the Indonesian and South African economies were published in 2008 and, through 2010, a full series of *Surveys* of all accession countries and Enhanced Engagement partners will be completed. Also forthcoming is *Globalisation and Emerging Economies*, which includes both thematic and in-depth country studies on trade performance and trade policy covering all of the Enhanced Engagement countries.

The broader involvement of non-members



In 2008, the OECD Global Forums were re-structured to allow large numbers of non-members and organisations to contribute to the Committees' work. Much of the OECD's global relations programme is organised around region-specific initiatives.

The objective of these initiatives is to provide policy advice across a wide range of subjects based on OECD best practices and tailored to the regions' needs. For example, high demographic pressures and growing unemployment rates in many Arab countries are pushing governments to create employment opportunities and establish a favourable environment for private initiative, entrepreneurial freedom and investment. Responding to requests from the countries of the region, the MENA Initiative on Governance and Investment for Development aims to strengthen countries' capacity to design and implement policy reforms.

Southeast Asia is faced with a different set of economic and social challenges. Although the region has experienced remarkable economic growth in the past few decades, there are great differences in economic development. The OECD/Southeast Asia Forum met in Bangkok in April 2009 to identify priority policy areas for future co-operation. The Development Centre will soon launch the *Southeast Asian Economic Outlook*.

Partnership with other international organisations



In February 2009, at a meeting on the global economic crisis convened in Berlin by Chancellor Angela Merkel, the leaders of the ILO, IMF, OECD, WTO and World Bank agreed to strengthen their co-operation in support of a stronger, cleaner and fairer world economy. They acknowledged that existing OECD instruments, including for corporate governance, fighting corruption and co-operating in fiscal affairs, could serve as the basis of a new economic and social charter for sustainable economic governance.

Sigma Programme

The Support for Improvement in Governance and Management Programme (Sigma), a joint EU/OECD initiative principally financed by the EU, helps decision-makers in partner administrations to build institutions and set up legal frameworks and procedures that meet European standards and good practice. In 2008, Sigma continued to assist new EU members Bulgaria and Romania, EU candidates and potential candidates in the Western Balkans, and expanded its geographical scope to include the Mediterranean littoral and the Commonwealth of Independent States. ■

Want to know more?

Key activities

- Accession: www.oecd.org/accession
- Enhanced Engagement: www.oecd.org/enhancedengagement
- Global forums: www.oecd.org/ccnm/globalforums
- Regional and country programmes: www.oecd.org/ccnm/regional

Key publications

- *Black Sea and Central Asia: Promoting Work and Well-Being*
- *Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa*
- *OECD Economic Surveys: Indonesia*
- *OECD Economic Surveys: South Africa*
- *OECD Investment Policy Reviews: China, Encouraging Responsible Business Conduct*
- *OECD Reviews of Regulatory Reform: Brazil, Strengthening Governance for Growth*
- *Peer Reviews of Competition Law and Policy in Latin America: A Follow-Up: Argentina, Brazil, Mexico and Peru*
- *Reviews of National Policies for Education: South Africa*
- *Shaping Policy Reform and Peer Review in Southeast Asia: Integrating Economies Amid Diversity*

Key events

- Global Forum on Competition, OECD Headquarters, February 2009
- Ministerial Launch of the Investment and Competitiveness Initiative for the South Caucasus and Ukraine, OECD Headquarters, 31 March-1 April 2009
- Global Forum on International Investment, OECD Headquarters, December 2009

Statistics

Statistics

www.oecd.org/statistics
stat.contact@oecd.org

Informed decisions require reliable information. High-quality statistics underpin the fabric of the OECD's analytical work, so their accuracy and timeliness are vital to the Organisation's reputation for quality. The OECD compiles statistics for the 30 member countries and selected non-member economies. In addition to collecting and disseminating data, the OECD works with member countries and other international organisations to develop international standards for statistics and improve the quality and comparability of the statistics it receives.

Recent developments



The OECD is actively engaged in the update of international statistical standards, such as the System of National Accounts (SNA). The update of the SNA, concluded in 2008, considered issues such as pension schemes, research and development, financial services, and leases and licences. Work in this area is now focused on transitioning to the new system and dealing with new issues such as the treatment of emission permits in national accounts.

The OECD is currently focusing on two groups of non-members, namely, the candidate countries (Chile, Estonia, Israel, Russian Federation and Slovenia) and the Enhanced Engagement countries (Brazil, India, Indonesia, China and South Africa). Candidate country data are being integrated in all domains, while some data for the BIICS countries already appear in the *OECD Factbook* and the flagship publication, *Main Economic Indicators* (MEI).

In terms of dissemination, the OECD has introduced measures to improve performance of the corporate data warehouse, OECD.Stat, which has experienced a great increase in external usage (63% in 2008). Several applications have been developed to facilitate web access to OECD statistics, namely a specially designed wizard for accessing development statistics (QWIDS), embedded tables in external websites, dynamic graphics, a Statistical Data and Metadata eXchange (SDMX) web service and an expanded set of export formats.



Visualisation tools have been developed both internally and externally for OECD statistics. Dynamic graphics have been developed and deployed for OECD.Stat and the *OECD Factbook* on SourceOECD, while Trendalyzer for *Factbook* data and the OECD eXplorer for regional data have been employed.

Short-term indicators

The OECD publishes monthly and quarterly economic indicators for a wide range of short-term economic statistics. The MEI database is continuously updated to ensure that it contains the most relevant and timely indicators on a complete cross-country basis.

The OECD helps develop international guidelines and recommendations in several areas of short-term economic statistics. The Organisation has also launched the online Original Release and Revisions Database, which enables economists to perform real-time data analysis of econometric models.

Measuring the Progress of Societies

For 60 years, GDP has been the dominant indicator which the world has used to measure and understand progress. This approach has failed to explain several of the factors that have the biggest impact on people's lives. Over the last decade, a large amount of work has been carried out to understand and measure the world's progress.

The Global Project on "Measuring the Progress of Societies", hosted by the OECD, aims to foster the development of sets of key economic, social and environmental indicators to provide a comprehensive picture of how the well-being of a society is evolving. It seeks to encourage each society to consider, in an informed way, the crucial question: is life getting better?

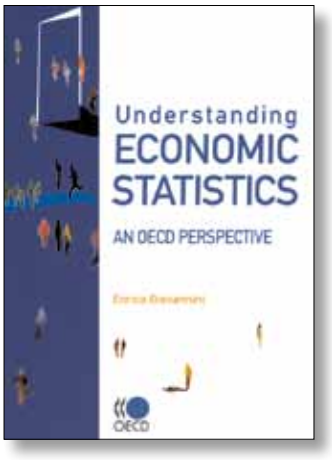
The Global Project is the first systematic global effort to go "beyond GDP" by enabling and promoting new ways to measure societal progress. The current global crises (food, energy, financial, economic, etc.) are increasing people's feeling of vulnerability, challenging classical policy models and calling societies to re-discuss their goals. The development of measurement paradigms focused on the well-being of all citizens is vital to the design of more effective policies.

The Global Project is built of an international network of organisations, from all sectors of society. The main partners in the Global Project are the OECD, the World Bank, the United Nations Development Programme, UNICEF, the Inter-American Development Bank, the African Development Bank, the UN's Economic Commissions for West Africa, and for Asia and the Pacific, the International Association of Supreme Audit Institutions and the European Commission. Research institutes, non-governmental organisations, and statistical offices from both developing and developed countries are also associated with the Global Project.

The Project has three main goals: defining what to measure, developing best practices on how to measure progress, and ensuring that the new measures are used.

National accounts and financial statistics

The OECD is one of the main collectors and disseminators of detailed national accounts data and financial statistics for international comparison. In 2008, work focused on the measurement of land and subsoil assets, a handbook on deriving capital measures of intellectual property (including R&D), and a handbook on volume measurement of health and education services. Also in 2008, a new round of data collection for Purchasing Power Parities (PPP) began. For the first time, there will be new data for the comparison of education services. In parallel, a new set of PPPs for health services is being developed to improve the international comparison of health prices, volumes and expenditures.



Structural economic statistics

The OECD collects, harmonises and publishes detailed annual and monthly statistics on trade in goods and services, balance of payments and trade. It also monitors trends in globalisation. Productivity statistics are a central piece of the OECD's structural surveillance indicators. A database containing production input and output measures are produced annually, together with a compendium of productivity indicators. *Labour Force Statistics* are also published annually and the secretariat is developing a system of historical population data and projections.

In the area of international competitiveness, the Unit Labour Costs and Related Indicators data contains a full-range of annual and quarterly data to help monitor labour costs, productivity and real exchange rates. Finally, the Structural and Demographic Business Statistics database contains data by size-class as well as business demography indicators. The latter is a major input to the OECD-Eurostat Entrepreneurship Indicators Programme. ■

DID YOU KNOW…
that an OECD-Eurostat Entrepreneurship Indicators Programme is developing internationally-comparable indicators regarding entrepreneurship, its determinants and its impacts?

Want to know more?

Key activities

- Measuring the Progress of Societies: www.oecd.org/progress
- National accounts and financial statistics: www.oecd.org/statistics/national-accounts
- Outreach: www.oecd.org/statistics/nm-countries
- Productivity statistics: www.oecd.org/statistics/productivity
- Structural economic statistics: www.oecd.org/statistics/prices-ppp
- Trade statistics: www.oecd.org/statistics/trade

Key publications

- *OECD Factbook 2008: Economic, Environmental and Social Statistics*
- *Understanding Economic Statistics: An OECD Perspective*

Key event

- 3rd World Forum on Statistics, Knowledge, Policy: Charting Progress, Building Visions, Improving Life, Busan, Korea, October 2009

Communications

Public affairs and communications

www.oecd.org

In mid-2008, the OECD launched an ambitious new communications strategy aimed at achieving greater public impact through a pro-active focus on key aspects of the Organisation's work. Coinciding with the onset of the financial and economic crisis, and underpinned by an innovative framework formally approved by OECD member countries in December, this resulted in new initiatives and a reinforcement of existing communications tools. The online medium was identified as the primary vehicle. A special website was created to present the OECD's analysis and policy recommendations in response to the crisis: www.oecd.org/crisisresponse. The OECD's impact in opinion-forming circles was enhanced by important statements on policy issues at public events and by a higher public profile.

This strategy, which is ongoing, is designed to demonstrate the OECD's role in "re-thinking" the global economy. Rather than responding to pressures to act in haste, or freezing into inertia in the face of the crisis, the OECD is re-assessing the policies and structures needed to deliver a global economy that is not only stronger, but cleaner and fairer in the interests of individuals and families the world over. A simple and clear conceptual framework for OECD communications in response to the crisis, based on this notion of "stronger, cleaner and fairer", now serves as the organising mechanism giving the Organisation's work the profile and public recognition that it deserves.



The Future Challenges for the Multilateral Trading System panel at OECD Forum 2008, Climate Change, Growth, Stability.



In a communications context, the OECD employs a panoply of public affairs and communications instruments. Public events and conferences, including the annual OECD Forum and seminars and briefing sessions for parliamentarians, business and the labour movement, help to spread the OECD's messages among policy makers and opinion formers. The *OECD Observer* magazine presents the Organisation's work to a wide ranging audience spanning government, business, the media, academia and civil society. *OECD Policy Briefs* give a clear and concise snapshot of OECD analysis and policy recommendations. Judicious use of the media, through television, radio and online interviews, campaigns, press conferences and the placement of op-ed articles, enables the Organisation to reach a wide public in OECD countries and around the world.

Mindful of the need to use all appropriate communication channels at its disposal, the OECD is developing its use of audiovisual and Internet communications, publishing video clips and using Web 2.0 and Web 3.0 tools to complement its presence in more traditional media. In April 2009, the OECD launched on the social networking site Facebook, giving a potential audience of more than 100 million users around the globe access to OECD news and information products. Other new initiatives include a revamped statistics portal and a dedicated OECD channel on the popular YouTube video-sharing site – www.youtube.com/oecd. As part of a drive to bring OECD communications to new and younger audiences, OECD pages have been launched on the photo-sharing website Flickr, and the Organisation is gaining a growing following on the social information service Twitter (www.twitter.com/oecdtweet).

In support of this new pro-active communications drive, the OECD has begun building multimedia packages on a regular basis around OECD publications and events. In September 2008, the OECD launched a campaign to promote its work in education under the title "Back to School". This was followed by a ground-breaking OECD study on income inequality, *Growing Unequal?*, including an online presentation, news releases, video interviews, speeches and detailed briefings on OECD countries. OECD presentations of economic analysis and forecasts, including the twice-yearly *Economic Outlook*, are regularly webcast and publicised at global level through targeted interviews and press conferences. The OECD's country-specific webpages provide easy access to data and policy analysis on individual member countries and the nations that are candidates for OECD accession or with which the Organisation has embarked on a process of Enhanced Engagement.

One of the consequences of this communications strategy has been a significant enhancement of the Organisation's profile in the international media. In some cases, this has been deliberate. The OECD actively promoted its work on climate change and development policy during 2008, at the Accra High-level Forum on Aid Effectiveness and the COP 14 Climate Change Conference in Poznań, Poland. OECD communications have also been helped by external developments, such as the G20-led campaign to crack down on tax haven abuse which has thrown a spotlight on the OECD's leading role in tax policy and the fight against cross-border tax evasion. On 3 April 2009, the day after the G20 London Summit, visits to the OECD website hit an all-time high of 132 000 page views – triple the daily average over the previous two

years. During the first four months of 2009, media coverage of tax issues related to OECD work more than doubled in comparison with already high levels in the same period of 2008.

Complementing this, the Organisation continues to pursue an active role as a publisher of policy analysis and data. Significant titles released in 2008-2009 include *Making Trade Work for Developing Countries*; *The Future of the Internet Economy*; *Fighting Bribery in International Business Deals*; *The Global Competition for Talent*; *Babies and Bosses: Balancing Work and Family Life*; *Climate Change: Meeting the Challenge to 2050*; *Reforming Corporate Income Tax*; and *Mental Health in OECD Countries*. The OECD also continued publication of its *OECD Insights* series of books presenting major global policy issues accessible to broader audiences, with new titles on trade and sustainable development. Online book sales jumped by 30% in the fourth quarter of 2008. On Google Books, visitor numbers tripled during 2008 to 1.25 million and page views increased five-fold to 11 million.

Public affairs activities have also been stepped up in the context of new communications strategies. The OECD's two-way relations with major stakeholders are highly beneficial to both sides. Dialogue with parliamentarians is a crucial element in the Organisation's mission to help policy makers implement reform. The OECD has maintained longstanding

OECD Observer

The *OECD Observer* has been the flagship magazine of the OECD since its creation by the Secretary-General in 1962. More than just a shop window of OECD work and a communications platform, its thousands of articles, written by experts, political leaders and government representatives through the years make it a vital link in the Organisation's institutional memory. Its guest-writing, notable names of the past year include Christine Lagarde, Connie Hedegaard, John Sweeney and Joseph Stiglitz. Ministerial roundtables and thematic spotlights, such as on Swiss business and transport in 2008, make the magazine a forum for sharp policy debate and ideas. The magazine is also a journal of record, a research reference with copyright spinoffs, and a "business card" for networking. Though primarily aimed at policy makers, more than half its estimated 30 000 readers of the print edition and over half-a-million online readers now come from business, labour, NGOs, research and academia, too.



The online edition – ten years old in August 2009 – is in the Top 10 of Google's business and economy page rank. Sober, yet state-of-the-art, it boasts innovative tools for public comment and social bookmarking, with the likes of Digg and Facebook, so policy makers can share and track work. In 2009, the web editions are being revised to make them easier to access through iPhones and other mobile handsets. The print version is innovating too. From spring 2009, it will be printed on, environmentally-friendly paper. For more information about the magazine and its partners, see www.oecdobserver.org.

relations with the Council of Europe and the NATO Parliamentary Assemblies, which are strengthened by two annual High-level Parliamentary Seminars on themes related to current OECD work. In February 2009, the OECD High-level Parliamentary Seminar on "The global financial and economic crisis" attracted a record number of parliamentarians from 23 countries including 4 non-OECD countries.

In the United States, the OECD Washington Centre provides liaison with the executive and legislative branches of government. In 2008, the Centre was instrumental in the creation of the OECD Congressional Leadership Group as an informal caucus of members of Congress interested in supporting and promoting the Organisation's work. In collaboration with this caucus, the Centre organised 30 seminars with visiting staff to raise awareness among US policy makers about the OECD's work. OECD Centres in Berlin, Tokyo and Mexico play a similarly pivotal role in links with the policy community in their host countries, extending the reach of the Organisation's communications and enhancing dissemination of its work in local languages and real time.

The OECD's engagement with civil society, dating back to the Organisation's creation, is expressed through its relations with the Business and Industry Advisory Committee to the OECD (BIAC) and the Trade Union Advisory Committee to the OECD (TUAC). Co-operative activities with other international civil society organisations, such as OECD Watch, a group of over 60 CSOs that follow OECD's work on investment, are expanding year by year.

The annual OECD Forum that member countries describe as "the OECD's greatest outreach tool", is central to the Organisation's public affairs and communications efforts. Held as part of the OECD Week including the annual Ministerial Council meeting, it enables government, business, labour, academia and civil society to debate hot issues on the global political agenda. Its 2008 edition, under the theme of "Climate Change, Growth, Stability", attracted a record 1 700 participants from 68 countries. The 2008 Ministerial Council meeting took up many of the same themes under the chairmanship of France's Minister for the Economy, Industry and Employment, Christine Lagarde.



There is still much to be done to enable the OECD to communicate its work even better – going beyond internal audiences such as the governments of its member countries to reach key external audiences and stakeholders, including parliamentarians, trade unions, the business community, NGOs, the media and public opinion at large. In an environment where economic, financial and social concerns are on the minds of every citizen, the Organisation has a duty to project its contribution to the building of a stronger, cleaner and fairer global economy. But this is also an opportunity which the OECD intends to make the most of as it approaches its 50th anniversary in 2010-2011. ■

Business and Industry Advisory Committee to the OECD (BIAC)

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Trade Union Advisory Committee to the OECD (TUAC)

www.tuac.org
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General Secretary: John Evans



(Left to right)
TUAC President, John Sweeney; OECD Secretary-General Angel Gurría; BIAC Chairman, Charles P. Heeter; BIAC Secretary-General, Tadahiro Asami; and Mexico's Minister of Finance and Public Credit, Agustín Carstens, at the BIAC and TUAC Ministerial Consultations held in June 2008.

Want to know more?

Key activities

- Centres abroad: www.oecd.org/centres
- Civil society: www.oecd.org/civilsociety
- Insight guides: www.oecd.org/insights
- OECD Forum: www.oecd.org/forum2009
- Media: www.oecd.org/media
- Parliamentary relations: www.oecd.org/publicaffairs/parliamentarians
- Publishing: www.oecd.org/publishing

Key publications

- *OECD Annual Report*
- *OECD in Figures*
- *OECD Insights: Sustainable Development: Linking economy, society, environment*
- *OECD Insights: International Migration: The human side of globalisation* (forthcoming)
- *OECD Insights: International Trade: Free, Fair and Open?*
- *OECD Observer*
- *OECD Policy briefs*

Key event

- OECD Forum 2009, "The Crisis and Beyond – For a stronger, cleaner, fairer economy", OECD Headquarters, June 2009

Africa Partnership Forum

www.africapartnershipforum.org
apf.contact@oecd.org

Africa Partnership Forum

Forum pour le Partenariat avec l'Afrique

Recent international events have complicated Africa's development prospects. The continent was significantly affected by the food and fuel price shocks of 2008 and is projected to be severely affected by the current global economic downturn in terms of growth, export performance, employment and private capital inflows.

Progress in delivering on Africa's immense potential will turn on a number of factors: a return to growth and increased demand across the globe, stabilised financial markets, renewed investment in people and infrastructure, stronger co-ordination and collaboration across countries and more inclusive global governance arrangements. Africa's "blueprint" for development, the New Partnership for Africa's Development (NEPAD) – which set out a strategic framework for continental transformation and renewal in 2001 – remains vital to its future. And a stronger engagement between Africa and its development partners remains essential to help countries address the array of challenges at hand.

The Africa Partnership Forum (APF) was established in this spirit in November 2003, following the Evian G8 Summit, as a way of broadening the existing dialogue between the G8 and NEPAD. In 2005, APF members agreed to establish a Support Unit – currently hosted by the OECD – to backstop ongoing monitoring and analytical work. The APF has become a senior political forum for discussing and monitoring policy issues, priorities and commitments in support of Africa's development. It also monitors progress, identifies bottlenecks, and signals priorities for follow-up action by APF members.

The APF's 10th meeting was held in Tokyo in May 2008, in the run-up to both Japan's Tokyo International Conference on African Development (TICAD) IV Summit and the G8 Hokkaido Summit. Climate change in Africa was a key focus of discussions, including its impact on key sectors such as water, agriculture, energy, peace and stability and finance.

The fall APF plenary took place in Addis Ababa, Ethiopia at the African Union headquarters in the run-up to the Doha Follow-Up Conference on Financing for Development. The Support Unit produced a comprehensive monitoring report on Development Finance in Africa (covering domestic resource mobilisation and private capital flows, as well as ODA, and including an assessment of the impact of the financial crisis), and a further analysis of carbon finance in Africa. The latter included an assessment of possible revisions to the Clean Development Mechanism and a synopsis of current proposals relating to possible innovative carbon finance mechanisms. The APF paper on Development Finance in Africa was circulated widely at the Doha Conference. ■

DID YOU KNOW…
that the regional average for the proportion of women in parliament in Africa is 17.2% – close to the regional average for Europe at 19.1?

DID YOU KNOW…
that the bulk of development finance in Africa is mobilised from domestic resources?

The international fight against money laundering and terrorist financing

www.fatf-gafi.org
contact@fatf-gafi.org

FATF ✦ GAFI
Financial Action Task Force ✦ Groupe d'action financière

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing. Recommendations issued by the FATF define criminal justice and regulatory measures that should be implemented to counter this problem. These Recommendations also include international co-operation and preventive measures to be taken by financial institutions and others such as casinos, real estate dealers, lawyers and accountants. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

The members of the FATF are: Argentina; Australia; Austria; Belgium; Brazil; Canada; the People's Republic of China; Denmark; the European Commission; Finland; France; Germany; Greece; the Gulf Co-operation Council (GCC); Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; the Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; the United Kingdom and the United States.

The FATF has a number of essential tasks under its mandate. These are to establish and refine the global AML/CFT standards, foster and monitor countries' implementation of the standards, expand the geographic reach and implementation of the FATF standards, identify money laundering and terrorist financing threats and engage with relevant stakeholders. The FATF secretariat is based at the OECD.

The FATF is conducting its third round of mutual evaluations, examining the anti-money laundering and counter-terrorist financing systems in place in its member jurisdictions, with reports on the following countries completed during 2008: Canada; Hong Kong, China; Japan; Mexico; the Russian Federation, Singapore and two GCC members, Qatar and the United Arab Emirates.

Expanding and strengthening the global network to combat money laundering and terrorist financing is a continuing priority for the FATF. This strategy involves expanding the FATF membership, enhancing partnerships with FATF-style regional bodies and their member jurisdictions, and working with the private sector.

The FATF remains vigilant to ensure that the standards reflect current and new threats. In-depth analyses were released in 2008 on four key areas of concern: terrorist financing; proliferation financing; money laundering/financing of terrorism (ML/FT) vulnerabilities of commercial websites and Internet payment systems; and ML/FT risk assessment strategies. These reports are valuable to both governments, which use them to better understand the threats that face them, and to the private sector, which uses them to help manage the related risks. ■

DID YOU KNOW…
that, in 2008, the Basel Committee on Banking Supervision (BCBS) became an observer of the FATF.

DID YOU KNOW…
that the FATF work programme was extended in 2008 to include addressing the threat of financing the proliferation of weapons of mass destruction.

The Heiligendamm Dialogue Process

www.oecd.org/hdp
hdp.web@oecd.org

At the 2007 G8 Summit in Heiligendamm, the G8 (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, the United States and the European Commission) and the G5 (Brazil, the People's Republic of China, India, Mexico and South Africa) decided to set up a dialogue based on equal footing, openness, transparency and equality. It was subsequently named the Heiligendamm Dialogue Process (HDP). The secretariat for the Dialogue (the HDP Support Unit) is based at the OECD, facilitating mutually fruitful exchanges with the Organisation.

In the field of development, the partners have discussed both development policies and instruments with a view to identifying common ground on issues such as ownership and leadership to ensure development impact and alignment with country plans. The potential for triangular co-operation in enhanced synergy between North-South co-operation and South-South co-operation and capacity development have been also explored. The partners have also discussed the importance of curbing the effects of the global financial and economic crisis.

The energy topic of the Dialogue centres on energy security, especially the influence of the economic downturn on energy supply and demand. Energy efficiency in buildings, through the creation of a new international Sustainable Buildings Network is a central issue, as are efficiency improvements in fossil fuel power production and renewable and alternative energies and their role in the energy mix. The International Energy Agency makes substantive contributions to the Dialogue's work in this area.

In the field of investment, the partners have discussed the value of open and transparent investment policies, the role of investment agreements and the protection of investors' rights, as well as the importance of flexibility for governments to regulate in the public interest. They have also debated principles of responsible business conduct and corporate social responsibility as well as the role of international investment for economic growth, job creation, innovation, productivity, and competitiveness.

Partners in the dialogue have exchanged views on four issues linked to innovation: the challenges faced by the international intellectual property system; the need to promote innovation, including through protection and enforcement of intellectual property rights; the protection of genetic resources and traditional knowledge; and the appropriate mechanisms to facilitate and promote transfer of technology and knowledge.

The HDP's current mandate runs up to the July 2009 G8 Summit, where a concluding report will be presented on the outcomes of the Dialogue, describing its achievements and proposing commitments and actions to achieve common goals. ■

International Energy Agency

www.iea.org
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The International Energy Agency (IEA) advises its member countries on developing energy policies that promote security of supply, economic development and environmental sustainability. Poland became the 28th member of the IEA on 25 September 2008. Over the past year, energy security again remained a high priority, particularly against the background of extremely volatile oil and gas prices, the global financial and economic crises, supply constraints, continued – but slowing – demand growth, rising imports and political tensions. Following the 2005 G8 request to help deliver the Gleneagles Plan of Action on climate change, clean energy and sustainable development, the IEA published a series of analyses, putting forward 25 energy efficiency recommendations to the G8 countries and developing technology scenarios which show what needs to be done to achieve the agreed 50% cut in CO_2 emissions by 2050. This and additional work was presented at the G8 Summit in Japan.

The IEA is also actively engaged with key consumer and producer countries, especially China, India, Russia and OPEC member countries.

Oil markets and security

www.oilmarketreport.org
omr@iea.org

The monthly IEA *Oil Market Report* provides short-term analysis, data and balances on world oil markets, covering global demand, supply, OECD stocks, refinery activity, prices and the oil freight market. Disaggregated data on demand and supply are available in the Monthly Oil Data Service, as are OECD oil stocks and trade data. The annual *Medium-Term Oil Market Report* analyses the same areas of interest on a five-year timeframe.

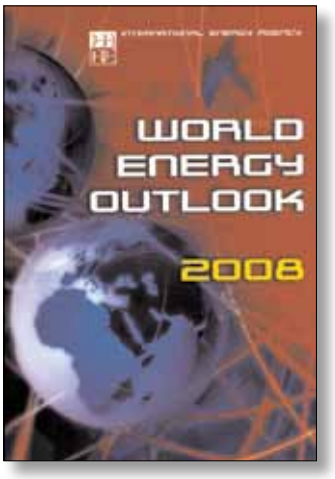
Energy security continued to be a priority. Hurricanes hit the Gulf of Mexico in early September, damaging oil and gas facilities. The IEA monitored the situation closely, consulting with member countries in its assessment of the impact. Although the actual loss of supply was greater than that caused by hurricanes in 2005, the slowing global economy created markedly different market conditions. No release of emergency stocks was deemed necessary. The IEA also continued work on natural gas security, as requested by IEA ministers in 2007.

Environmental impact of energy and energy efficiency

The IEA analyses important interactions between climate-policy goals and the other pillars of energy policy – security and economic performance. Work underway in 2008 looked at different sectoral issues, developed extensive indicators to measure energy efficiency and analysed obstacles to successful implementation of climate change policies. The IEA recognises the need to introduce a price on CO_2 emissions to achieve ambitious global emission reductions. The Agency has researched the implications of this transition and remains fully engaged in technical analyses supporting the negotiations leading to the Copenhagen conference in December 2009.

DID YOU KNOW…
that, if implemented globally, the IEA 25 efficiency recommendations presented to the 2008 G8 Summit in Hokkaido could save 8.2 gigatonnes of CO_2 emissions a year by 2030, at no net cost to energy consumers?

The 2008 edition of the *World Energy Outlook* (www.worldenergyoutlook.org) provided new energy projections to 2030 and focuses on two pressing issues: prospects for oil and gas production, and post-2012 climate scenarios. The report urges governments to usher in a global energy revolution by improving energy efficiency and increasing the deployment of low-carbon energy technologies.

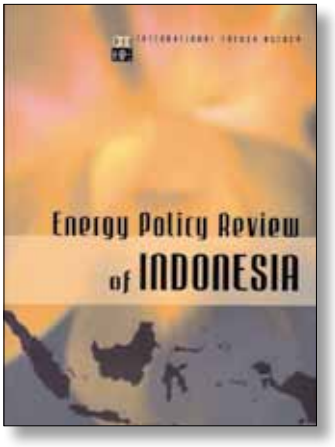


Electricity, natural gas and renewable energy

This year, the IEA published the third annual *Natural Gas Market Review*, a comprehensive overview of developments in global natural gas markets to 2015. *Development of Competitive Gas Trading in Continental Europe* discusses how workable competition might be advanced in European gas markets. *Deploying Renewables: Principles for Effective Policies*, provides an assessment of the effectiveness of renewable energy policies for electricity, heating and transport in OECD member countries and Brazil, China, India, Russia and South Africa. The impact of a large-scale penetration of renewables was assessed in a report entitled *Empowering Variable Renewables: Options for Flexible Electricity Systems*.

Energy technology

The IEA promotes energy technologies that contribute to energy security and can reduce greenhouse gas emissions. The comprehensive study, *Energy Technology Perspectives*, shows how a more sustainable energy future based on current and emerging technologies could be achieved, indicating which mixes of technologies can attain specific emissions reduction goals. The IEA publication, CO_2 *Capture and Storage: A Key Carbon Abatement Option*, released in October 2008, documents progress toward the development of this key technology.



Global energy dialogue

The IEA continues to strengthen its relationships with countries beyond its membership. In addition to China, India and Russia, the IEA is developing robust ties with a range of other producer, consumer and transit states in the areas of energy policy, analysis, statistics, modelling, emergency preparedness, efficiency and technology collaboration. The *Energy Policy Review of the Western Balkans* was published in June and the *Energy Policy Review of Indonesia* in November. The IEA is a member of the Executive Board of the International Energy Forum Secretariat and plays a central role in the producer-consumer dialogue.

Energy statistics

The IEA conducts extensive collection and analysis of data across the energy sector. The Joint Oil Data Initiative, an initiative of seven international organisations in which the IEA plays a key role, has helped to raise awareness among ministers and market participants of the importance of reliable, timely and complete statistics to monitor the oil market. A broader initiative, InterEnerStat, gathering over 20 international organisations and co-ordinated by the IEA, has the wider objective of strengthening harmonisation and co-operation in energy statistics worldwide. ■

stats@iea.org

International Transport Forum

www.internationaltransportforum.org
itf.contact@oecd.org

The International Transport Forum (ITF), administratively part of the OECD, is a high-profile global platform and a meeting place for discussions at the highest level on transport, logistics and mobility. Key figures from government and politics, business and industry, research and civil society meet at the annual conference in Leipzig. The involvement of 52 ministers of Transport ensures direct links and strong relevance to policy making at both national and international levels. Such a broad range of actors makes the ITF unique. The first annual forum took place in May 2008 on the theme "Transport and Energy: The Challenge of Climate Change". The 2009 forum will focus on "Transport for a Global Economy: Challenges and Opportunities in the Downturn".

Transport and energy: the challenge of climate change

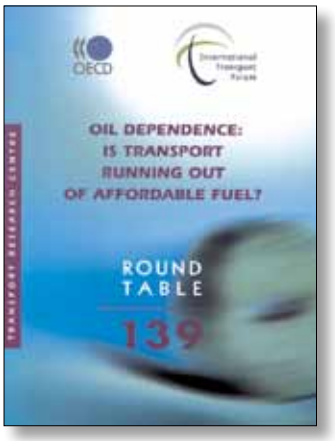
In 2008, ministers of transport from the 51 ITF member countries (India joined at the end of 2008 becoming the 52nd member country) adopted a set of key messages which set out a strategic approach to meeting the energy and climate change challenge to the transport sector.

Transport is an essential driver of economic development and growth. At the same time, transport is a significant and growing contributor to global climate change. Responsible for 13% of all anthropogenic emissions of greenhouse gases, transport generates 23% of the world total and 30% of OECD CO_2 emissions from fossil fuel combustion. Global transport emissions are growing faster than total CO_2 emissions. The sector is 95% dependent on oil and accounts for 60% of all oil consumption.

Finding the right balance between supporting the economic drivers of trade and mobility and reducing transport's energy intensity and emissions are among the top priorities for most transport ministers today. It is indispensable to decouple traffic growth from energy demand and thereby begin to foster the decarbonisation of the transport sector.

A diverse range of policy measures and instruments show significant potential to improve the transport sector's efficiency and reduce its emissions. If all measures currently proposed by countries are fully implemented, the projected growth in emissions can be reduced by over a third. Despite this, most indications are that transport emissions will increase by two thirds over the next 30 years unless transforming technologies are developed.

A broad strategic policy approach is needed. This approach should be built on packages of policy measures which include: technology development, strengthened research into new technology and fuels, increased use of information technology and integrated mobility management as well as a wide variety of non-technology policy tools with potential to improve economic efficiency and reduce emissions. All potential instruments – including regulation, economic incentives and consumer information – can be employed to meet the aim of a low carbon transport system.



DID YOU KNOW…
that road deaths per capita vary by a factor of almost eight across ITF countries? If all countries had fatality rates like Norway, UK or the Netherlands, more than 80 000 lives would be saved.

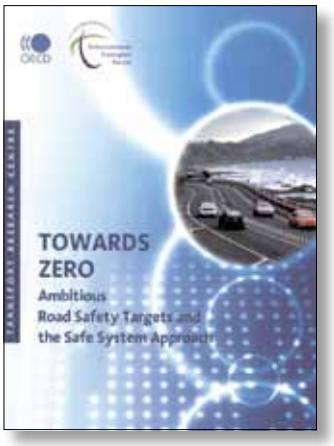
The global economy: challenges and opportunities in the downturn

www.internationaltransportforum.org/2009/forum2009.html

The second ITF was prepared at an exceptionally difficult time for the global economy. Transport actors are feeling the effects of the global downturn, with dramatic declines in sales and activity. More fundamentally, the existing models for economic integration and globalisation are being questioned in the wake of the banking crisis.

Transport has greatly facilitated the growth in trade and incomes that have taken place over the last 20 years. But much remains to be done and the world still needs a more efficient, safer, better funded, more inter-operable and more sustainable transport system to underpin growth and development. In this sense, the long-term agenda for transport remains unchanged.

At the same time, transport can and should play a strategic role in the economic recovery process through policies and stimulants that fully integrate the sector's sustainability objectives. Bringing together senior representatives from government, industry and the scientific community, the 2009 forum is an opportunity to review some of the most pressing issues posed by the crisis and their possible solutions.



Transport research

www.internationaltransportforum.org/jtrc/index.html
jtrc.contact@oecd.org

The OECD Joint Transport Research Centre and the ITF promote economic development and contributes to structural improvements of OECD and Forum economies through co-operative transport research programmes undertaken with the support of member countries.

Policy-oriented work in 2008 included research into:

- Seaport Competition and Hinterland Connections – Round Table, Paris, 10-11 April 2008
- High-level Seminar on Road Safety – Paris, 25-26 September 2008
- Airline Competition, Systems of Airports and Intermodal Connections – Round Table, Paris, 2-3 October 2008
- Transport Security, Risk Perception and Cost-Benefit Analysis – Round Table, Paris, 11-12 December 2008

Statistics

www.internationaltransportforum.org/statistics/statistics.html

The ITF produces annual statistics on trends in the transport sector and on investment in transport infrastructures. It also maintains a quarterly database on short-term trends in inland transport sectors. All these statistics are available online. Definitions of the statistical terms used are regularly updated and printed in the "Glossary for Transport Statistics", also available online. ■

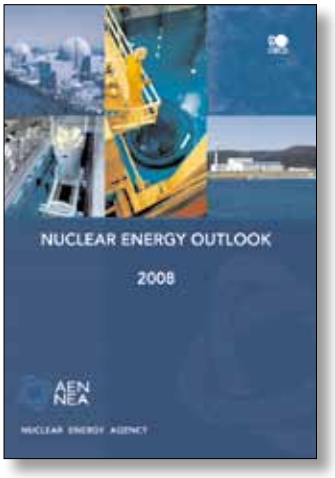
Nuclear Energy Agency

www.nea.fr
nea@nea.fr

The Nuclear Energy Agency (NEA) is a specialised agency within the OECD that helps its member countries to maintain and further develop, through international co-operation, the scientific, technological and legal bases required for a safe, environmentally friendly and economical use of nuclear energy for peaceful purposes. Its 28 member countries in Europe, North America and the Asia-Pacific region account for approximately 85% of the world's installed capacity for producing nuclear energy.

A new outlook for nuclear energy

The Agency launched its first *Nuclear Energy Outlook* (NEO) in October 2008. The NEO responds to the changing dynamics and renewed interest in nuclear energy and arrives at a moment when energy security, climate change and the cost of energy have become priorities in both short-term and long-term energy policies. Using the most current data and statistics available, the NEO provides projections up to 2050 to consider growth scenarios and potential implications on the future use of nuclear energy. It also offers unique analyses and recommendations on the possible challenges that lie ahead.



The NEA celebrates its 50th anniversary

An international array of over 300 dignitaries and government experts in the field of nuclear energy gathered in Paris on 16 October 2008 to mark the 50th anniversary of the creation of the NEA and to discuss the future use of nuclear power for peaceful purposes. In addition to keynote presentations and round-table discussions, both government ministers and private-sector CEOs made statements on nuclear energy policy and strategic directions. The programme and complete footage of the high-level session are available on the NEA website at www.nea.fr/html/general/50th.

Key issues

The key issues surrounding current and future use of nuclear energy are covered in detail in the recently published *Nuclear Energy Outlook*. Some of the most significant concern the provision of a secure energy supply at affordable prices and the mitigation of climate change. Nuclear energy is produced in 17 OECD member countries and the uranium resources used for its fuel benefit from a diverse and stable geopolitical distribution. In terms of costs, although nuclear energy has high initial capital costs, its total generation costs are largely insensitive to fuel costs and thus particularly stable. For example, a doubling of fuel prices would increase generation costs by about 40% for coal and 75% for gas, but only 4% for nuclear. In addition, the operational lifetime of many nuclear power plants is now being estimated at 60 years, thereby significantly extending that of the capital asset. Regarding global warming and climate change, nuclear energy can provide electricity with almost no CO_2 emissions, and is the only nearly carbon-free technology with a proven track record for providing electricity on the scale required.

DID YOU KNOW...
that nuclear power currently supplies about a quarter of the electricity used in OECD countries?

Radioactive waste management continues to be an important issue on which member countries need to make progress. Deep geological repositories are the preferred solution for the disposal of high-level waste (see the NEA member country collective statement issued in 2008 on this topic) and studies are under way on the potential contribution that reprocessing can make to reducing, though not eliminating, the quantities of high-level waste which require such disposal.

As always, nuclear safety must be ensured to very high standards at all times. Nuclear power plants in OECD countries are closely regulated and have very good safety records with some 10 000 reactor-years of operating experience.

DID YOU KNOW…
that current uranium supplies (identified resources) are sufficient to fuel nuclear power plants for roughly a century and potentially up to thousands of years, depending on the technology used, and that further resources are highly likely to exist?

Current scope of activities

NEA studies and co-operative activities address nuclear safety and regulation; radioactive waste management; radiological protection and public health; nuclear science; economics, resources and technology; and legal affairs. Full descriptions of ongoing activities in these areas are available on the NEA website at www.nea.fr.

The NEA also facilitates the organisation of multinational projects and information exchange programmes to enable interested countries, on a cost-sharing basis, to pursue research or the sharing of data with respect to particular fields or issues. These joint projects, primarily in the area of nuclear safety but also in radioactive waste management and radiological protection, are one of the NEA's major strengths.

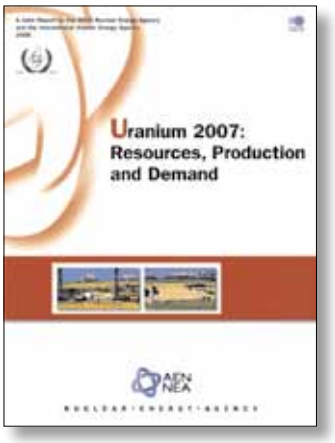
In addition, the NEA acts as technical secretariat for the Multinational Design Evaluation Programme (www.nea.fr/mdep/) and the Generation IV International Forum (www.gen-4.org).

Publications

The Agency publishes roughly 60 titles a year. Most reports can be downloaded free of charge from the NEA website.

Key titles in 2008 included: *Nuclear Energy Outlook; Uranium 2007: Resources, Production and Demand; Market Competition in the Nuclear Industry; The Regulatory Goal of Assuring Nuclear Safety; Nuclear Energy Data 2008; Timing of High-level Waste Disposal;* and *Regulating the Decommissioning of Nuclear Facilities*.

The NEA also produces two periodicals: the *Nuclear Law Bulletin* and *NEA News*.



Key event

The International Ministerial Conference on Nuclear Energy in the 21st Century was held in April 2009 in Beijing. Organised by the International Atomic Energy Agency, hosted by the Government of the People's Republic of China and co-sponsored by the NEA, it brought together some 400 participants to discuss the future role of nuclear energy. The NEA Director-General moderated a session on energy resources and the environment, and was a keynote speaker on available technology and long-term perspectives. The OECD Secretary-General spoke at the opening ceremony. ■

Partnership for Democratic Governance

www.oecd.org/pdg
pdgcontact@oecd.org

The Partnership for Democratic Governance (PDG) is an independent inter-governmental process that helps its members gain, through international co-operation and field-level initiatives, a deeper understanding of ways to provide rapid support to the public authorities of fragile and post-conflict states. The PDG has a membership of 14 countries and international organisations: Australia, Canada, Chile, Denmark, Korea, Mexico, Poland, Turkey, the United States, the African Development Bank, the Inter-American Development Bank, the Organization of American States, the OECD and the United Nations Development Programme (UNDP). The secretariat for the Partnership is the PDG Advisory Unit, which is hosted by the OECD.

The PDG focuses on the delivery of essential public services and government functions. In combining members' knowledge of South-South and triangular co-operation, OECD expertise in development and governance issues and UNDP hands-on, country-level experience, the PDG represents an important critical mass of ideas and expertise.

Much of the Advisory Unit's work in 2008 focused on analysing emerging trends on how states in fragile and post-conflict situations perform core government functions such as procurement, customs and audit. How these states deliver essential services to their population and how they can best be supported in the immediate and medium-term in doing so, while preserving or building their capacity, was also a focus of the Unit's work during 2008.

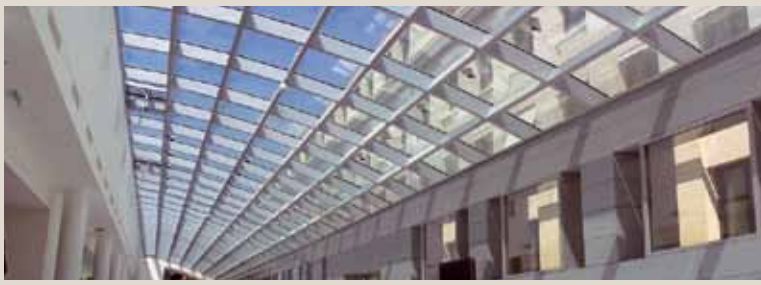
An independent expert group was formed to provide recommendations to the Partnership's 14 members on potential scenarios, development efficiency measures and other policy strategies. Through this group, the Advisory Unit commissioned analytical papers on the lessons learnt from providing technical assistance on delivering services and core government functions in fragile and post-conflict states. These papers will form the basis of a study to be released in 2009.

In parallel, the Advisory Unit actively engaged with a number of countries in fragile situations, especially Georgia, Grenada, Haiti, Liberia, Sierra Leone and Timor-Leste. The Advisory Unit organised technical discussions on improving service delivery with a broad range of actors from government, civil society and the international donor community in each country. By the end of 2008, the Advisory Unit had received expressions of interest for PDG technical advice and support from the governments of Georgia, Grenada, Guatemala, Haiti, Jamaica, Liberia, Madagascar, Sierra Leone and Timor-Leste. ■



Children in Ainaro District, Timor-Leste, take courses in their burned-out school, as service delivery in Timor-Leste has resumed, but is still confronted by massive bottlenecks.

ABOUT THE OECD



Civic activities

Executive directorate

Budget and finance

Who does what

Civic activities

Many of the staff of the OECD secretariat are active in civic activities, some of which are highlighted below.

Les Enfants de Guinée

The association *Les Enfants de Guinée* (Children of Guinea) shipped a large supply of books, school bags, and educational games and toys, donated by OECD staff, to primary and secondary schools in Siguiri in upper Guinea. Donations to the association helped to create storytelling workshops for primary school pupils and reading clubs for high school students.

Les P'tites Mains–Hands for Hope

In 2008, les P'tites Mains–Hands for Hope continued to support children from the Valea Plopului village in Romania. The association funds a house for children, extra-curricular activities for young students, and supplies for the local nursery school. It also works with a Bucharest-based association that helps young single mothers become financially autonomous. For more information, visit www.pmhh.org.

The OECD War on Hunger Group

In 2008, the OECD War on Hunger Group approved 17 projects for a total amount of EUR 79 871, *i.e.* 13% more than the year before. Eleven projects were located in Asia, four in Africa and two in Haiti. The Group also launched its first project in the autonomous region of Tibet (provinces of Kham and Amdo) and the province of Yunnan. The project aims to teach illiterate women the basics of hygiene and maternity and childcare with the help of visual (*i.e.* non-linguistic) teaching material. The women who have received the training then pass on their knowledge to other women, mainly nomads or people living in remote villages.



Arts and crafts at Valea Plopului's school.

As in previous years, the Group gave priority to projects serving the poorest strata of the population in the health and education sectors and in water conservation and integrated rural development, and emphasised awareness-raising for women and education for girls.

Organisation-wide Network on Gender and Diversity

The Organisation-wide Network on Gender and Diversity (OWN) is a staff-based forum for networking activities aimed at strengthening and supporting a diverse and inclusive workplace. In 2008, OWN hosted events featuring internal and external experts with topics ranging from the economic power and potential of a more gender-balanced business world to diversity in education, organisations, careers, and recruitment. Due to popular demand, OWN conducted a successful Pilot Mentoring Programme in 2008 that lays the foundation for mentoring in the Organisation.

ALORA

ALORA (*Association loisirs, rencontres, ateliers*), the OECD's leisure, recreational, and educational activity group, offers more than 70 regular activities. One of the most appreciated is the annual Summer Party in June, which attracted nearly 800 guests last year. Other activities include the regular coffee hours for newcomers, the ALORA day outing in September, quiz nights, conversation groups, cross-country races, guided tours of Paris neighbourhoods and museums, and a children's party in December. ■

OECD Sneakers



This initiative encourages OECD and delegation staff to look beyond their nationality or directorate, and encourages participants to socialise, network and share thoughts in an informal, convivial atmosphere. OECD Sneakers, which receives no funding from the OECD, holds regular social gatherings on the first Thursday of each month, as well as informal discussions with interesting personalities from the OECD world. The group's events are organised on a voluntary basis and are open to all.

Executive directorate

www.oecd.org

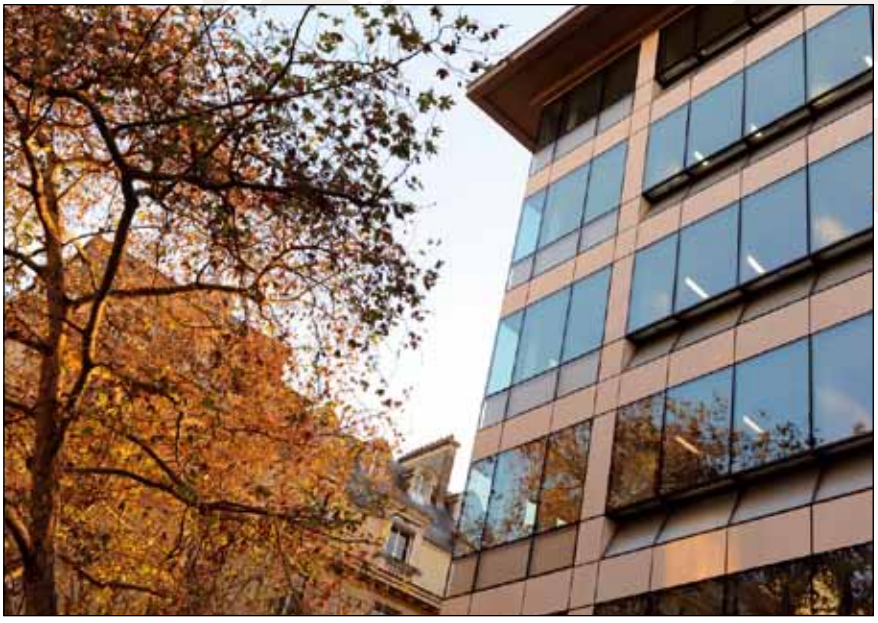
The Executive directorate (EXD) manages the OECD's assets and is responsible for the infrastructure and delivery of the main services in the Organisation, including human resources management, budget and financial management, security, information and communications technologies, conference, language and documentation services. Since the arrival of Secretary-General Angel Gurría, the OECD has been reforming the management of its resources, both human and financial, and updating and refining OECD rules and institutions to better serve the member countries.

Review of human resource policies

The aim of reforming human resource policies is to provide a more flexible and efficient framework for the Organisation to manage its primary asset – its staff – and set the standard for best practice in human resources in international organisations. Managing talent effectively, whilst transforming the OECD into a more diverse and inclusive organisation, is the primary objective. In 2009, the Organisation will propose a revised employment framework, including a simplification of staff categories and a clearer contracts policy, and will implement a leadership programme for managers. A review of jobs classification will be finalised.

Progress on budget and financial reform

In 2008, OECD members approved a new contribution-sharing arrangement for the main part of the budget that is intended to provide the OECD with a stable financial foundation over the long-term. Revised financial regulations were approved in July 2008 and take effect from January 2009. The formal

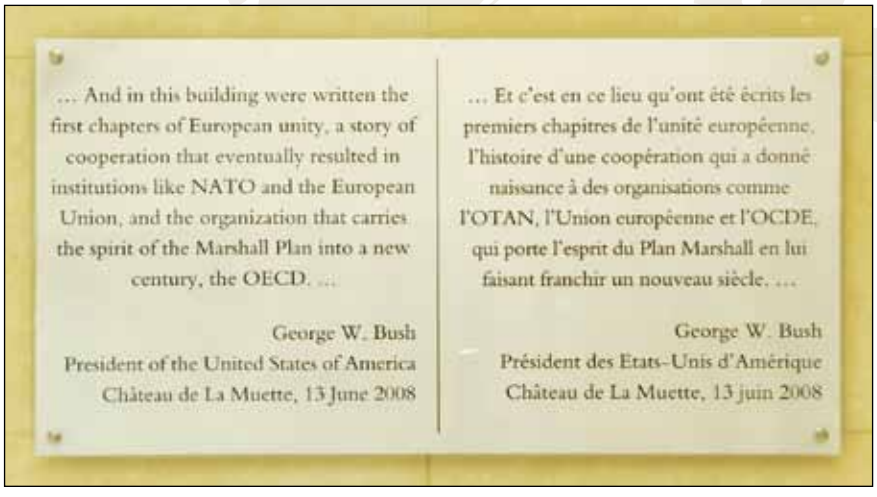


With the renovation of the Marshall Building now completed, the 1 000 staff who had been moved to temporary offices at La Défense have all returned.

budget and other financial regulations were updated to reflect a results-based management framework. In conjunction with the revised regulations, the Council also approved an Internal Control Framework, which is intended as a guide to improving management in pursuit of the Organisation's strategic objectives. External auditors are now selected from among the Supreme Audit Institutions of OECD member countries. The Supreme Audit Institution of France was appointed as the OECD External Auditor for a four-year period, effective 1 November 2008. The Budget and Financial Management Programme, launched in 2007, is aligning financial and accounting processes and systems with the output-based framework. These changes will permit better analysis and reporting of budget implementation and will create a single, coherent system of budget planning and management across the OECD. The changes will also allow for managing resources once staff budgets are decentralised to operating areas from January 2009.

La Muette renovation – Final phase

The OECD site project will be completed in 2009, on time and within the budget as approved by OECD member countries in 2003. The new OECD Conference Centre was fully opened in 2008 and proved highly successful with a series of major events, including the 2008 Ministerial Council meeting and Forum, held at La Muette for the first time; the visit of President Bush in June; and the 50th Anniversary of the NEA. With its unique capacities and flexibility and its attractive appearance, the OECD Conference Centre is now attracting major interest among other institutions, organisations and private companies searching for conference space in Paris. Renovation of the Marshall Building was also completed and the building was delivered to OECD in October. By the end of February 2009, the 1 000 staff who had been moved to the temporary offices at La Défense in 2004 had returned. Corrections and improvements will continue, and the final major work of landscaping the Château park will be completed in October 2009. Preparations are underway to deliver and equip a new large Annex, for autumn 2009, which could welcome up to 600 staff and become the second main OECD site in the Paris area. ■



A plaque commemorating the visit of US President George W. Bush in June 2008 cites a passage from the President's speech on that occasion.

Budget and finance

www.oecd.org/budget
financeservice@oecd.org

The Organisation applies results-based management to its planning, budgeting and financial management processes, identifying the policy impacts member governments are seeking; deploying resources to achieve these outcomes through the work programme; and evaluating performance after the fact. The OECD budget and the content of its work programme are established every two years by the OECD's governing body (the Council), based on recommendations from the Secretary-General. The budget for 2009 is EUR 303 million.

The OECD's financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS) – and audited by external auditors, selected from among OECD member country audit institutions. The Organisation's statements of financial position, financial performance and cash flow are available on the OECD website.

Members' assessed contributions, 2009

Members' assessed contributions to the main part of the OECD budget comprise two elements: a principal contribution mostly reflecting relative national income data; and a base fee reflecting an equal share of a fixed percentage of the budget. This system, agreed by OECD ministers in 2008, also provides for mitigation and transition measures over a number of years to smooth its application. ■

Scale applied to principal contributions, 2009

Member	% contribution
Australia	2.268
Austria	1.147
Belgium	1.415
Canada	3.783
Czech Republic	0.544
Denmark	0.975
Finland	0.804
France	6.829
Germany	9.175
Greece	0.942
Hungary	0.442
Iceland	0.176
Ireland	0.713
Italy	5.524
Japan	14.200
Korea	2.544

Member	% contribution
Luxembourg	0.216
Mexico	2.433
Netherlands	2.140
New Zealand	0.450
Norway	1.223
Poland	1.039
Portugal	0.693
Slovak Republic	0.279
Spain	3.701
Sweden	1.348
Switzerland	1.500
Turkey	1.000
United Kingdom	7.522
United States	24.975
Total	100.000

Who does what

www.oecd.org/aboutoecd

The secretariat carries out research and analysis at the request of the OECD's 30 member countries. The members meet and exchange information in committees devoted to key issues, with decision-making power vested in the OECD Council.

The Council is composed of all the members under the chairmanship of the Secretary-General, meeting regularly at the level of Permanent representatives.

The Council meets once a year at ministerial level. In 2008, the economic impact of climate change, rising food prices and a broad range of other trade, growth and development issues were discussed. France, represented by Christine Lagarde, Minister for the Economy, Industry and Employment, chaired the meeting, with Mexico and Switzerland as Vice-Chairs.

There are about 200 committees, working groups and expert groups in all. Some 40 000 senior officials from national administrations come to OECD committee meetings each year to request, review and contribute to work undertaken by the OECD secretariat.

The committees are: Committee for Agriculture; Chemicals Committee; Competition Committee; Committee on Consumer Policy; Development Assistance Committee; Economic and Development Review Committee; Economic Policy Committee; Education Policy Committee; Employment, Labour and Social Affairs Committee; Environment Policy Committee; External Relations Committee; Committee on Financial Markets; Committee on Fiscal Affairs; Fisheries Committee; Committee on Industry, Innovation and Entrepreneurship; Committee for Information, Computer and Communications Policy; Insurance and Private Pensions Committee; Investment Committee; LEED Directing Committee; Public Governance Committee; Committee for Scientific and Technological Policy; Committee on Statistics; Steel Committee; Territorial Development Policy Committee; Tourism Committee; and Trade Committee.

The International Energy Agency (*see box page 100*) and the OECD Nuclear Energy Agency (*see box page 104*) deal with energy issues. Work mandated by the Council is carried out by the OECD secretariat's various directorates.



General Secretariat

The General Secretariat directs and coordinates the work of the Organisation and is composed of the offices of the Secretary-General and the Deputy Secretaries-General, the Advisory Unit on Multidisciplinary Issues, the Centre for Co-operation with Non-Members, the Council and Executive Committee Secretariat, the Directorate for Legal Affairs, and Internal Audit.

Centre for Co-operation with Non-Members (CCNM)

www.oecd.org/ccnm
ccnmcont@oecd.org

The OECD has 30 member countries, but many more countries and economies outside its membership are involved in a wide range of the Organisation's work. CCNM, which is part of the General Secretariat, develops and oversees the strategic orientations of the OECD's global relations with non-members.

Development Co-operation Directorate (DCD)

www.oecd.org/dac
dac.contact@oecd.org

DCD is the operational arm of the OECD's Development Assistance Committee (DAC), whose 23 DAC members constitute the world's major aid donors. The DAC is the principal forum through which bilateral donors deal with issues related to the volume and effectiveness of development co-operation. It aims to impact donor policies and practices in ways that promote aid effectiveness, capacity development, and inclusive globalisation, in order to support poverty reduction and sustainable development in developing countries. DCD is also the definitive source of statistics on official development assistance.

DCD is part of the OECD Development Cluster, which also includes the Development Centre, the Africa Partnership Forum (*see box page 97*), the Sahel and West Africa Club, and the Centre for Co-operation with Non-Members.

Economics Department (ECO)

www.oecd.org/eco
eco.contact@oecd.org

ECO examines economic and financial developments in OECD as well as accession, Enhanced Engagement and other selected non-member economies. It also provides an overall framework to identify structural priorities needing government attention. It assesses the implications of a broad range of structural issues in an economy-wide perspective, drawing on work by a number of OECD specialised committees. Most recently, this has included work on various aspects of labour and product market regulation, infrastructure investment, the economics of climate change, taxation and growth, social mobility and the political economy of reform.

Directorate for Education (EDU)

www.oecd.org/edu
edu.contact@oecd.org

EDU helps member countries achieve high-quality learning for all that contributes to personal development, sustainable economic growth and social cohesion. It develops strategies for promoting lifelong learning in coherence with other socio-economic policies in both member and non-member economies. It focuses on how to evaluate and improve outcomes of education to promote quality teaching and to build social

cohesion through education. EDU includes some special programmes, such as PISA (Programme for International Student Assessment), CERI (Centre for Educational Research and Innovation), the Programme on IMHE (Institutional Management in Higher Education) and the CELE (Centre for Effective Learning Environments).

Directorate for Employment, Labour and Social Affairs (ELS)

www.oecd.org/els
els.contact@oecd.org

ELS oversees work on the interrelated policy areas that help countries boost employment and improve social welfare in a context of population ageing, globalisation and rapid technological change. Its activities are focused on five main themes: (i) raising employment rates and labour productivity growth; (ii) upgrading workers' skills; (iii) modernising social protection systems to extend opportunities for all and respond to demographic challenges; (iv) achieving high performing health systems; and (v) managing labour migration for the best interest of both sending and receiving countries.

Centre for Entrepreneurship, SMEs and Local Development (CFE)

www.oecd.org/cfe
cfe.contact@oecd.org

The mission of the CFE is to foster the development of an entrepreneurial society, capable of innovating, creating jobs and seizing the opportunities provided by globalisation while helping to promote sustainable growth, integrated development and social cohesion.

In carrying out its work, the CFE draws on the combined in-house expertise of other OECD directorates, its member governments and its extensive network of international experts. It is a one-stop shop for entrepreneurship, SMEs, local development and tourism issues.

Environment Directorate (ENV)

www.oecd.org/env
env.contact@oecd.org

ENV helps member countries design and implement efficient and effective policies to address environmental problems and to manage natural resources in a sustainable way. To encourage more sustainable consumption and production patterns, it examines the interplay between the environment and economic, sectoral, or social concerns, and works often with other directorates on issues such as climate change, biodiversity, water, waste, environmental taxes, agriculture, transport, trade, investment, and development. ENV produces regular peer reviews of member countries' environmental performance, compiles environmental data and indicators and runs a programme on environmental health and safety.

Executive Directorate (EXD)

www.oecd.org

EXD manages the OECD's assets, as well as its human, financial and information resources. It is responsible for the OECD infrastructure and the delivery of the main services including security, information and communications technologies, budget and financial management, conference, language and documentation services.

Directorate for Financial and Enterprise Affairs (DAF)

www.oecd.org/daf
daf.contact@oecd.org

DAF works with governments to improve domestic and global policies that affect business and markets. It identifies best practices and policies designed to keep markets open, competitive and sustainable while combating market abuses and economic crime through international co-operation. DAF takes up public policy challenges of direct concern to business – including investment, finance, corporate governance, competition and anti-corruption – to enhance economic growth and development, and to ensure financial stability.

Public Affairs and Communications Directorate (PAC)

www.oecd.org
webmaster@oecd.org

PAC acts as the interface between OECD and the world at large, making information about the Organisation's work publicly available in a timely manner and contributing to the transparency and openness of the Organisation.

Public Governance and Territorial Development Directorate (GOV)

www.oecd.org/gov
gov.contact@oecd.org

GOV contributes to a better understanding of how public management and territorial development policies work in different societal and market conditions and helps countries adapt their government systems and territorial policies to changing needs. This involves improving government performance while protecting and promoting society's longer-term governance values.

Directorate for Science, Technology and Industry (STI)

www.oecd.org/sti
sti.contact@oecd.org

STI helps countries maintain scientific and technological progress and wield innovation for economic growth and social benefit. It helps countries compete in a global market for knowledge, scientific research and innovation, and update policies as new industries and markets emerge. STI is spearheading a horizontal cross-government project on innovation for economic recovery and sustainable growth.

Statistics Directorate (STD)

www.oecd.org/std
stat.contact@oecd.org

STD collects and analyses economic statistics from member and non-member countries as well as from across the OECD. They are standardised to make them internationally comparable and made available in both printed and electronic form. In collaboration with statisticians from member countries and other international organisations, the OECD plays a major role in developing new statistical standards and data systems to respond to evolving policy concerns and users' needs. STD is also responsible for the co-ordination of all OECD statistical activities and of the ongoing development of the OECD statistical information system.

Centre for Tax Policy and Administration (CTPA)

www.oecd.org/ctp
ctpa.contact@oecd.org

CTPA is the focal point for the OECD's work on taxation, covering all taxes (other than customs duties), tax policy and tax administration. The CTPA contributes to the work of other OECD committees in projects which have a

strong tax component. Recent examples include approaches to overcoming the obstacles to the use of environmentally related taxes, analysis of the role of tax policy in mobilising investment and the effects of tax on growth.

Trade and Agriculture Directorate (TAD)

www.oecd.org/tad
tad.contact@oecd.org

TAD provides support for a strong rules-based multilateral trading system and helps governments design and implement policies in the trade, agriculture and fisheries domains that achieve their goals in effective, efficient and least market-distorting ways. Work to prepare future trade negotiations covers new categories of trade rules, such as those for the environment, competition and investment policy while unique work in export credits steers countries away from distorted trade. Work undertaken in the areas of agriculture and fisheries helps identify policies to achieve sustainable management of agricultural and fisheries resources, covering policy reform, trade liberalisation and sustainability. TAD also manages a programme to develop agricultural product standards that facilitate trade and a co-operative research programme for sustainable agricultural systems.

The International Futures Programme (IFP)

www.oecd.org/futures
michael.oborne@oecd.org

IFP identifies newly emerging economic and social issues that may have an important bearing on member countries' policy-making in the years ahead. Its purpose is to promote strategic thinking, test new ideas for the Organisation, develop cross-disciplinary approaches and stimulate dialogue among government, business and research on matters of long-term interest.

Development Centre (DEV)

www.oecd.org/dev
dev.contact@oecd.org

DEV helps policy makers in OECD and developing countries find innovative solutions to the global challenges of development, poverty alleviation and the curbing of inequality. It is a unique institution within the OECD and the international community, where the governments of member and developing countries, enterprises and civil society organisations discuss questions of common interest informally. Its governing board comprises OECD countries but also emerging and developing economies.

The Sahel and West Africa Club (SWAC)

www.westafricaclub.org
swac.contact@oecd.org

The OECD's policy dialogue with Africa is also developing at a regional level, in particular through the work of the SWAC which plays a bridging role as an interface between West African actors and OECD member countries. Together with regional institutions, governments, business and civil society organisations, the SWAC promotes the regional dimension of development, supports the formulation and implementation of joint or intergovernmental policies and thereby contributes to mobilising and strengthening West African capacities. Promoting the regional approach guides all SWAC activities. ■

PRACTICAL INFORMATION



The OECD secretariat

Organisation chart

Ambassadors, Permanent representatives to the OECD

The OECD secretariat

May 2009

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- Office of the Secretary-General
- Advisory Unit on Multidisciplinary Issues
- Centre for Co-operation with Non-Members
- Council and Executive Committee Secretariat
- Directorate for Legal Affairs
- Internal Audit

SPECIAL BODIES

- Africa Partnership Forum
- Development Centre
- Financial Action Task Force
- Global Project "Measuring the Progress of Societies"
- Heiligendamm Dialogue Process Support Unit

May 2009

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Environment Directorate	Executive Directorate	Directorate for Financial and Enterprise Affairs	Public Affairs and Communications Directorate	Public Governance and Territorial Development Directorate
Directorate for Science, Technology and Industry	Statistics Directorate	Centre for Tax Policy and Administration	Trade and Agriculture Directorate	

International Energy Agency	International Transport Forum	Nuclear Energy Agency	Partnership for Democratic Governance Advisory Unit	Sahel and West Africa Club

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May 2009





















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