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KEY ISSUES PAPER

OECD
BETTER POLICIES FOR BETTER LIVES

Key Issues Paper

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

Item 2: Shared Values

1. **The OECD is commemorating its 60th anniversary as the global community continues to grapple with the worst pandemic in a century.** Alongside the COVID-19 outbreak, the world remains in the grip of worsening climate change, biodiversity losses and other environmental emergencies – the defining challenges of this generation, which require urgent action as a responsibility towards future generations. Meanwhile, deep transformations brought about by digitalisation are reshaping the way people learn, live, and work, redefining interactions between economic, social and government actors, and creating new opportunities for growth and well-being. The COVID-19 crisis is accelerating the already fast pace of the digital transformation and underscoring the growing importance of digital technologies, such as Artificial Intelligence and blockchain, in our daily lives.

2. **Global economic activity is recovering rapidly from the deep recession induced by the COVID-19 pandemic in 2020.** The recovery is helped by the deployment of effective vaccines, the resumption of economic activity and continued substantial fiscal and monetary support. The OECD Interim Economic Outlook, released in September, projected global GDP growth of 5.7% in 2021 and 4.5% in 2022, a far stronger rebound than anticipated one year ago. The recovery is set to continue, but it remains very uneven across countries.

3. **Marked differences remain in the pace of vaccinations and the scope for continued policy support across countries, particularly in many emerging and developing economies.** Infection levels have risen due to the spread of the more transmissible Delta variant and containment measures are being tightened, especially in countries with relatively low vaccination rates. The economic impact of this has been relatively mild so far, but it has begun to weigh on confidence and moderate near-term growth momentum.

4. **Renewed or prolonged shutdowns due to new outbreaks could halt the pace of recovery and exacerbate current supply shortages in key sectors**, such as semi-conductors and shipping, are also holding back activity in some industries and adding to cost pressures from higher commodity prices. Inflation has picked up in the United States and some large emerging-market economies, but remains at relatively low rates in Europe and Asia. Medium and longer-term inflation expectations are still well-anchored, though near-term inflation risks are on the upside. In this scenario, central banks should communicate clearly the sequencing of their future actions as well as what conditions will trigger monetary policy adjustments in response to the evolution of the recovery.

5. **Global output and trade have surpassed their pre-pandemic levels, but this is only the first step towards a complete recovery.** Employment and incomes have yet to recover fully from the pandemic, particularly for the most exposed workers, including women and vulnerable households, and remain far short of the path expected prior to the crisis. Closing this gap is essential to avoid long-term scars from the pandemic from foregone investment, lasting job and income losses, and rising inequalities of outcomes and opportunities.

6. **International co-operation, based on the common objectives of the 2030 Agenda for Sustainable Development and underpinned by evidence-based policies, is vital to secure the recovery and improve prospects for sustainable and equitable longer-term growth.** A major challenge is to safeguard the gains made in implementing the 2030 Agenda for Sustainable Development, ensuring that the recovery measures implemented do not come at the expense of efforts to achieve the Sustainable Development Goals. Governments need

to ensure that all resources necessary are used to deploy effective vaccinations as quickly as possible throughout the world to save lives and preserve incomes. The recovery will remain precarious in all countries until this is achieved. Less than 2% of people living in low-income countries have received a first dose by August 2021, which requires an urgent strengthening of global ACT-A and COVAX mechanisms. Macroeconomic policy support continues to be needed whilst the near-term outlook is still uncertain and slack persists in labour markets, but increasingly focussed on targeted recovery packages and support for the most vulnerable rather than emergency policy support for all. Such packages are an opportunity to mitigate the adverse impact of the pandemic, improve resilience, and address long-standing issues related to weak productivity growth, widening inequalities, including for women and girls and the opportunities and challenges of digitalisation and the transition to a low-carbon economy.

7. **The OECD was established 60 years ago as an Organisation inspired by shared values enshrined in its founding Convention.** The preservation of individual liberty, the values of democracy, the rule of law and the protection of human rights as well as the principles of open, trading, competitive, sustainable and transparent market economies, inspire and underpin the OECD's work in promoting "Better Policies for Better Lives". Based on these values, the OECD supports evidence-based standards, policy dialogue and co-operation to improve people's economic and social well-being, and to help close the gaps in well-being, within and between countries, between genders and between generations. The Organisation's aims are defined in Article 1 of the Convention, which calls on the OECD to "*promote policies designed:*

a. to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

b. to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and

c. to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations."

8. **In the context of the 60th anniversary of the OECD and the updating of the Organisation's Vision Statement, Members have an opportunity to reaffirm these shared values and consider how they can help shape collective solutions to global challenges in the aftermath of the COVID-19 crisis.** Two key initiatives stand out. First, Members can explore the role of OECD standards in promoting those values across and beyond the Organisation's membership, thereby reaffirming the value of the multilateral rules-based approach. Second, Members can discuss how the OECD's global relations can be leveraged to make standards and recommendations count on a global scale, foster economic growth and well-being and level the global playing field. In addition, Members have an opportunity to share views on the role of OECD shared values in addressing emerging challenges, including the digital transformation and reinforcing democracy through public trust.

OECD Standards: Promoting Shared Values amongst OECD Members and Beyond

9. **Since its creation, the OECD has developed numerous standards to tackle shared challenges in a variety of areas.** These include 457 legal instruments, with 247 of them currently in force. These OECD standards are one of the major ways in which OECD shared values are given meaning and disseminated both within and outside the Organisation. They allow the formalisation of agreed best practices to ensure coordination, shared responsibility and improve collective outcomes on issues where multilateral action is required.

10. **The shared values and objectives that underpin OECD standards include**: (1) levelling the playing field by ensuring fair competition between actors on the international arena, whether States or companies (e.g. the BEPS Package, the Anti-Bribery Convention, the Guidelines on Multinational Enterprises, the G20/OECD Principles of Corporate Governance, and the Recommendation on Competitive Neutrality); (2) supporting international exchange by facilitating the transfer of goods, capital, services and information across borders (e.g. the Codes of Liberalisation, the Mutual Acceptance of Chemicals Data system, the agricultural Codes and Schemes, International Cooperation in Science and Technology); and (3) providing internationally agreed policies for implementation at domestic level to benefit individuals and societies (e.g. standards in the area of public governance, gender equality, digital security, consumer protection and environment protection and international development co-operation).

11. **Five main factors have contributed to the OECD's capacity to effectively foster agreement on standards**:

- Its membership of like-minded countries means that it is able to reach agreement on new standards faster.
- Its multidisciplinary nature and broad technical expertise allow it to address the increasing number of challenges, which cut across different policy areas.
- Its "bottom-up," evidence-based approach from its expert committees ensures that the standards are well-founded technically and that agreement is built progressively as the standards move through the different stages of the process.
- Its consensus-based decision-making means that there is a strong engagement throughout the process and commitment by each Member to implement the standard.
- It has developed innovative and robust mechanisms to support the implementation of standards, including its trademark peer reviews.

12. **At the 2021 MCM Part I, Members welcomed the five-year report on the OECD-wide Standard-Setting Review**, which aimed to ensure that OECD standards continue to respond to the challenges faced by governments and to strengthen their impact and relevance. Continuous efforts towards these goals are underway, including by having more high-level strategic discussions on OECD standards and finding concrete ways to leverage the multi-disciplinary and multi-stakeholder nature of the OECD.

13. **The OECD has shown its ability to broker consensus efficiently in the changing global context and to develop standards that capture innovative multi-stakeholder approaches to respond to current and emerging global challenges**. Recent examples include the Recommendations on Artificial Intelligence [OECD/LEGAL/0449], on Broadband Connectivity [OECD/LEGAL/0322] and on the Protection of Children in the Digital Environment [OECD/LEGAL/0389]. Others are scheduled for adoption at the upcoming MCM Part II on agile regulatory governance to harness innovation [C/MIN(2021)23 & ADD1], enhancing access to and sharing of data [C/MIN(2021)20], and on transparency and procedural fairness in competition law enforcement [C/MIN(2021)22]. Crucial work developing OECD standards is also ongoing in the tax field to address the digitalisation of the economy on a global scale: as of August 2021, 133 countries and jurisdictions have agreed a two-pillar solution to reform the international tax rules to make them fit with the 21st century's economy (see Item. 3 below), that will be put in place in the coming months and years on the basis of the OECD's longstanding experience of ensuring effective implementation of tax standards.

14. **The consensus among OECD Members on these standards and their commitment to implement them cements the OECD shared values and like-mindedness.** Moreover, through increasing adherence to OECD standards by Partners and corresponding implementation, OECD values are shared more widely in specific policy areas. OECD standards increasingly underpin national and international frameworks, demonstrating the usefulness of this tool in policymaking and the importance of the OECD as a global standard-setter. The OECD's strategic partnership with the G20 and the resulting take-up of OECD standards has been a vital factor in this increased impact, resulting in a levelling of the global playing field and a greater impact of OECD shared values.

OECD Global Relations: Making Standards and Policy Recommendations Count on a Global Scale and Levelling the Global Playing Field

15. **Fostering international co-operation to spur economic progress and well-being in Member and Partner economies has been the backbone of the OECD's mission.** While it does not seek to be a universal organisation, the OECD has progressively become more open, inclusive and globally relevant. Through its Global Relations activities, it seeks to achieve the broadest possible dissemination of its policy standards and recommendations, thereby contributing to level the playing field globally, while sustaining its efficiency and working methods.

16. Against the background of the deepest economic recession in 2020 in nearly a century, **the OECD has continued to deepen its engagement with Partner economies to foster international cooperation towards an inclusive, green and sustainable recovery**, underpinned by the OECD's values, as reiterated in the 60th Anniversary Vision Statement and the OECD's Global Relations Strategy.

17. **The Organisation's efforts to make its standards count on a global scale has come a long way**, as evidenced by the total number of non-Member adherences to OECD legal instruments, which has increased over the past decade from 364 in 2011 to 833 today. Similarly, the ongoing project on Considering Partner countries' Convergence with OECD Standards to Level the Global Playing Field [ERC(2020)30/REV1] has showed overall progress in selected Partners' qualitative alignment with OECD standards in key policy areas that shape competition in the global market place.

18. **The Organisation's set of flexible and inter-related Global Relations tools has facilitated the dissemination of OECD standards and best practices:**

- **The strong commitment of Argentina, Bulgaria, Brazil, Croatia, Peru and Romania to become OECD Members has ensured progressive and steady alignment with OECD standards and best practices.** All six countries are Adherents to at least half or more of the eight legal instruments listed in the 2017 Framework for the Consideration of Prospective Members [C(2017)50/FINAL] (Croatia 4/8; Brazil, Bulgaria and Romania 6/8; Argentina and Peru 7/8), and are taking active steps to adhere to the remaining instruments. Related substantive reviews on key instruments such as the Codes of Liberalisation of Capital Movements are ongoing in the respective OECD Committees.

- **Strategic Frameworks, Joint Work Programmes and structured cooperation with Key Partners have strengthened their engagement with the Organisation**. While the level of commitment to OECD values, standards and best practices varies across the Key Partners, this engagement has facilitated understanding of, and subsequent adherence to, OECD legal instruments. It has notably contributed to Key Partners' adherence to key OECD standards such as the BEPS Package and the G20/OECD Principles of Corporate Governance. There has also been adherence by other intergovernmental organisations, for instance to DAC Recommendations on the humanitarian-development-peace nexus or on ending sexual exploitation, abuse and harassment.

- **Regional Programmes have also been instrumental in disseminating OECD standards and best practices**, notably through peer learning and strengthened regional co-operation. The OECD has developed comprehensive Regional Programmes with Southeast Asia, Eurasia, Latin America and the Caribbean, the Middle East and North Africa and South East Europe. The creation of the Southeast Asia Regional Programme (SEARP) has, for example, contributed to increase the cumulative number of adherences to OECD legal instruments by countries in the region increased by 100%, from 28 in 2014 to 57 by the end of 2020.
- **Country Programmes have also significantly contributed to selected Partners' closer alignment with OECD standards**, through providing a structured and strategic form of engagement with countries willing and able to meet its standards and acting as trailblazers in their own regions.
- **The OECD's participation in the G20, G7 and APEC has been instrumental in increasing the Organisation's relevance in the global governance architecture**, enhancing the reach and impact of its work, values and standards globally, thereby promoting a global level playing field. Through its engagement in global governance fora, the OECD has further established itself as a global standard-setter, and has brought several non-OECD G20 countries closer to key OECD instruments and standards. This has been done by: 1) leveraging the G20 collective influence to encourage adherence to OECD standards by non-OECD Members, such as to the Anti-Bribery Convention and the OECD Codes of Liberalisation of Capital Movements; 2) producing joint instruments, based on shared values on specific issues, such as the G20/OECD Principles of Corporate Governance, the G20 High Level Principles on Consumer Protection and the international tax standards developed under the OECD/G20 Inclusive Framework; 3) the use of OECD's standards as a reference point for G20 standards in key emerging areas, as was the case for the G20 Principles on Artificial Intelligence and the G20 High Level Principles for Children Protection and Empowerment in the Digital Environment.

19. **Through this partnership with global governance fora, OECD members' views, values and approaches have helped developing G20 common approaches in areas that require international co-operation, such as designing a green, inclusive and sustainable recovery, addressing long-term climate and biodiversity challenges, supporting structural reforms to increase economic, social and environmental resilience, fostering the broad adoption of human-centred digital standards (including a global digital taxation agreement) and fighting corruption.** Furthermore, the Organisation has actively supported the implementation and tracking of G20 commitments, thus enhancing their transparency, accountability and credibility. Efforts to broaden the reach of the Organisation have also continued to bear fruit, with increasing recognition of the OECD's work in United Nations (UN) resolutions and, most recently, recognition of the OECD's contribution to global efforts in the recovery from COVID-19. Finally, the OECD has also fostered synergies with the World Trade Organisation (WTO), the International Labour Organisation (ILO), international financial institutions such as the International Monetary Fund (IMF) and the World Bank, as well as other multilateral and regional development banks to promote open economies and the development of a fair and rules-based global trading system.

20. **In an interconnected world faced with global challenges, such as the current COVID-19 crisis, inequality, climate change and the digital transformation, sharing OECD's standards and best practices will play a key role in fostering sustainable development, helping Member and Partner economies overcome the crisis and build back better**. Additionally, as OECD Partner economies come to represent growing shares of global GDP, enhancing the global reach and impact of OECD standards continues to be essential to further level the international playing field and ensure that everybody abides by the same rules.

21. **The adoption of the OECD's Global Relations Strategy will guide and co-ordinate Global Relations efforts across the Organisation**, with a view to enhance its global impact and achieve better policies for better lives beyond the OECD's membership. Going forward, OECD's relevance in some countries and regions can be further strengthened through initiatives including:

- the development and implementation of **specific frameworks for future co-operation with Key Partners, Asia-Pacific and Africa**;
- A regular **monitoring of selected Partner countries' convergence with OECD standards and best practices**, with a focus on implementation.

Technology Governance: OECD Shared Values and the Digital Transformation

22. **Advances in science and technology are among the most important drivers of productivity, growth and improvement in living standards, and are essential to address shared policy challenges, including pandemics and climate change**. Responsible governance of technology is critical to reaping these benefits of transformative technologies while managing their potential risks. However, existing governance frameworks are increasingly challenged to capture the pace and depth of innovation, embed shared values in the process of technology development and address societal concerns stemming from technological advancement. These can range from privacy and data protection, to safety and security, freedom, mis- and dis-information, gender bias and discrimination, and the protection of human rights. At the international level, there is a growing discourse on the implications of (especially digital) emerging technologies for democracy and how like-minded countries can ensure that human-centred trajectory prevails.

23. **The challenges to technology governance are linked to a well-known dilemma**; **early in the innovation process — when interventions and course corrections might still prove easy and cheap — the full consequences of an emerging technology and hence the need for guidance and policy intervention are often not yet apparent**. Conversely, when the need for policy intervention becomes apparent, changing course may be expensive, difficult and time-consuming. For example, the Internet was originally conceived as a way for government researchers to share information. Its commercialisation in the late 1990s and explosive growth in use saw it grow and change far beyond its original design. Critical issues for the Internet, such as privacy and digital security, only began to be addressed after its development, rather than from the outset as part of its original design.

24. **To address this dilemma, approaches to technology governance that seek to embed the basic values associated with democracy and open societies such as freedom, open and trusted markets, pluralism and the protection of human rights sufficiently early in the process of technology development, based on open and inclusive processes, are gaining prominence.** Such approaches include the explicit development of norms and principles early enough to steer further development of the technology, followed by agile

regulatory governance to harness innovations as technological applications and implications become more apparent.

25. **The OECD is expanding its influence and standards in this space, notably with its 2019 Recommendation of the Council on Artificial Intelligence (the "OECD AI Principles")**, which recognised the trustworthiness of AI systems as a key factor for their adoption and that an enabling and resilient policy environment is critical to promote a human-centric approach. Another example is the 2019 OECD Recommendation of the Council on Responsible Innovation in Neurotechnology, which aims to make clear the range of unique ethical, legal, and societal questions, e.g. regarding (brain) data privacy, the prospects of human enhancement, and the vulnerability of cognitive patterns for commercial or political manipulation, that must be addressed as this technology is developed. Operationalising and implementing these norms and principles then becomes a shared endeavour; the OECD's AI Policy Observatory (OECD.AI) and Network of Experts on AI (ONE AI), its Global Parliamentary Network's AI group, and its role in hosting the Secretariat of the Global Partnership on AI (GPAI), provides one exemplar of multi-stakeholder efforts to turn technology principles into practice.

26. **The challenges of technology governance place the agility, quality and coherence of regulation front and centre.** As governments rebuild afresh, they must ensure that the regulations put in place to tackle the world's most pressing social and environmental challenges are trusted, evidence-based, internationally co-ordinated and well enforced. The OECD is also accompanying countries as they rethink how they regulate and co-ordinate regulatory systems across borders to address the transboundary nature of digitalisation. The draft OECD Recommendation of the Council for Agile Regulatory Governance to Harness Innovation would support governments in ensuring more effective and future-proof regulation that promotes the public interest while leveraging and supporting innovation. The development of agile regulations, for instance through regulatory sandboxes, as addressed in the Agile Nations charter, also seek to address these challenges.

27. **Steering technological development along shared values implies constant reflection on both technologies themselves and public opinion**. Emerging technologies include a rich ecosystem of digital technologies, biotechnologies, energy and environmental technologies, advanced materials and many others. Governments and stakeholders therefore continuously need to assess when and what norms, principles, technical standards and regulations will be needed. In addition, public engagement and stakeholder involvement can help align technological developments with evolving social norms and societal goals. Technology governance should be transparent, mindful of conflict of interest situations and rely on strong stakeholder engagement, acknowledging that citizens, civil society and the private sector have a critical role to play. Moreover, foresight studies and horizon scanning can help identify technology opportunities and challenges, and provide opportunities for stakeholders to explore those technologies that may be particularly challenging from a governance perspective.

28. **This broad approach to technology governance needs to be supported by specific actions in additional areas**. The digital environment is a venue for social interaction, business and commercial activity, learning, and public debate. However, in order for it to promote our shared values and for people and societies to thrive in it, three particular aspects need to be considered: digital security, trust, and resilience of democratic institutions. The OECD is providing evidence and policy guidance to support countries in addressing them.

29. **First, the growing reliance of the economy on digital tools, further accentuated by the COVID-19 crisis, calls for greater attention to digital security.** The COVID-19 outbreak saw malicious actors taking advantage of the massive number of people and organisations switching to telework and using new tools for the first time without always

adopting basic digital security hygiene (e.g. use of strong and different passwords). By 2020, most governments in OECD countries had adopted whole-of-government digital security strategies. However, too often, these strategies lack an autonomous budget, evaluation tools and metrics, and are not integrated with overall national digital plans. Overall, there is a need for policy makers to approach digital security more holistically to ensure the resilience of an increasingly digitalised economy, including by strengthening international cooperation between relevant agencies as well as efforts to improve compliance and evaluation.

30. **Trust in the digital environment is a second important element.** Illegal and harmful content online can have major impacts on individuals, groups and societies, especially for vulnerable populations. The recently adopted OECD Recommendation on Children in the Digital Environment sets out principles for a safe and beneficial digital environment for children and seeks to address one important facet of this challenge. It is complemented by the OECD's work to promote transparency reporting by online content services on how they handle terrorist and violent extremist content online. Both initiatives seek to foster trust through raising awareness, injecting transparency and promoting disclosure.

31. **A third fundamental issue is how to reinforce democracy in the digital age by building digitally effective and efficient governments,** e.g. in addressing misinformation, using digital tools to enable a trusted relationship between governments and citizens, and strengthening government capabilities to shape the digital transformation. While digitalisation has presented enormous benefits, rapidly changing communication technologies allow misinformation to be easily created, disseminated and amplified at a speed and reach never seen before. Misinformation is eroding the capacity of public debate to build consensual societies and strong democracies, nationally and locally. Disinformation campaigns, emerging from within domestic boundaries or from foreign actors, have damaging impacts on elections and national security, and undermine the capacity of governments to act on major policy issues such as climate change and the COVID-19 crisis. The OECD is seeking to develop insights on reforms to combat mis- and disinformation, including through areas such as lobbying, cybersecurity, competition, antitrust, transparency and data, consumer protection, digital government and data, technological responses, the role of public communication, the development of media eco systems and media education and literacy. As part of these considerations, it will be necessary to identify the respective role and responsibilities of all stakeholders (including the private sector, citizens, civil society, and governments) whilst protecting the fundamental rights to freedom of opinion and expression. Similarly, the Organisation supports governments to leverage the use of digital technologies and data in the public service to deliver for citizens and shape a value-based digital transformation. This also includes building governments capacity to shape the digital transformation, for example, by ensuring the necessary digital skills of civil servants and tailoring appropriate governance responses, for example, through agile regulation as mentioned above.

32. **The OECD is uniquely well-placed to support like-minded countries in collaborating to advance the international agenda on technology governance.** Shaping the direction of technological change through norms, principles and regulations can be reinforced by a co-ordinated focus on more agile regulatory tools and responses as well as forward-thinking investments in public R&D and promoting innovation for public policy needs, e.g. health or climate-related innovation. It can also be reinforced through shared approaches to research integrity and scientific collaboration – all areas where the OECD is advancing its measurement and analysis. By taking a holistic approach and reducing uncertainty for businesses and building trust with society, these new approaches to technology governance can underpin a more coherent, flexible and resilient business

environment that can foster innovation that promotes digital inclusiveness (see Item 7 below) and our shared values.

Reinforcing Democracy: Promoting Trust in Public Institutions

33. **Public satisfaction with the way democracies are functioning has decreased significantly since the mid-1990s and challenges have increased since the COVID-19 crisis.** This is playing out in declining party membership, declining voter turnout in some countries, a low opinion of elected representatives and a lack of trust in the institutions of government. Trends such as the rise of populism, increased polarisation, the reversal of the democratic *acquis* in some countries, including challenges to the rule of law,[1] violent forms of public expression and extremism, all point to some parts of society dissociating themselves from the current democratic model and its institutions as it is set up in their countries.

34. **The rapid nature of the response to the COVID-19 pandemic has also meant that many citizens have felt little or no engagement in the decisions taken by their government**. In the Edelman Trust Barometer 2020, covering 28 countries, including 15 OECD Members, 48% of respondents felt that the political system was not working for them, and 57% that government served the interests of only a few (Edelman, 2021[1]). Only 51% of people surveyed in OECD countries trusted their government; and levels of trust were declining in many countries in the second half of 2020 (OECD, 2021[2]). Trust in government at the national and regional levels has been crucial for crisis management, notably to leverage public compliance with government pandemic policies and prompt vaccine acceptance.

35. **The explanation for these trends is no doubt complex and linked to rising inequalities and declining social mobility, anxiety about rapid societal change, as well as cross border challenges that are all driving political dissatisfaction in many countries.** But beyond socioeconomic trends, key factors affecting the machinery of democratic life are also critical for the future.

36. **First, governments should be attentive to the divisive role that mis- and disinformation is playing in societies.** Data suggests that, for the most part, OECD Member countries lack the necessary capacity for effective responses to this challenge. Among 27 OECD Member countries surveyed, only 11 centres of government had policies or frameworks to guide their responses to mis- and disinformation in place at the outset of the COVID-19 crisis. As mentioned above, governments need to consider a wider range of responses, which the OECD will address as part of the Reinforcing Democracy Initiative.

37. **Second, governments should conduct a 'health check' on the state of citizen participation and representation in democratic life**. The recent responses to the pandemic have shown that transparency, accountability, access to information and citizens' participation are even more – not less – important in times of crisis. Access to information enables participation in policy-making and service-design and delivery, leading to more collaborative, sustainable and effective decision-making and better outcomes for all members of society. In 2020, 25 out of 32 OECD countries surveyed (81% of respondents) had guidelines on citizen and stakeholder participation, and 27 (85%) had government-wide participation portals in place (OECD, 2021[2]). Moreover, a growing number of governments are turning to deliberative processes, such as citizens' assemblies and juries, to create the conditions for representative and informed conclusions on complex policy challenges. Yet, emerging evidence suggests that civic space has been shrinking as a result of the COVID-

[1] The World Justice Project 2020 Rule of Law Index Report also shows performance in the rule of law has declined globally for the third year in a row, demonstrating a clear downward trend.

19 crisis. In some countries, the protection of civic rights and freedoms has been set aside under a state of emergency, the oversight role of the legislature or media reporting on the pandemic have been limited in some others (OECD, 2021, forthcoming[3]). Several OECD countries are currently developing open government policies to address all these issues in an integrated way, building on a new governance paradigm that places citizens at the centre of governments' actions.

38. **More remains to be done to ensure equal participation and representation of all societal groups, including women and youth, in democratic processes.** In 2021, women occupied only 32% of seats on average in parliaments and 34% of federal/central government ministerial positions across OECD countries (OECD, 2021[2]). As highlighted in the Policy Framework for Gender-sensitive Public Governance [C/MIN(2021)21], improving the gender balance in public decision-making can help enhance equity and responsiveness of public policies. Similarly, youth's underrepresentation in parliament indicates the existence of norms, rules and regulations that hamper their participation in democratic processes. In 2020, on average across the OECD, 22% of members of parliaments were under 40, compared to their 34% share among the voting age population (OECD, 2021[2]).

39. **Ensuring that the diverse needs of people are incorporated into the design and delivery of public services can have a transformative role on the capacity of governments to meet all citizens' needs and foster trust in government.** While in 2019, 62% of OECD countries had specific policies in place to increase participation in the testing and evaluation of digital projects (OECD, 2020[4]), further efforts are needed to institutionalise the role of end-users. Sustaining and increasing the engagement of citizens and businesses in open government data (OGD) policies and initiatives can also help democratise the opportunities brought by data-driven innovation across society. Continued action against corruption will strengthen government performance and response to citizens' needs. Similarly, more can be done to promote integrity, transparency and accountability in lobbying, to ensure robust democratic processes. In 2020, only a minority of countries had addressed lobbying risks through transparency and integrity frameworks, and spending on lobbying remains highly concentrated in a few big players in select industries. Risks have also increased related to the use of proxies, including by foreign governments seeking to promote their interests abroad, with little transparency or scrutiny (OECD, 2021[5]). Concerted action to improve access to and delivery of quality government services in all areas, and especially in rural and deprived urban ones, can help ensure diverse citizen needs are met and generate greater trust in government.

40. **Third, it is important to consider how to boost government capacity to address global challenges.** It is becoming increasingly apparent that governance at the national level is failing to deliver what is needed in the context of climate change. Governments need the right skills and institutional set-up to be able to look beyond the short-term political cycle to effectively address this challenge. The role of centres of government (CoG) is critical here with over 68% of OECD CoG indicating they had responsibilities on supranational issues in 2018 versus 48% in 2014, undoubtedly growing further as a result of the current crisis. Governments will need to do more to gain citizens buy-in to difficult reforms and trade-offs required to address the most pressing global challenges, notably climate change.

41. **The OECD will continue to carry out work on these three dimensions.** This work, carried out under the guidance of the Public Governance Committee (PGC), will include a survey on the drivers of trust in public intuitions in line with the PGC's analytical framework, which is based on the dimensions of responsiveness, reliability, openness, fairness and integrity of government (OECD, 2017[6]). The survey will also look at people's evaluation of government's actions on key long-term policies and global challenges.

Questions for discussion:

- *How can we leverage the OECD, as a group of likeminded countries sharing the same values, to confront global challenges which threaten our shared values, including threats posed by rising autocracy, the climate crisis, and discrepant digital standards?*
- *How can we use the COVID-19 recovery as an opportunity to strengthen our shared values of democracy and trust in government?*
- *How do we mainstream gender equality into everything we do at the OECD and work towards women's full participation in society and the economy?*

Item 3: International Tax Presentation

42. **For over a decade, the OECD and the G20 have worked together on advancing a fairer global tax system, notably ending bank secrecy and the most aggressive forms of international tax avoidance.** Central in this endeavour has been the alignment of taxation with substance to make tax rules fit for the 21st century, on which the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) – the Inclusive Framework – has worked since its inception in 2016.

43. **The international tax rules are 100 years old and no longer work in the context of today's globalised and digitalised world.** Two problems stand out:

- **First, Multinational Enterprises (MNEs) are only obliged to pay tax in foreign markets where they have a physical presence**. While this made sense a century ago, when business revolved around factories, warehouses and physical goods, in today's digitalised world, MNEs often conduct large-scale business in a jurisdiction with little or no physical presence there.
- **Second, MNEs are currently able to avoid paying tax by shifting their profits to very low-tax jurisdictions.** This is a long-standing issue, but the growth of highly mobile intangibles like brands, copyrights and patents as a key source of profits has made it easier for MNEs to escape taxation on sizable profits. The OECD estimates corporate tax avoidance costs anywhere from $100-240 billion annually, or 4-10% of global corporate income tax revenues.

44. **These challenges can only be effectively addressed through a multilaterally agreed solution.** That is why the G20 asked the Inclusive Framework to address the tax challenges arising from the digitalisation of the economy by mid-2021.

45. **This work has become all the more important as countries and jurisdictions continue to enact unprecedented fiscal packages to counteract the effects from the ongoing COVID-19 crisis in an effort to support households and businesses and keep the economy afloat.** The need for international co-ordination to ensure that the world's largest and most profitable companies pay their fair share of taxes in the market jurisdictions where their users and customers are located and restore stability to the international tax framework is greater than ever, as the COVID-19 pandemic has accelerated digitalisation, public finances are increasingly strained and there is no tolerance for tax avoidance by multinational companies (MNEs) in the current environment.

The Inclusive Framework's Two Pillar Solution

46. **The Inclusive Framework has worked on these issues for several years.** On 1 July 2021, the historic '*Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*' laid out the key elements of a new global tax system (OECD, 2021[7]). As of 31 August 2021, 134 countries and jurisdictions – representing more than 90% of global GDP – have joined the two-pillar solution to reform the international taxation rules and ensure that multinational enterprises pay their fair share of tax wherever they operate. To date, only six of the Inclusive Framework's 140 members have not yet joined the Statement.

47. **The Statement provides the key elements of a two-pillar package**.

- **Pillar One brings dated international tax rules into the 21st century.** It gives market jurisdictions new taxing rights over the largest and most profitable MNEs (those with a global turnover above EUR 20 billion and profitability above 10%) whether or not there is a physical presence. Extractives and regulated financial services are excluded from Pillar One's scope.
    - The new taxing right for market jurisdictions involves the reallocation of a portion of profits (20-30%) above a set profit margin to the market jurisdictions where an MNE's users and customers are located. This amounts to a reallocation of taxing rights over approximately USD 100 billion.
    - Pillar One will contain features to ensure tax certainty through effective dispute prevention and dispute resolution mechanisms for covered MNEs to address any risk of double taxation.
    - Pillar One also entails the standstill and withdrawal of unilateral measures, such as digital services taxes (DSTs), thereby restoring stability to the international tax system.
- **Pillar Two establishes a minimum tax on corporate profit of at least 15%, putting a floor on tax competition.** Pillar Two does not eliminate tax competition, but it does set multilaterally agreed limitations on it. Governments that have joined the Statement have agreed to allow additional taxes on the foreign profits of MNEs headquartered in their jurisdiction up to an agreed minimum rate.
    - These rules will apply to MNEs with a EUR 750 million turnover, (with exclusions for certain entities like government entities, and pension or investment funds).
    - Pillar Two will include a substance-based carve-out where companies carry on real activities.
    - Pillar Two is expected to generate more than USD 150 billion in new tax revenues globally.

48. **The two-pillar package** will restore the stability of the international tax system and reduce trade tensions arising from the proliferation of unilateral measures such as digital services taxes to address the tax challenges arising from the digitalisation of the economy and ensure that large multinational companies pay a minimum level of corporate income tax.

The OECD is working to finalise the remaining elements of the solution

49. **The immediate need is to finalise the remaining elements of two-pillar solution**, as the Inclusive Framework members must still agree on a number of points – for example, it has been agreed that the profit to be re-allocated will be somewhere between 20% and 30% but the precise percentage in the range is still to be decided. The July 2021 Statement includes a commitment to continue discussions to take a final decision on these and other design elements within the agreed framework by October 2021 and every effort is being made to achieve full consensus within the Inclusive Framework. The G20 Finance Ministers echoed this commitment at their July meeting, calling on the Inclusive Framework to finalise the elements for an agreement in October, together with an agreement on an implementation plan. The Inclusive Framework will hold a virtual plenary meeting in early October to finalise the agreement and the implementation plan.

50. **For Pillar One, the detailed implementation plan will include the development of the multilateral convention through which the new taxing right (i.e. Amount A) is implemented.** It is expected that the multilateral convention will be opened for signature in 2022. The implementation plan will also include elements to ensure that the work on Amount B (simplification measures) will be completed by 2022. The implementation plan will also cover any necessary model legislation and additional guidance that may be needed for effective implementation.

51. **For Pillar Two, the implementation plan will include all the elements necessary to ensure that Pillar Two can be brought into law in 2022, to be effective in 2023.** The implementation plan will contain model rules with appropriate mechanisms to facilitate over time the coordination of the new rules that will be implemented by Inclusive Framework members, including the possible development of a multilateral instrument for that purpose, and transitional rules with the possibility of a deferred implementation of some of the rules.

Tax and gender

52. **Taxes can have important implications for gender equality that require consideration and adaptation by policymakers**, particularly in the post-COVID world, where many underlying gender inequities have been exacerbated. It is important that both the direct impacts of tax on gender equity as well as its interaction with underlying social and economic inequalities be considered to understand the impact of tax on gender equality.

53. **In recent years, the OECD has started to develop a framework to assess the impact of tax systems on gender equality.** CTPA's work on tax and gender builds on reports looking at tax policy, including through the working paper on the impact of tax and benefit systems on the workforce participation incentives of women (Thomas and O'Reilly, 2016[8]), and with the Taxing Wages 2016 Special Feature on Measuring the tax wedge on second earners (OECD, 2016[9]). These reports highlight how various tax design features create greater labour participation disincentives for second earners (often women) than for primary earners or single individuals, therefore, raising gender equality concerns. A blogpost published in June 2020 describes the implications of taxes on gender equality in the light of the COVID-19 pandemic, which is exacerbating existing gender differences and calls for consideration of tax policy to compensate for differences in income levels as part of governments' long-term response to the crisis (Harding, Perez-Navarro and Simon, 2020[10]).

54. **The OECD has** carried **out earlier projects that touch on tax and gender in relation to work on taxes and inclusive growth**, notably through the report on the Fiscal Approach for Inclusive Growth in G7 Countries, presented to the G7 in 2017 (OECD, 2017[11]).

55. **CTPA is also looking at gender and tax administration through the OECD Forum on Tax Administration's Gender Balance Network**, which aims to be a catalyst for positive institutional change to improve gender balance in tax administrations' leadership positions. The Secretariat has undertaken research on the impact of gender on tax compliance issues, in particular in developing countries, through the work on tax morale – which measures the willingness of businesses and individuals to pay taxes and analyses their perception of the tax system. This analysis has shown that globally, women have higher levels of tax compliance than men, and that different levels of tax morale across regions are likely to be indicative of perception of how the tax system treats men and women differently – reiterating that gender-disaggregated data is crucial for further work.

56. **In May 2021, the OECD has started a stocktaking analysis** to understand how countries are approaching tax policy and its impact on gender, including previous work done, inclusion in the policy process, key areas of concern and data available for analysis.

Item 4: Building a Green Future – Getting to Net Zero

Breakout Group 1: Innovation and Inclusive Pathways to Net-Zero

57. **Climate change and the degradation of our environment are the defining challenges of this generation and require an all hands on deck approach.** Global carbon dioxide (CO_2) emissions must decline by 45% (compared to 2010 levels) by 2030 and reach at least net-zero globally by 2050 to hold the increase in global average temperature to 1.5°C above pre-industrial levels with no or limited overshoot (IPCC, 2021[12]). However, in 2021, global CO_2 emissions are still above 2010 levels, despite a sharp drop in 2020 due to the COVID-19 pandemic (IEA, 2021[13]). To achieve the 1.5°C goal, the scale of annual CO_2 emissions reductions through 2030 would need to be of a similar order of magnitude to that seen in 2020, when reductions were triggered by significantly reduced economic activities in response to COVID-19 containment measures[2] (Buckle et al., 2020[14]).

58. **Encouragingly, a growing number of countries and other stakeholders are setting net-zero targets as a way of stepping up to such a challenge.** As of 12 December 2020, 124 countries, 73 states and regions, 155 cities, and 417 companies had made some form of commitment to net-zero emissions by mid-century (Black et al., 2021[15]). The challenge now is implementing this ambition, while also ensuring that economies and societies become more resilient to the inevitable impacts of climate change that are already being felt.

59. **Climate change cannot be addressed without tackling two other major forms of environmental stress: biodiversity loss and pollution.** With an integrated approach, action needed to lower global GHG emissions can have positive impacts on ecosystems and the environment as a whole. For example, sustained reductions in non-CO2 emissions such as methane (CH_4), required to limit the warming effect, would result in improved air quality (IPCC, 2021[12]). Beyond actions for the mitigation of global GHGs, meeting climate and other environmental goals will require the promotion of resource efficiency and the transition to a circular economy (OECD, 2021[16]).

60. **The multidisciplinary nature and broad policy reach of the OECD makes it ideally placed to support countries in implementing the complex reforms needed to achieve effective implementation of climate ambitions and other environmental goals.** The OECD's comprehensive Organisation-wide approach to supporting climate action, structured around five pillars, is described in C(2021)131. Among other elements, the broader framework highlights the importance of driving innovation to deliver the changes required, while retaining a strong focus on inclusiveness and public support. Effective action also requires an enhanced focus on monitoring, indicators and accountability, which is a key objective of the OECD's new International Programme for Action on Climate (IPAC).

The importance of innovation for the net-zero transition

61. **Technology is fundamental to enable the transition to a net-zero world, and efforts to scale up low-carbon technologies need to be significantly accelerated.** Technological progress reduces the investment costs of emissions reduction policies, as demonstrated by sharp declines in the costs of batteries and solar, which have both experienced a 90% reduction over the past decade. However, reaching net zero by 2050

[2] Though significantly lower for a 2°C goal (perhaps around 2-4% reductions per year).

requires not only the rapid deployment of currently available technologies, but also innovation in breakthrough technologies that are not on the market yet. According to the IEA, half of the global reductions in CO_2 emissions through 2050 will have to come from technologies that are currently at the demonstration or prototype phase (IEA, 2021[17]). For example, electrification, including for transportation and heavy industry, is expected to be a key pillar in global decarbonisation. This will create significant growth in demand for electricity generation (IEA, 2021[17])and lead to transformative changes across economies. It will require massive investments in innovation, infrastructure, and deployment of low carbon technologies, including renewable energy, nuclear energy, and carbon capture, utilisation and storage/sequestration (CCUS), in addition to energy storage, energy efficiency, and demand side management, among other measures.

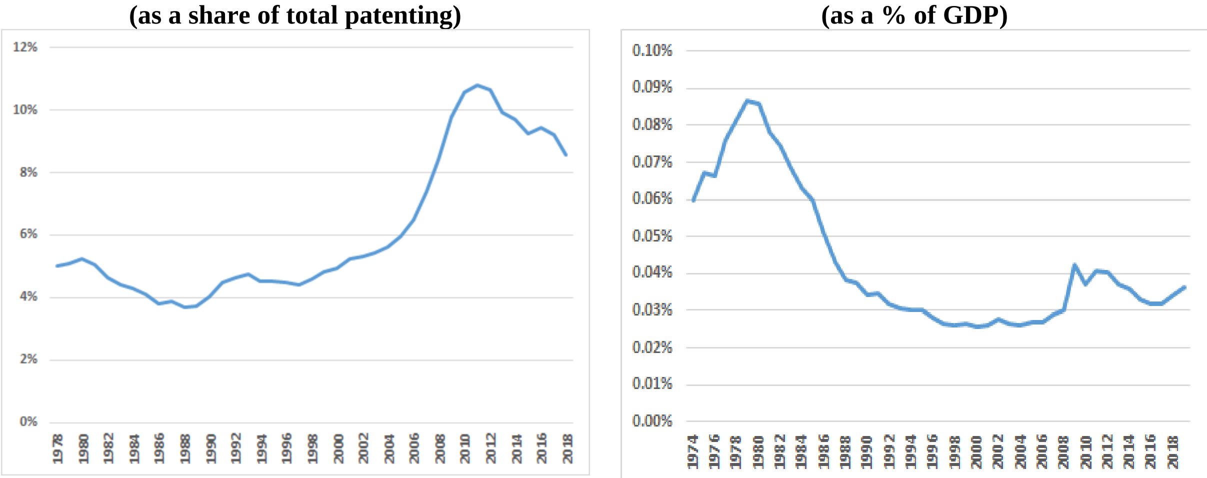
62. **Innovation is not only important because it can help reach climate change objectives, but also as the main source of modern economic growth.** Technology and innovation may help enable a green future that goes hand-in-hand with new growth opportunities and strengthened productivity growth. However, after strong progress in the early 2000s, low-carbon innovation efforts (as evidenced by patent filings – Figure 1) have recently declined despite ambitious climate objectives, as set out by the Paris Agreement. Public spending on low-carbon R&D has not kept pace either (Figure 1).

63. **To encourage investment in R&D and new or enhanced low-carbon technologies, firms need the right incentives, such as carbon pricing, credible and flexible regulations, as well as technical standards.** Such incentives should be complemented with strong innovation policies, including public investment in science and applied R&D aimed at breakthrough technologies; support for demonstration projects; targeted support for the adoption of existing technologies and the development of breakthrough technologies, as well as support for the creation and growth of innovative start-ups, that are typically major contributors to the development of radically new technologies. This policy package requires a stable, long-term and credible commitment and must also include investment in relevant infrastructure, education and skills, and leverage cross-country collaboration on research and the development of breakthrough technologies.

Figure 1. Low-carbon innovation – key indicators

Low-carbon patent filings, 1978-2018 (as a share of total patenting)

Low-carbon public R&D, 1974-2019 (as a % of GDP)



Source: IEA, Energy RD&D expenditure database; Worldwide Patent Statistical Database (PATSTAT), maintained by the European Patent Office and available through: https://www.oecd.org/sti/intellectual-property-statistics-and-analysis.htm#ip-data).

A focus on systems innovation to support inclusive pathways to net-zero

64. **Technology and innovation policies should therefore not stand on their own in the transition to net-zero systems, but should be integrated in a broader, systemic approach.** Pathways focused solely on decarbonising the economy through incentivising technological changes with high levels of future energy (and material) demand may exacerbate other environmental and social challenges, while also requiring large-scale deployment of carbon removal technologies in the second half of the 21st century (IPCC, 2018[18]).

65. **Systems innovation goes beyond technological innovation** (OECD, 2011[19]). Non-technical innovation, such as process innovation, innovative climate action, innovative governance arrangements, new business models, and improved financial frameworks are key to the transition to net-zero systems across sectors and at different levels of governance. In the context of net-zero pathways, systems innovation is about designing policies that help to deliver overall systems that are low energy and low material by design while also inclusively improving well-being (Buckle et al., 2020[14]).

66. **Pathways that focus on systems innovation can unleash early mitigation potential while offering greater opportunities to improve life quality compared to pathways focused on decarbonising current systems** (OECD, 2021[20]; Buckle et al., 2020[14]; Fulton et al., 2017[21]). Such pathways also have greater potential to ensure a just transition by embedding equity and other well-being considerations (e.g. accessibility, health, biodiversity, and gender equality[3]) from the onset, setting the conditions so that policies that are politically difficult (e.g. due to equity concerns) become more publicly acceptable (Buckle et al., 2020[14]). For example, while carbon pricing is an important prerequisite for a rapid transition, 60% of emissions continue to be unpriced. This is partly due to challenges of political acceptability, which are aggravated by carbon pricing policies being embedded in systems where the alternatives to high-emission behaviour are limited (e.g., fuel prices in car-dependent systems) (IMF&OECD, 2021[22]). A focus on systems innovation can help to overcome this. Such approaches also facilitate the use of nature-based solutions and the synergies between circular economy goals and climate objectives (OECD, 2019[23]). They can also help address the distributional implications that green policies can have on jobs at the sectoral or regional level (OECD, 2021[24]).

67. **The OECD has developed a process – the well-being lens – to help governments focus policy efforts on re-designing systems (i.e. systems innovation) and foster pathways towards systems that improve life quality and well-being while lowering demand and emissions** (OECD, 2021[20]). This approach builds on the OECD Well-being Framework of indicators (OECD, 2017[25]; Buckle et al., 2020[14]). For example, in the transport sector, in parallel to improving vehicle emission performance, policy efforts focused on designing car independent systems[4] need to be central, as these can drastically cut emissions while improving life quality, health (e.g. reducing pollution and increasing physical activity), and equity and inclusiveness (e.g. by increasing accessibility for women who rely more on public transport and walking).

[3] A significant body of literature on gender equality shows that women are more vulnerable to climate change. This is mainly due to their higher dependence on natural resources coupled with structural inequity in their access to such resources. Re-designing systems through a well-being lens includes re-thinking systems taking gender into consideration and correcting the existing gender bias.

[4] In car independent systems, sustainable modes such as walking, cycling, or public transport are the fastest, safest and most convenient transport options. Cars (and private motorised vehicles more broadly) are available as needed, but, differently to car-dependent systems, they are not the most attractive or only option to access opportunities and places.

OECD work to promote innovative and inclusive pathways to net zero

68. **A number of ongoing and forthcoming OECD initiatives and publications support countries in the transition towards net-zero emissions while adopting a systemic approach to policymaking**, equipping them with tools and policy advice to design better (net-zero and just) systems for better lives. Key contributions include:

- **Advancing the Horizontal Project on *Building Climate and Economic Resilience in the Transition to the Low-carbon Economy*.** The project is drawing on the OECD's multidisciplinary strengths to provide tangible recommendations for how to better integrate climate change factors into efforts to improve economic and social resilience in the aftermath of COVID-19. This will include new modelling-based analysis of a policy approach that not only accelerates the transition towards net-zero emissions, but also ensures that the transition itself is just, durable over time and resilient to changing economic and social conditions.

- **Supporting countries' efforts to achieve the objectives of the Paris Agreement.** As part of the Horizontal Project on Building Climate and Economic Resilience, the new International Programme for Action on Climate (IPAC) will help countries to progress towards net-zero greenhouse gas emissions and a more resilient economy by mid-century, considering the common but differentiated responsibilities, the respective capabilities and national circumstances. IPAC will provide information and tools to monitor, evaluate and improve the effectiveness of participating countries' climate actions. It will enable the sharing of good practices and provide targeted policy advice and internationally harmonised indicators that are complementary to the United Nations Framework Convention on Climate Change (UNFCCC) and aligned with the objectives of the Paris Agreement (PA)[5]. As one of its four components, the IPAC preliminary Dashboard is a reference for measuring progress towards climate goals and includes indicators that are different and complementary to indicators already used in other fora. Building on the OECD's expertise and value–added, it focuses on direct "pressures" (i.e. emissions) and on "responses" (i.e. actions and opportunities) that are at the heart of IPAC. A few "state" indicators complete the picture by reflecting key impacts and risks arising from climate change. This includes three indicator placeholders, yet to be developed, around climate-related budgets, expenditure and finance, adaptation measures, and labour market opportunities arising from climate action. A first edition of the preliminary Dashboard, presents currently available indicators and will also inform the progress report on the IPAC Climate Action Monitor that is being prepared as a deliverable to the COP26.

- **Highlighting the characteristics of countries' net-zero emissions targets.** Forthcoming analysis by the OECD-IEA Climate Change Expert Group (CCXG) will describe country targets and discuss experiences with translating net-zero targets into near-term plans, as well as the impact of relying on international carbon markets to achieve countries' net-zero targets (Jeudy-Hugo, Lo Re and Falduto, Draft[26]).

- **Supporting the transition towards net-zero emissions through external action and support to developing countries.** This includes providing the evidence base to support a declaration by the OECD Development Assistance

[5] For countries that are Parties to the Paris Agreement.

Committee on Climate, Environment and Biodiversity to be issued prior to COP26. **Aligning development co-operation in support of developing countries' net-zero transitions.** This is at the forefront of the OECD sustainable development policy agenda (OECD, 2019[27]). Accordingly, the OECD is building on its broad range of policy expertise to support the alignment of all development finance - including official development assistance - with the objectives of the Paris Agreement, net-zero transitions, and broader sustainable financing for developing countries.

- **Engaging business in translating net zero related policy commitments into firm-level action.** The OECD Centre for Responsible Business Conduct (RBC) is working closely with the Environment Directorate, as well as UNEP, UNFCCC and business, to develop practical tools and tailored guidance for business and investors on implementing the OECD Guidelines for MNEs and OECD guidance on due diligence for RBC in the context of climate action. These tools will address embedding net zero targets across business operations and supply chains, as well as just transition priorities.

- **Supporting a people-centred green transition.** The OECD Environment Directorate and the Centre for Well-Being, Inclusion, Sustainability and Equal Opportunity (WISE) have collaborated on work that explores the inequalities-environment nexus, building on the multi-dimensional lens of the OECD Well-being Framework. It analyses the impacts of environmental degradation and environmental policies on different groups, and finds that the largest negative impacts of both environmental degradation and environmental taxation policies (in the absence of targeted support measures) are concentrated on vulnerable groups and households. It provides an integrated policy approach to help support a people-centred green transition (OECD, 2021[24]).

- **Acknowledging the potential environmental impact of communication networks.** The recently adopted OECD Recommendation on Broadband Connectivity [OECD/LEGAL/0322], which seeks to guide governments in ensuring equal, high-quality access to connectivity for all, calls on governments to adopt mechanisms to minimise negative environmental impacts, including through smart infrastructure and periodic reporting. The OECD's Committee on Digital Economy Policy, through its Working Party for Communication Infrastructures and Services Policy, is collecting data and developing indicators on these positive and negative impacts in the short-, medium, and long-term.

- **Supporting the transition towards net-zero emissions through external action and support to non-OECD/developing countries.** This includes providing the evidence base to support a declaration by the OECD Development Assistance Committee on Climate, Environment and Biodiversity to be issued prior to COP26.

- **Proposal for creating an OECD/G20 Inclusive Framework on Explicit and Implicit Carbon Pricing.** As countries appropriately approach the net-zero transition at difference speeds, an international and multidisciplinary approach is needed to understand and implement constructive approaches to better measure the cost of decarbonisation beyond carbon pricing and to evaluate its impact and possible spillovers, such as carbon leakage. The proposal (jointly implemented by CTP, ECO, ENV and TAD) will seek to comprehensively map explicit carbon prices, drawing on existing work on Effective Carbon Rates and Taxing Energy Use, as well as estimate the cost equivalence of non-market measures to construct implicit carbon prices. It will also assess non-price based mitigation policies, developing a common methodology to identify and quantify policy measures considered as implicit carbon price mechanisms. This analysis aims to allow for a meaningful and transparent comparison of the equivalence in terms of level of effort through different policy approaches across jurisdictions. As an inclusive body, it would be open to all interested parties.

- **Harnessing the power of taxes and tradable permit systems for environmental and climate policy.** The OECD Centre for Tax Policy and Administration (CTP) is updating its Taxing Energy Use and Effective Carbon Rates publications to include recent developments in G20 countries, in advance of COP26, which will include developments in fuel taxation, carbon taxation, and emissions trading systems between 2018 and 2021 (OECD, 2019[28]; OECD, 2021[29]).
- **Assessing the effects of land use sectors on climate change.** The OECD work on agriculture measures the performance of the sector and identifies the policies needed to enable the agriculture, forestry and other land use sectors (which account for almost a quarter of emissions) to reduce emissions while feeding a growing global population and providing livelihoods worldwide. This includes agri-environmental indicators; annual monitoring and assessment of agriculture support policies; evaluation of climate-related agriculture and land use policies via country reviews, policy analysis, and applied modelling; and extensive work on building resilience in the face of a changing climate.
- **Several initiatives help to develop a systemic perspective within the Organisation**. The *New Approaches to Economic Challenges* (NAEC) initiative contributes, since 2018, provides a space for debate and identifies tools to equip policymakers to solve the complex issues countries face (OECD-NAEC, 2021[30]). Similarly, the *Observatory for Public Sector Innovation* (OPSI) works with governments to understand and encourage new approaches to address society's complex problems by empowering public servants with new insights, knowledge, tools, and connections to help them explore new possibilities (OECD, 2018[31]).
- **Enriching climate-related innovation indicators.** The OECD Science, Technology and Innovation Directorate is identifying trademarks protecting climate-related goods and services, and start-ups developing and commercialising climate-related technologies. These new indicators will feed into the IPAC initiative and will be used to analyse policies conducive to the development and diffusion of climate-friendly technologies.

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Questions for discussion:

- *How can policy-makers better support and accelerate the innovation of key technologies and policies needed to achieve the net-zero transition? How can these efforts ensure an inclusive transition that creates new opportunities for men and women workers and their communities, and address justice and equity implications of this structural transformation?*
- *How do we mobilise non-government stakeholders, including the private sector, to help reach net-zero?*

- *What barriers do we see to achieving these net-zero goals, and how can we address them?*

Breakout Group 2: Green Finance for Net-Zero

69. **At a time when public investment is being channelled into COVID-19 recovery efforts, governments can play a critical role in leveraging finance to support the allocation of capital towards net-zero- emissions pathways.** For this reason, mobilising finance is at the heart of one of the five pillars of the OECD's organisation-wide approach to climate action [C(2021)131]. The challenge is ever more pressing as achieving the climate objectives agreed in the Paris Agreement requires an unprecedented acceleration of financial flows into climate-aligned investments, and a structural shift away from investments in emissions intensive activities (OECD, 2017[32]). Over the past few years, many countries have recognised this and developed approaches to scale up green finance and better align capital to the objectives of the Paris Agreement. These approaches include, among others, definitions, taxonomies, ESG ratings, verification and certification schemes, advanced through processes such as the EU taxonomy and International Platform on Sustainable Finance, which are basic conditions for the emergence of effective and transparent markets. They also relate to tools that support portfolio or institutional level alignment, for example decarbonisation scenarios and science-based- targets.

70. **While progress has been made, with such approaches showing potential to improve information flow, price discovery, market efficiency and liquidity in support of a low-carbon transition, current market conditions and practices are still far from aligning finance with environmental and climate-related objectives.** In particular, existing green and transition finance definitions and taxonomies currently diverge in the activities and instruments covered, with limited interoperability (OECD, 2020[33]). In the case of ESG ratings and investment approaches, inconsistencies in the construction of such ratings and related portfolios use a multitude of different metrics, with insufficient quality of forward looking metrics which prevents them from supplying consistent and comparable information on transition risks and opportunities across firms and jurisdictions (OECD, 2020[34]). In addition, a proliferation of approaches to support climate-aligned finance have given rise to market fragmentation concerns and potential risks of "greenwashing".

Ongoing efforts to promote green finance

71. **Following the entry into force of the Paris Agreement in 2016, the OECD, other international organisations, and financial authorities have undertaken a substantial amount of analysis to assess the economic consequences and risks of climate change**, as well as the net benefits to the climate transition through better alignment of financial flows with sustainability goals. Efforts have notably focused on the need for greater data by which to assess climate-related risks and opportunities to support green and climate-aligned finance approaches, and encourage consistency and interoperability across definitions and taxonomies. Central banks and finance ministries are also conducting research to assess the extent to which physical and transition climate-related risks will impact their portfolios and financial markets more broadly, including through climate stress scenarios.

72. **The OECD has contributed through analysis to strengthen alignment with net-zero pathways and policy considerations across economic, financial, environmental and developmental issues.** This includes extensive work on ESG investing and high-level considerations to support global principles on metrics, ratings approaches, alignment with materiality (OECD, 2020[35]; OECD, 2020[36]; OECD, 2020[34]) including for the G20

Sustainable Finance Working Group under the Italian G20 Presidency, as well as country-level pilots to develop a robust methodology to evaluate the climate alignment of real economy investments (Jachnik, 2021[37]; Dobrinevski, 2020[38]). Analytical work on national and international sustainable finance taxonomies, definitions and guidance (OECD, 2020[33]), including those relevant to transition and green finance, has also been conducted. Further, OECD standards such as the OECD Guidelines for Multinational Enterprises and OECD Due Diligence Guidance for Responsible Business Conduct are already being integrated into sustainability reporting frameworks and national legislation.

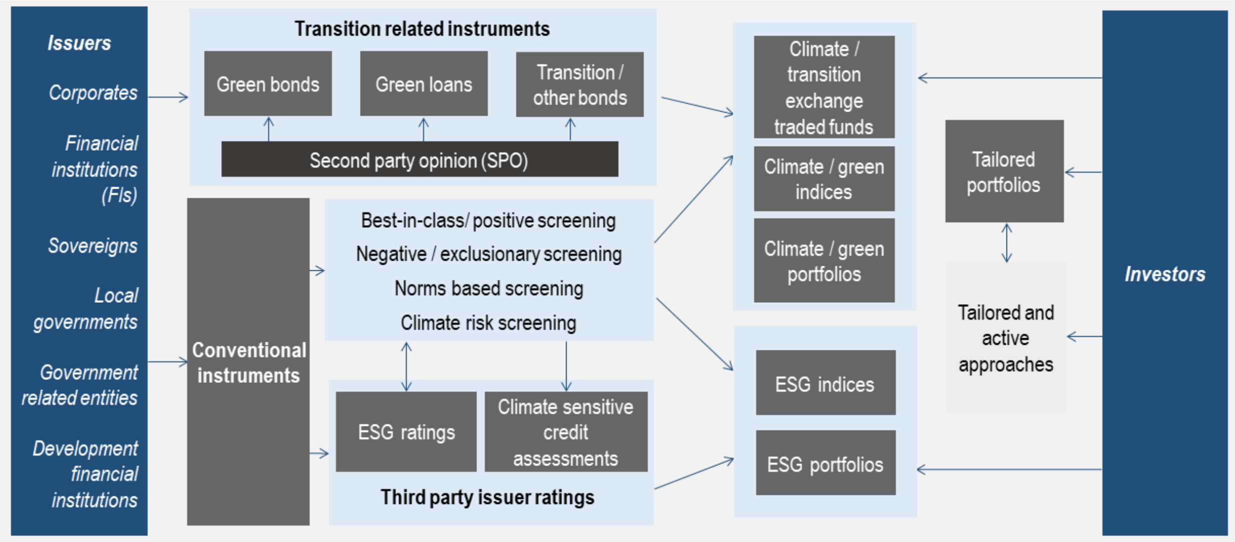
73. **The challenges of ESG investing are particularly salient in the area of infrastructure given the critical role that the infrastructure sector needs to play in decarbonisation.** In response, some countries are seeking to provide overarching frameworks that can support private sector efforts to develop and invest in sustainable infrastructure by streamlining existing standards and reporting frameworks. For instance, the Blue Dot Network, an initiative founded by Australia, Japan and the United States to which the OECD provides technical support, seeks to certify quality infrastructure investments such as those that are aligned with pathways to achieve net-zero by 2050 (OECD, 2021[39]). The OECD Nuclear Energy Agency (NEA) is contributing to fostering the understanding of the nuclear sector reporting against ESG as part of its technical secretariat for the Generation IV International Forum (GIF, forthcoming). In addition, as financial development is a key dimension of the broader development process, OECD work on greening the financial system for development aims to support the scaling up of green and climate-aligned finance in non-OECD countries. This also includes analysis of opportunities and risks for developing countries associated with the greening of financial systems, with a view to ensure developing countries can benefit through increased investments, and avoid adverse impacts from this process. Similarly, work on unlocking enhanced financing for developing countries, such as through Blended Finance, and the OECD Blended Finance Principles, also focus on supporting environmental sustainability of investments.

74. **The OECD is also actively contributing to international progress on net-zero alignment through participation in international workstreams** across the UNFCCC Standing Committee on Finance, G20 Sustainable Finance Working Group, Financial Stability Board (FSB), Network of Central Banks and Supervisors for Greening the Financial System (NGFS), and the establishment of the International Financial Reporting Standards Foundation's International Sustainability Standards Board (ISSB) that will help to incorporate the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

75. **Private sector initiatives have also contributed to the development of taxonomies, sustainable and green finance products, ESG ratings and investment approaches, as well as approaches for assessing climate alignment.** These initiatives include the development of labelled bonds and loans (e.g. green, social, sustainable and sustainability-linked), third party verification and rating methodologies (namely ESG rating), as well as specialised data providers. Increasing attention is also being paid to channel greater capital to support high-emitting sectors with no viable green substitute or ability to transition to lower emissions (Tandon, 2021[40]). While such progress, including approaches and products to support a low-carbon transition are promising, OECD analysis highlights that there remain considerable challenges that hinder the efficacy of such approaches in supporting net--zero emissions pathways and in promoting consistent and efficient pricing of climate-related risks across assets. These challenges include the promulgation of different approaches (including definitions), data inconsistencies, lack of comparability of ESG criteria and rating methodologies, as well as inadequate clarity over the extent to which such approaches align with low-carbon activities (OECD, forthcoming[41]). In addition, the granularity and consistency of data remains dispersed, with limited alignment with science--based targets to

create feasible emission reduction pathways (including sequestration options) for high-emitting and hard to- -abate sectors (OECD, 2021, forthcoming[42]; Jachnik, 2021[37]).

Figure 2. A growing number of sustainable investment financial market products and practices are emerging



Note: Non-exhaustive illustration
Source: OECD (2021), Financial Markets and Climate Transition, OECD Publishing, Paris

Next steps: Towards an OECD ESG Risk Policy Framework

76. **Further steps are needed to strengthen the integration of climate transition risks and opportunities into market frameworks and products in a manner that enhances market efficiencies to support an orderly low-carbon transition.** Importantly, there needs to be improved assessment, management and disclosure of corporates' and financial actors' adverse climate-related risks and impacts on society and the planet to support effective valuations, capital allocation, and risk management in line with due diligence standards on responsible business conduct (OECD, 2011[43]; OECD, 2018[44]). This includes improving the metrics by which to assess companies' environmental and climate transition-related strategies in line with science-based targets, and greater commitment to the verification of such strategies, so that market participants are better able to track commitments to actions over time (OECD, 2020[34]). In addition, greater transparency, consistency, comparability of metrics and methodologies used in green and climate-aligned finance approaches are needed to support better alignment with climate-related objectives (OECD, 2021, forthcoming[42]). Moreover, countries that are at earlier stages of development in their climate transition strategies are in need of capacity building to help strengthen policy, regulatory, and market practices, while maintaining a level playing field, including through effective competition policy.

77. **To support this, the OECD will continue to develop evidence-based policy analysis, guidance and recommendations with the aim to support the effective integration of climate-related risks and opportunities into market frameworks and products.** The OECD aims to develop an ESG Risk Policy Framework which will provide a coherent structure to guide the following initiatives, many of which are now reflected in G20 Sustainable Finance Working Group and FSB roadmaps:

- **Further analysis of challenges and recommendations to strengthen frameworks and the assessment of alignment with low-carbon economies.** This includes policy considerations to strengthen the interoperability of climate finance definitions, address current market fragmentation, improve the comparability of ESG rating approaches and the alignment of climate-aligned assessment methods and metrics, considering infrastructure financing needs to support the energy transition, and additional analysis on non-financial environmental metrics to ensure that long-term value aligns with net zero and broader environmental sustainability.
- **ESG and climate transition definitions, transition finance principles, and due diligence guidance on Responsible Business Conduct to support the integration and management of climate risks, all of which will support tangible progress toward international sustainable finance priorities, including the G20's.** This includes high-level guidance and principles to support the integration of climate -related risks and opportunities into approaches and definitions that support green and transition finance.
- **The updating of legal instruments**, where needed, to incorporate recommendations related to ESG, environmental considerations and policies to strengthen the alignment of governance, finance, and responsible business practices with the transition to net zero, including policy recommendations to feed into international initiatives.
- **Capacity building to help national authorities**, particularly in developing countries, better align economic and financial systems with climate resilient sustainable and inclusive growth. In this manner, the OECD could serve to provide an integrated capacity-building platform to ensure that countries take a whole-of government approach.

Questions for discussion:

- *The mobilisation of private sector investment is key to the transition towards a more sustainable net zero economy. Different jurisdictions have already or are in the process of defining green and sustainable activities and developing standards to facilitate transition finance. How can individual jurisdictions as well as the OECD support comparability and interoperability of standards as well as ESG and climate transition across financial markets?*
- *In order to efficiently direct investments into sustainable, green and carbon-neutral activities, as well as meet their own disclosure obligations, financial institutions require consistent and reliable data. Given the global nature of capital markets, how can we ensure consistency and standardisation of ESG and climate metrics as well as rating approaches across markets and regions? What would be the role of the OECD in taking the work forward in this regard?*
- *Incorporating and managing climate-related risks, as well as sustainability risks more broadly, will play an increasingly important role, both from a financial stability perspective as well as through creating investment opportunities that support an orderly market-based climate transition to low-carbon economies. Therefore, the successful integration of ESG risks calls for an alignment across good market practices, responsible conduct guidance, corporate governance*

principles, and climate-specific policy recommendations. How can the OECD best contribute to a coherent international framework to support these efforts?

Item 5: Promoting Trade for All

78. **For trade to work for all, trade and investment policies must be, and be perceived as, fair across countries, and the benefits of trade distributed fairly within countries.** These policies, along with domestic policies[6], can affect countries' ability to participate in, and benefit from, trade, and the shared benefits from trade and investment within countries. Central to the shared benefits of trade across and within countries is a well-functioning, rules-based multilateral trading system. To this end, WTO Members are discussing reform of the WTO to ensure a multilateral trading system that is free and fair for all, and an updated rule-book able to respond to growing challenges on the trade agenda, from digital economy to government support.

79. In a globalised economy, concerns about government support have focused on both international competition and domestic jobs, and there are debates about how labour standards affect shared national and international gains from trade and how trade and investment can support higher labour standards globally. Social risks in global supply chains have also underscored the importance of embedding appropriate social safeguards into business operations. This section will focus on how trade and investment policies can promote fair and open global markets, helping to restore public confidence in those markets and ensure that they help deliver better lives for all citizens.

Leveraging Trade and Investment to Promote Inclusive Growth

80. **Questioning of the benefits of globalisation has its roots in some alarming trends, including rising inequality in income, wealth and opportunity, and less redistributive tax and benefit systems** (OECD, 2018[45]; OECD, 2019[46]). New concerns also relate to the impact of the digital and green transformation on jobs, and the impact of COVID-19 on inequality. While globalisation goes beyond trade, there is a need to ensure that the opportunities from trade are shared among consumers, traders and workers, that women fully share in these opportunities, and to better understand how trade policy, and trade agreements, can support more inclusive trade.

81. **Internationally recognised labour standards such as ILO core labour standards, covering freedom of association, forced labour, child labour and discrimination[7] have been a key issue, but attention has also focused on wages and working conditions in global supply chains.** Debate is centred on:

- **The relationship between trade and labour standards**: core labour standards and competitiveness; whether lower standards in trading partners put downward pressure on the quality and quantity of domestic jobs; labour standards in traded

[6] This includes broader domestic policies to encourage opportunity, innovation and competition; investments in education and training, physical and digital infrastructure; and transparent regulation underpinned by the rule of law (OECD 2017).

[7] Of the 8 ILO Conventions concerned, most OECD members (33) have ratified all. Australia and New Zealand have not ratified C138 (child labour); Japan has not ratified C105 (forced labour) and C111 (discrimination); Korea has not ratified C105; and the US which has not ratified C087, C098 (both freedom of association), C029 (forced labour), C100 (discrimination), C111, and C138. Among G20 members, 12 have ratified all 8 Conventions while Brazil has not ratified C087; China has not ratified C087, C098, C029, C105; and India and Saudi Arabia have not ratified C087 and C098. In August 2020, the Australian Government agreed to progress C138 ratification processes. Three Australian state and territory jurisdictions will need to amend their legislation to address a risk of non-compliance.

and non-traded sectors; and the role of trade vs. domestic policies in shaping outcomes.

- **The possible contribution of trade and investment agreements in promoting labour standards**: which actions are most effective; the feasibility of linking market access to core labour standards; the role of trade and investment negotiations in promoting labour standards; and who monitors compliance, including the role of the ILO.

Trade and labour standards

82. **At the multilateral level, linking trade and labour standards remains controversial; the WTO focuses on trade and the ILO on labour standards[8].** More has been done in preferential trade agreements (PTAs), including as part of broader sustainable development chapters. There is a continuum of approaches: from "do no harm", where parties commit not to lower standards; and pledges to uphold existing international commitments, notably ILO core labour standards; to requiring countries to enforce their own labour laws; undertakings to provide technical assistance and capacity building; and complaints mechanisms, including expert panels and stakeholder involvement. Recently, some agreements have included more specific standards (including on wages) and there have been calls for stronger enforcement of existing provisions. Gender chapters in PTAs have largely focused on upholding international obligations, dialogue and technical cooperation, accompanied by a "gender lens" in impact assessments, identifying provisions with particular benefits for (e.g., trade facilitation) or impacts on women. Other proposals call for trade provisions specifically targeted at gender discrimination (e.g., by treating it as a restriction on trade in services). The recent Global Trade and Gender Arrangement[9] makes reference to WTO provisions, OECD RBC standards and ILO labour standards.

83. **Attention is also now focused on forced labour, both in the context of global supply chains, and as part of broader human rights concerns**, with G7 Trade Ministers agreeing to launch an exchange on the issue with the aim of developing recommendations based on best practices to prevent, identify, and eliminate forced labour in global supply chains. A proposal on forced labour has also been tabled in WTO negotiations on fisheries subsidies. A growing number of countries are adopting Responsible Business Conduct (RBC) regulations, strengthening due diligence requirements to ensure businesses address sustainability risks, including forced labour, in their supply chains (OECD, 2021[47]). Governments are also increasingly deepening work on promoting responsible business conduct, including through examining how to leverage trade and investment policies and other instruments.

OECD work on trade for all

84. **The OECD has a long history of analysing trade and labour** (OECD, 1996[48]; OECD, 2018[49])[10]**, and has developed innovative indicators on employment and global value chains[11]**. *Making Trade Work for All* (OECD, 2017[50])called for both domestic

[8] See WTO Singapore Declaration paragraph 4, notwithstanding the GATT Article XX exception for products of forced labour.

[9] The Global Trade and Gender Arrangement (GTAGA) is an initiative addressing gender in trade signed in 2020 by Canada, Chile and New Zealand.

[10] E.g., OECD (1996); more recently, *2018 Employment Outlook* discussed trade adjustment assistance programmes (OECD 2018b).

[11] See: Employment and Global Value Chains (GVCs) - OECD

policies and investments for opportunity and inclusive growth, and the full range of instruments in the international system (from rules to soft law to dialogue and cooperation), to build open, fair and inclusive global trade. Further work has included lessons from member experience on more inclusive trade policy-making in communicating and engaging on trade agreements (OECD, 2019[51]); analysis of methodologies for sustainability assessments in FTAs (OECD, forthcoming[52]); trade and gender, including the development of a framework for assessing the impacts of trade on women as consumers, workers and traders (Korinek, Moïsé and Tange, 2021[53]), with a country study now underway with New Zealand. Work with other IOs includes child and forced labour and human trafficking in global supply chains (ILO et al., 2019[54]) and policies for international trade and jobs (ICITE, 2012[55]).

85. **The OECD also supports governments on including labour standards in trade and investment policies through work on RBC based on the OECD Guidelines for MNEs and associated Due Diligence Guidance for supply chains.** The OECD is developing a Recommendation on the role of governments in promoting RBC (OECD, 2021[56]) including in trade and investment policies, while the OECD Policy Framework for Investment provides recommendations on how governments can provide an enabling environment for RBC (OECD, 2015[57]). Lastly, the OECD FDI Qualities initiative (OECD, 2021[58]) aims to better understand the relationship between foreign direct investment and certain dimensions of sustainable development, including job quality and gender equality, and, through the forthcoming FDI Qualities Toolkit (2022), to support countries in maximising the positive impact of FDI.

86. **OECD efforts to address global tax issues have also been important in strengthening the redistributive capacities of governments**, building support for an open global economy and reducing trade tensions arising from unilateral measures, such as Digital Services Taxes, to address the tax challenges arising from digitalisation of the economy.

87. **Going forward, areas where the OECD could further advance this agenda include the following:**

- **Extend the evidence base to inform policy:** (i) experience with FTA provisions (e.g., in enhancing labour standards), including implementation and enforcement and mechanisms for monitoring, cooperation, complaints, and remedies; (ii) impact of trade and investment on job creation, losses and quality (e.g. working hours, wages, contracts, productivity) and extent to which differing standards in trade partners (wage floors, social and employment protection, working hours) impact domestic employment and wages, including for women; (iii) strategies to manage adjustment, including ex ante assessments and readiness; and (iv) further improve the Trade and Employment dimension of TiVA (TiM) database, including for gender.
- **Trade and lagging regions**: how trade affects employment in lagging regions, both negatively (mass layoffs in geographically concentrated industries) and positively (new opportunities) and the suite of policies needed to promote growth in lagging regions; could also form part of an OECD-wide project.
- **RBC in trade and investment policies**: deepen work on promoting RBC through the leveraging of trade and investment policies.

Addressing Industrial Subsidies and other Distorting government interventions

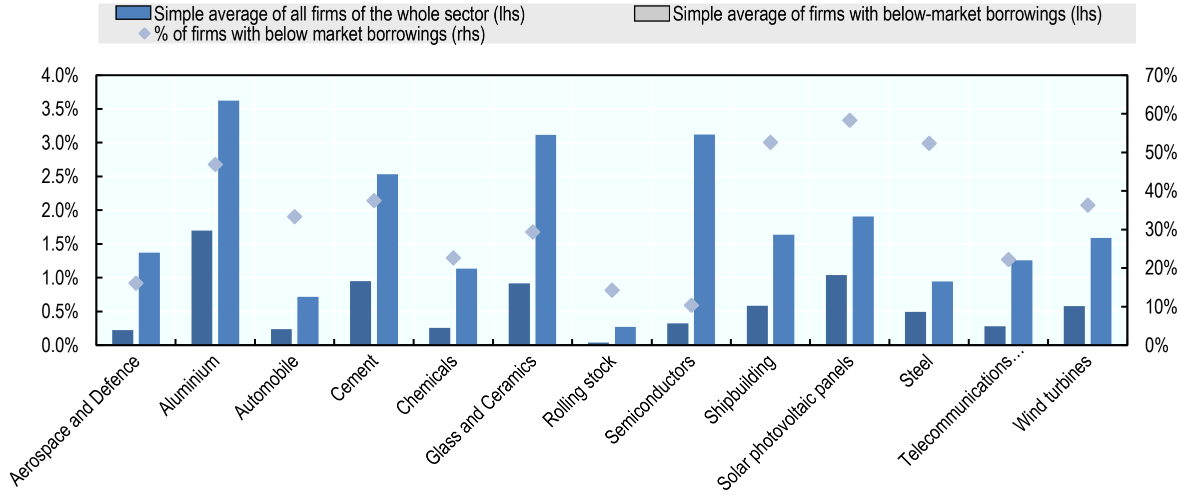
88. **Making trade work for all also requires that competition in the global economy be fair, and that everyone plays by the rules**. Government support is a longstanding

concern, most recently in industrial sectors. In addition to longstanding work on steel and shipbuilding, more recent OECD work on aluminium (OECD, 2019[59]), semiconductors (OECD, 2019[60]) and below market finance (OECD, 2021[61]) has found that:

- **Transparency is a significant problem,** both on the nature and scale of government support, and on government investment and involvement in firms.
- **Government support can take many forms and builds along the value chain.**
- **Below market finance** (i.e., below-market loans, below-market equity injections, and tolerance by government investors of prolonged below market returns) is hard to measure but appears to be significant across a range of sectors.
- **Support via below-market finance is prevalent in heavy industries that are also characterised by excess capacity (Figure 3).** There is some initial evidence that capacity additions in industries such as aluminium, steel and solar PV panels correlate with government support in the form of below-market lending. Below-market borrowings are also negatively correlated with firm productivity.
- **State-invested firms are important recipients and providers of support** (e.g., banks providing below-market lending, utilities below-cost electricity or government investment funds tasked to acquire shares).
- **Firms in which the government is shareholder receive more of all kinds of support relative to their size than private firms** (OECD, 2021[61])[12].
- **Across a range of industrial sectors, China-based companies receive more support relative to their revenue than firms in other jurisdictions,** for both government-invested and private firms, and especially for government grants and below-market borrowings (OECD, 2021[61]).
- **There are gaps in the rulebook:** WTO rules may not cover some forms of support (e.g., below market equity returns), and rules aimed at SOEs may not capture all government invested firms engaged in support.

[12] Across 13 industrial sectors, firms at least 25% owned by governments receive relatively more government grants and below-market borrowings (OECD, 2021d)

Figure 3. Heavy industries tend to benefit more from below-market borrowings



Note: Blue bars count below-market borrowings as zero for companies that exceeded the benchmark (i.e. companies that paid more interest than the benchmark). These firms are dropped altogether when calculating the grey bars. The calculations are based on firm-level data, with coverage ranging from 25% to 75% of global sales, output, or capacity, depending on the sector.
Source: OECD (2021).

89. **There has been increasing attention to the need to strengthen international disciplines on industrial subsidies, including in the context of WTO reform.** While remaining sensitive, this issue has been discussed in the G20, initially under the Japanese Presidency and now under the Italian Presidency. More detailed discussions have taken place under the UK G7 Presidency, including building on earlier efforts under the trilateral cooperation among the EU, US and Japan. Several PTAs also now include additional disciplines on subsidies and a number address the definition and conduct of SOEs. Additionally, discussions convened by the G20 and facilitated by the OECD to address government support in the steel sector are held under the Global Forum on Steel Excess Capacity.

90. **In addition to work on industrial subsides, OECD work on competition policy also offers useful tools.** The *OECD Recommendation on Competitive Neutrality* (OECD, 2021[62])requires a level playing field for all enterprises, irrespective of ownership, location or legal form; in particular, between SOEs[13] and private competitors. This includes not offering undue advantages that distort competition and selectively benefit some firms (e.g., loans and guarantees more favourable than those available in the market, competitively neutral legal frameworks and enforcement). Competition authorities can help governments design measures that minimise market distortions.

91. **Going forward, addressing market-distorting government support requires action on: Transparency (nature and scale of support); Predictability (standstill vs a baseline); Reduction (starting with the worst forms); and Prevention (of tomorrow's support, in tomorrow's sectors).** There may also be a need to address government-invested firms. In any case, transparency is an essential first step: to level the playing field now on

[13] SOEs are entities that are under the control of the state, either as the ultimate beneficial owner of the majority of voting shares or otherwise exercising an equivalent degree of control.

COVID-19 support; ensure support is targeted at market failures/public goods; understand market distorting impacts; and for coalition-building.

92. **Against this background, and building on its ongoing work, the OECD could:**

- **Continue to build the evidence base**: OECD will continue to analyse sectors where there are significant concerns about support (continuing work on steel and shipbuilding, new work on railway rolling stock), and to undertake horizontal analysis on support measures cross sectors (current work focuses on energy input subsidies)
- **Provide tools to support policymakers and the WTO**: OECD can help the development of greater transparency on industrial subsidies by helping to develop a framework identifying the key elements necessary and providing insights into priorities for new disciplines.
- **Draw together relevant expertise and instruments from other policy communities**: the OECD can bring experience on trade and competition policy to provide useful insights for policymakers in ensuring a level playing field, domestically and internationally.
- **Help make the case for reform of government support**: including through outreach and dissemination (including in Geneva, national-level webinars and social media); and contributions to the G20 and G7, the OECD can help make the case for disciplining government support, including the domestic case for policy reform.

Questions for discussion:

- *What is your experience with linking trade and labour commitments in PTAs, including monitoring of labour provisions in PTAs? What might be done on labour issues at the WTO?*
- *What is your experience with leveraging trade and investment policies and agreements to incentivise Responsible Business Conduct (RBC) and address labour risks in global supply chains?*
- *What do governments see as the priority for addressing government support in the industrial sectors? What role can the OECD play in this regard?*

Item 6: Building an Inclusive Future

Breakout Group 1: Promoting an Inclusive Digital Transformation

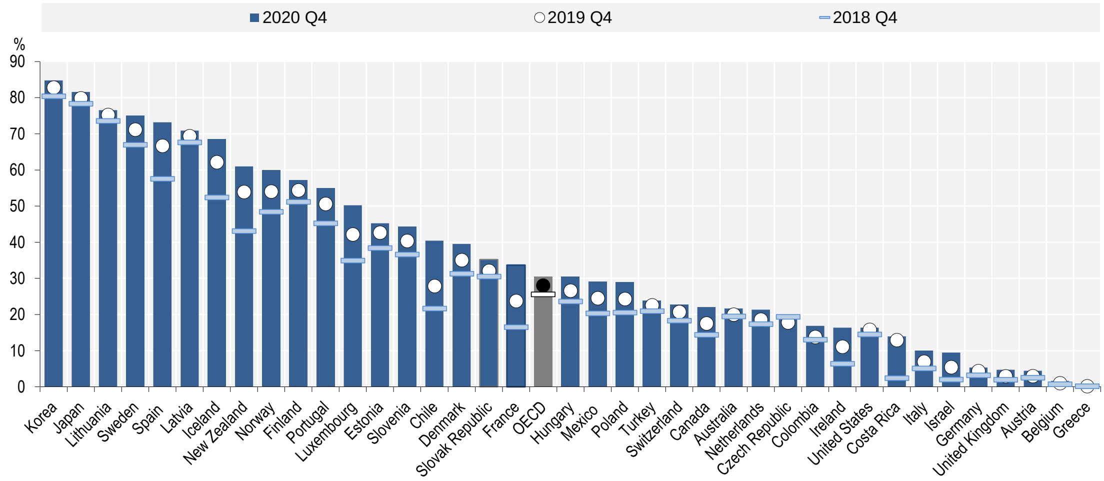
93. **The digital transformation accelerated sharply with the COVID-19 pandemic in 2020.** Internet traffic in some OECD countries increased by up to 60% shortly after the outbreak (OECD, 2020[63]), mobile data usage soared by more than 30% on average[14] and the need to move work and home life activities online led to a record 21.15 million new fixed broadband connections in 2020 (OECD, 2021[64]). All countries experienced increased rates of teleworking; in France, teleworking more than doubled, reaching 47% of employees in the first lockdown period, while in Australia, teleworking in December 2020 was 1.5 times the level before March 2020 (Ker, Montagnier and Spiezia, 2021[65]).

94. **It is essential to seize this pivotal moment to promote a more widespread and trustworthy digital transformation that – in keeping with the transformative promise of the 2030 Agenda for Sustainable Development – Leaves no one Behind.** Economies and societies will not return to "pre-COVID" patterns; the crisis has vividly demonstrated the potential of digital technologies and some changes may now be too deep to reverse. Moreover, digital technologies have shown their potential to help prevent, absorb and recover from future crises including, but not limited to, those related to health (OECD, 2021[66]).

95. **A key challenge is closing digital divides in access and use, across geography, firms, genders, skill levels and social groups.** Fast, high-quality broadband connectivity at competitive prices is a precondition for realising the full potential of the digital transformation. Yet while high-speed fibre now exceeds 30% of fixed broadband subscriptions on average in the OECD area, there are wide disparities with this indicator ranging from over 80% in some countries to less than 5% in others (Figure 4). A rural-urban divide is pervasive, with recent data on G20 and EU27 economies revealing that rural areas experience significantly slower download speeds as measured by Ookla from self-administered connection speed tests over fixed networks (on average 31 percentage points below the national average) (OECD, forthcoming[67]). There is also a generational gap: only 58% of those aged 50-74 used the Internet daily in 2019, compared to 95% for so-called "digital natives" aged 16-24 (OECD, 2020[68]). With ICT skills positively correlated to telework uptake (OECD, 2019[69]), such uneven patterns reinforce the risks not only for inclusion but also for future resilience. Further, while 30-50% of small and medium-sized enterprises (SMEs) increased their use of digital technologies in 2020, around 60% of self-employed and micro-firms cite adaptation costs as a barrier and many SMEs are increasingly vulnerable to cyber-attacks (OECD, 2021[70]).

[14] 2020 data, for the 35 OECD countries for which data was available.

Figure 4. Percentage of fibre connections in total fixed broadband, OECD countries, December 2020



Notes: Fibre subscriptions data includes fibre to the home (FTTH), fibre to the premises (FTTP) and fibre to the building (FTTB) and excludes fibre to the curb (FTTC) and fibre to the node (FTTN). For country notes, see OECD Broadband Portal figure 1.10.
Source: OECD (2021), OECD Broadband Portal, http://www.oecd.org/sti/broadband/broadband-statistics/ (accessed 23 August 2021).

96. **Addressing the digital gender divide is a challenge faced by all countries.** Prior to the crisis, data suggested women less frequently display the skills in high demand in digital intensive sectors (OECD, 2018[71]) and more often experience job stress associated with frequent computer use at work (OECD, 2021[70]). While the gender gap in terms of teleworking during the crisis has been relatively small (Ker, Montagnier and Spiezia, 2021[65]), there is a risk that the digital gender divide could increase in the wake of the crisis, as economies and societies further digitalise and expose the pre-existing skills gap (OECD, 2021[72]). Moreover, there can be a complex relationship between digitalisation and women's empowerment, as digitalisation opens new doors to overcome institutional barriers (e.g. mobile money accounts narrowing the gender gap in financial inclusion) but also creates new threats to women's rights (e.g. with online violence reinforcing offline discrimination) (OECD, 2019[73]).

97. **Most countries will need to take further steps to enhance digital skills and access to adult learning.** Technological progress and the associated changes in work organisation are reshaping most occupations by altering the job tasks involved, with a rising demand for high-level cognitive and social-interaction skills. Effective adult learning can help prevent skills depreciation and facilitate transitions from declining jobs and sectors to those that are expanding. Yet, before the pandemic, only four in 10 adults on average participated in adult learning across OECD countries (OECD, 2019[74]). In addition, in all OECD countries, training participation is lowest among those who need training the most, including the low-skilled, older adults, those experiencing job loss as well as non-standard workers. These groups face several barriers to training participation, such as poor training choices, and a lack of information, motivation, time, money and/or employer support. For example, as highlighted by the OECD's Survey of Adult Skills (PIAAC), workers whose jobs are at high risk of automation are only half as likely to engage in adult learning as their peers in jobs with lower risk of automation. During the COVID-19 lockdowns, participation in informal learning fell for all workers, but fell more significantly for middle- and low-skilled workers.

There are also gender inequalities in access to training; up to 28% of "inactive but motivated" women mention family obligations as a barrier to training, compared to only 8% of men.

98. **An urgent priority for delivering an inclusive digital transformation is to develop data governance policies and frameworks that unlock the potential benefits of data and the digital economy while protecting important interests such as privacy and intellectual property rights.** Across all sectors, from agriculture to energy to science and transportation, data are contributing to more efficient use of resources and helping address societal challenges such as climate change, resilience to natural disasters and health crises (OECD, 2015[75]; OECD, 2019[69]; OECD/FAO, 2021[76]). Cross-border data flows are underpinning international trade (OECD, 2019[77]). The COVID-19 pandemic has shone a spotlight on the importance of health data and governance, including the need for countries to improve their national health information systems and address unnecessary barriers to privacy-protective data uses for public benefit (OECD, 2019[78]).

99. **However, the growing power of data also risks opening new divides.** The pervasive exchange of data across borders has given rise to new data policies that have led to growing restrictions in a number of countries on the movement of data across borders or new measures mandating that data or copies of data be stored or processed in specific locations. These policies are driven by a range of concerns including the potential for misuse of data, privacy protection, regulatory or audit reach, national security, digital security and digital industrial policies (OECD, 2019[77]). For the benefits of digitalisation across the world to be harnessed, there is a need to find a way to make these different regulatory regimes for cross-border data flows interoperable. Government access to personal data held by the private sector is also a current high-profile challenge, where shared principles are needed to promote cross-border data free flow with trust.

International action to promote an inclusive digital transformation

100. **An inclusive digital transformation is a common goal at the international level.** The issue has been a priority for G20 Digital Ministers since 2017 (OECD, 2017[79]). The 2021 Declaration of G20 Digital Ministers recognised the need to bridge the digital divide in order to avoid social exclusion, to support micro, small and medium-sized enterprises' (MSMEs) inclusiveness in the digital economy, and to move from outcome measures of the digital gender divide to the analysis of enabling and disabling factors. They also reaffirmed their commitment to bridge connectivity gaps, noting the work of the G20 Infrastructure Working Group on financing and domestic environment settings to attract investment in digital infrastructure. Bridging digital divides and enhancing the inclusiveness of the digital economy are also a priority for a number of regional fora, including APEC under its Internet and Digital Economy Roadmap (OECD, 2017[80]) and ASEAN under its Master Plan on ASEAN Connectivity 2025 (ASEAN, 2018[81]).

101. **Stronger, better-tailored adult learning policies have also been longstanding priorities for the G20.** The 2021 G20 Labour and Employment Ministerial Declaration called for equal opportunities to access lifelong learning, reskilling, upskilling, and workplace training, an increase in the provision of digital skills training for all women, and active labour market policies which include reskilling and upskilling, and linking training to individuals rather than jobs (G20, 2021[82]). Training formats should also address bottlenecks such by making them more modular and flexible, partially subsidising individual costs and/or developing better financial incentives. Employers can and should play an important role in this respect, and they should be helped and encouraged to train groups at risk. Moreover, to ensure that adult learning – especially online training – is valued in the labour market, it is important to develop effective testing methods and certificates, including

innovative solutions, such as digital badges, micro-credentials and professional or industrial certificates.

102. **Data governance has risen in prominence in international discussions**. Earlier this year G7 Ministers set out a Roadmap for Cooperation on Data Free Flow with Trust with four areas for cooperation: building an evidence base on the impact of data localisation measures and alternative policy responses; promoting work to identify commonalities in regulatory approaches to cross-border data transfers; engaging with like-minded initiatives on the issue of government access to data; and accelerating development of mutually acceptable data sharing practices for priority sectors (G7, 2021[83]). The OECD's work features prominently across the Roadmap. The issue of data free flow with trust also remains on the G20 agenda, following work under the Japanese and Saudi presidencies. While discussions remain difficult, Ministers acknowledged the work of the OECD to find ways forward for cross-border data flows by mapping commonalities in regulatory approaches (Casalini, López González and Nemoto, 2021[84]).

OECD's work for an inclusive digital transformation

103. **The OECD's Going Digital horizontal project has continuously put an inclusive digital transformation at its core.** Its integrated policy framework sets growth and well-being as the focus, with seven key policy dimensions to realise the potential of digital transformation (OECD, 2019[85]). This framework underpins national reviews as well as the online Going Digital Toolkit with indicators and policy advice from across the OECD. The recently revised OECD Recommendation on Broadband Connectivity (OECD, 2021[86]) represents a major step forward for the OECD in driving inclusive connectivity and the focus is now on implementation. Gender is mainstreamed across the OECD's digital-related analyses, and new data is continuously sought; one example is the OECD AI Policy Observatory, where live data from sources such as LinkedIn sheds light on AI skills by gender. The OECD has paid particular attention to the specific needs and challenges faced by SMEs in their transition to digital tools and business models. Work supported by the OECD's Digital for SMEs Global Initiative, which brings together firms and policymakers, has highlighted the new measures put in place by countries to support adoption during the pandemic, including access to advice, finance, and networks (OECD, 2021[87]).

104. **The OECD's 'Getting Skills Right' series examines how countries measure changing skill needs, how they develop skills that respond to labour market needs, and how they ensure that these skills are fully utilised by individuals and employers, and offers countries tailored information and analysis they need to get skills right.** The OECD Skills for Jobs database provides country-level insights into the level of alignment between demand for and supply of a range of job-specific knowledge areas, skills, and abilities. Regarding education, the OECD's work explores how countries can harness digitalisation and the smart use of data to manage their education, higher education and lifelong learning systems and improve the delivery of education and training (OECD, 2021[88]). The OECD programme on Artificial Intelligence in Work, Innovation, Productivity and Skills (AI-WIPS), supported by the German government, is breaking new ground with analysis of skills needs and labour market impacts of AI.

105. **Data governance for growth and well-being is the theme of the OECD's Going Digital phase 3 project, with four pillars of work** tackling data stewardship, access, sharing and control; cross-border data flows with trust; data and its shaping of firms and markets; and measurement of data and data flows. Setting and implementing international standards is a key part of the project: Ministers will adopt a new Recommendation on Enhancing Access to and Sharing of Data at the MCM, following earlier adoption of a revised Recommendation concerning Access to Research Data from Public Funding (OECD,

2021[89]). The OECD has also undertaken the development of high-level principles for government access to personal data held by the private sector that reconcile law enforcement and national security needs with protection of individual rights. The intention is for this work, when ready, to be embodied in a legal instrument.

106. **With a view to helping countries navigate the complex and evolving digital trade landscape, the OECD has developed the Digital Trade Inventory** which provides an overview of the rules, standards and principles across a range of international fora that underpin digital trade (Nemoto and López González, 2021[90]). Work is also continuing to support cross-border data flows with trust, and other issues to facilitate trade in the digital era, including in support of the ongoing WTO negotiations on e-commerce.

107. **This year's Development Co-operation Report will also focus on the digitalisation in low and middle income countries and how to support an enabling environment that promotes access for all.** This collaborative analysis builds on previous work on the cross-border nature of digitalisation processes, based on common challenges, risks and threats, and looks at what policies are needed to accelerate the digital transition in developing country contexts.

Questions for discussion:

- *What government policies could be implemented to bridge the digital divides between genders, rural and urban areas, high and low-income households, and advanced and developing countries?*
- *How do we build a lifelong learning system which shares the benefits of digital technologies more widely?*
- *What policies are needed and how can the OECD continue to contribute to distribute the benefits of digital technologies more equitably and inclusively among firms and groups of people, including by gender?*

Breakout Group 2: Inclusive Growth: Opportunities for All

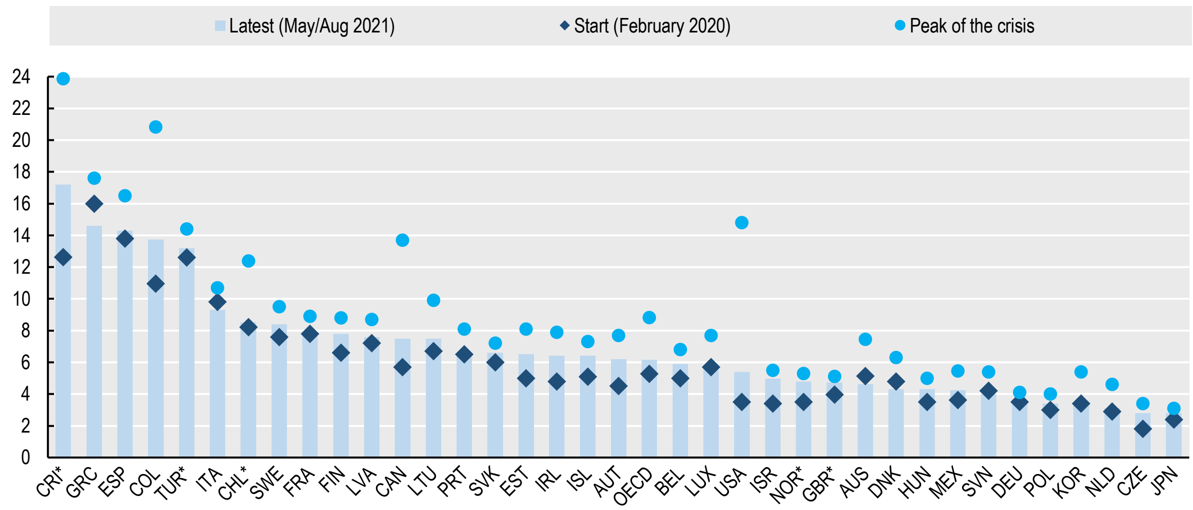
108. **The labour market recovery is underway**. Compared to the peak of the crisis, the situation in labour markets has improved considerably, largely on the back of the unprecedented measures taken by many OECD countries to support businesses and households. The OECD-wide unemployment rate stood at 6.2% in July 2021, down from 8.8% in April 2020, when the first wave of the pandemic was peaking[15] but still considerably above its pre-crisis rate (5.3%).

109. **Recognising equal opportunities for all requires relevant statistics and data** on the parts of the economy, places and people that have been most impacted by the crisis. The OECD Dashboard to Monitor a Strong, Resilient, Green and Inclusive Post-COVID-19 Recovery, through its twenty indicators, aims to help policymakers and citizens keep track of how countries perform along these dimensions [C/MIN(2021)18].

[15] OECD Labour Force Statistics. Some care is needed in interpreting unemployment statistics during the crisis. See OECD December 2020 Statistics Newsletter: Has Covid-19 distorted international comparability of unemployment rates.

Figure 5. Unemployment: pre-crisis, peak of the crisis, most recent

Percent of labour force, seasonally adjusted.



Note: Latest data refer to April 2021 for Turkey and the United Kingdom; June 2021 for Costa Rica, Chile and Norway: August 2021 for Ireland and the United States and July 2021 for the other countries. Peak refers to April in the United States, May in Canada, Colombia, Luxembourg and Slovenia, June in Austria, Chile, Costa Rica, Greece, Hungary, Latvia and Mexico, July in Australia, Denmark and Turkey, August in Finland, France, Germany, the Netherlands, Norway, Portugal, Spain and the Slovak republic, September in Estonia and Lithuania, October in Japan, November in the United Kingdom, January 2021 in Korea, March 2021 in Belgium, the Czech Republic, Iceland, Poland and Sweden, April 2021 in Ireland and Italy and May 2021 in Israel..
Source: Short-term Labour market statistics

110. **The recovery, albeit faster than initially anticipated, remains incomplete.** Across the OECD, there are still over 8 million more people unemployed than before the crisis, and over 14 million more inactive people. Despite a strong rebound, pre-pandemic levels of employment in the OECD will not be reached before 2023. For developing countries, the crisis has exacerbated deep inequalities both between and within countries, resulting in record levels of Official Development Assistance (ODA) allocated to developing countries to meet rising needs in 2020 (USD 161 billion). **Furthermore, despite support efforts from countries, the crisis has hit vulnerable groups especially hard - including youth, women, migrants, the low-skilled, informal and frontline workers.** Young workers, for example, saw large reductions in their average hours worked at the peak of the crisis in 2020, nearly twice as large as prime-aged and older workers. Workers with non-standard labour contracts -- part-time, fixed-term and independent -- were frequently unable to access job retention schemes or to benefit from full unemployment insurance (OECD, 2021[91]).

111. **The COVID-19 pandemic widened the OECD gap in the employment rate between foreign-born and native-born** bringing it to two percentage points on average. Foreign-born workers have been disproportionally affected by job losses, given their generally more precarious labour contracts but also their strong concentration in deeply affected sectors.

112. **Women were disproportionally affected by the first wave of the crisis** because of the increase in their care responsibilities and because of their concentration in frontline jobs and in jobs affected by lockdowns. Overall, in the first wave of the crisis women suffered losses of hours worked larger than those experienced by men. As lockdown restrictions eased, however, women in OECD countries have returned to work and increased their hours of work at a faster rate than men. Women and minority entrepreneurs were more affected by the crisis than others. In the US, the number of African-American, Latino and Asian business owners declined by 41%, 32%, and 26% respectively in the first few months of the crisis, significantly higher than the 22% for the population as a whole (OECD, 2021[92]).

113. **For women and girls living in developing countries, the pandemic has deepened the existing fault lines of gender inequality.** In many of these countries, women now face increased levels of joblessness and rising levels of violence. Much work remains to encourage integration of women's empowerment in the economic and productive sectors, and to promote women's political and economic participation in developing countries, which can in turn reduce overall conflict, drive economic growth, and create more inclusive societies. To this end, the Development Assistance Committee (DAC) is developing new guidance to support women and girls in developing countries. This includes ensuring women are in leadership roles, running businesses, and receiving quality health services. The OECD also tracks overall and specific investments in gender equality and women's empowerment through the Gender Equality Policy marker and tracker in the Creditor Reporting system, which provides an overview of donor, private sector, foundation and multilateral investments in this critical area for economic and social development. The OECD DAC Recommendation on Ending Sexual Exploitation, Abuse and Harassment SEAH (2019) is a key international standard adopted by DAC in 2019 for governments to apply to national aid agencies, and the wider international community, when working with civil society, foundations and other bodies running development programs or delivering humanitarian aid.

114. **With the crisis primarily affecting sectors in which women are overrepresented, they have faced greater employment and income losses.** The overload of healthcare systems and lack of social services especially in care sectors have also increased the burden of unpaid care and domestic work that largely falls on women. As such, the pandemic has revealed how deeply entrenched social norms and practices around wide range of areas remain. The OECD's Social Institutions and Gender Index (SIGI) measures discrimination against women in social institutions – laws, norms and practices – across 180 countries. Discriminatory social institutions not only hold back women and girls' potential but also come with deep socio-economic costs for the countries. Prior to the pandemic, the cost of ignoring gender-based discrimination in social institutions accounted for a loss of 7.5% of global GDP (OECD, 2019[93]).

Digitalisation, the green transition and other global trends are having a profound impact on labour markets

115. **Already before the COVID-19 crisis, digitalisation, globalisation and the green transition were having a profound impact on labour markets and opportunities of people, businesses and regions.** Between 2006 and 2016, four out of ten new jobs in OECD countries were created in highly digital-intensive sectors. The OECD has estimated that 14% of jobs are at high risk of automation and a further 32% will undergo significant change in how they are carried out (OECD, 2019[94]). In some regions the estimated share of jobs at risk was as high as 40% (OECD, 2020[95]).

116. **The emergence of new jobs and new forms of work, including as part of the 'platform economy', is bringing opportunities but also risks of displacement, lower job quality and weaker access to social protection as shown in the OECD's Future of Work**

project. While the digital and green transitions are unlikely to result in a jobless future, they will mean that millions of workers will need to find a new job or learn new skills. The new jobs created may not be in the same industries and in the same places as the jobs destroyed. For example, the green transition is estimated to have negligible net employment impacts at the national level but losses could amount to more than 5% of jobs in some regions (OECD, 2021[96]).

117. **The digital transformation can promote productivity and job quality by reducing exposure to unhealthy and tedious tasks, as well as by granting many workers greater autonomy and flexibility.** There are also concerns, however, about job quality in non-standard forms of employment, many of which are characterised by poor job stability, low pay and loss of autonomy. The longer-term structural implications related to the rise of remote working and learning remain uncertain, creating opportunities and challenges for urban and rural areas (OECD, 2021[97]).[16]

118. **Gaps in social protection were already evident prior to the COVID-19 crisis.** In some countries, non-standard workers were 40-50% less likely to receive any form of income support during an out-of-work spell than standard employees (OECD, 2019[94]). The COVID-19 crisis has further highlighted gaps in social protection, including for economically insecure households.

Building a more inclusive labour market and preparing for the future of work

119. **Governments at all levels will need to anticipate, manage and respond to these changes to enable people, places and businesses to adapt to new forms of economic activity.** The OECD Jobs Strategy provides policy recommendations to address these shifts, with an emphasis on promoting job quantity, job quality and inclusiveness as central policy priorities, while emphasising the importance of resilience and adaptability.

120. **The recovery plans present a once-in-a-lifetime opportunity to address the structural impact that digitalisation and the green transition will have on our economies, and prepare for a stronger, more resilient economies and societies.** At the same time, governments will need to continue supporting vulnerable groups and giving them better opportunities in the post-COVID environment. Recent OECD work on the Inequalities-Environment Nexus as well as on Gender and the Environment, highlights the need to consider fairness as an inherent component of the impending green transition. This allows to both address the needs of communities, including women, that will face most challenges in the transition (e.g. in terms of re-skilling needs, having to relocate for jobs, or needing support in transitioning away from fossil-based energy sources in places where renewable sources are scarce, enhancing access to accessible green products and services) and to build the public support necessary to move ahead with green policies and their implementation with an integrated policy framework (OECD, 2021[24]; OECD, 2021[98]).

121. **The OECD Employment Outlook 2021 highlights labour market policies that include bolstering skill development and re-skilling systems, promoting job creation, and building active labour market policies that connect vulnerable people with integrated, comprehensive, and individualised support in order to reconnect them with jobs of good quality** (OECD, 2021[91]). The OECD's updated Youth Action Plan gives countries a roadmap for better including young people in the future of work and the 2021 OECD Employment Ministerial Meeting will be an opportunity to take stock of progress towards the recovery, reflect on lessons from the crisis, and consider the needed policy actions. Job creation in the educational, health and care sectors, which have been critically

[16] See also the OECD Regional Recovery Platform tracking the recovery across regions.

impacted by COVID-19, will be particularly important to strengthen the resilience and well-being of our societies. To deliver on inclusive growth, recovery plans also need to promote the integration of immigrants and their children, as well as consider the role of labour migration and the upskilling and reskilling of migrants in meeting labour needs that are emerging as part of the green transition.

122. **Countries will also need to address long-standing gaps in social protection, as OECD Social Policy Ministers committed to at their Ministerial Meeting in 2018.** Action is needed to extend the reach of programmes that exclude specific categories of workers, to boost the portability of entitlements between programmes intended for different groups, to ensure a more neutral treatment of different forms of work, and to make programmes more responsive to people's changing needs. The emergency measures put in place by many countries after the COVID-19 outbreak to fill some of these gaps should be re-assessed and translated into a more systematic structural response, capable of ensuring fairness and restoring incentives. In a number of countries, tackling informality will require continued, multidimensional policy action.

123. **The pandemic has put a spotlight on mental health of the population.** The Report on the Implementation of the OECD Recommendation on Integrated Mental Health, Skills And Work Policy [C/MIN(2021)19] calls for a holistic approach to address the interactions between mental health problems and labour market and social outcomes. This includes expanding mental health support for young people in schools and youth centres, promoting mental health at work and generally increasing the employment focus of the health system, and increasing mental health support for people receiving social benefits or unemployment support.

124. **Governance tools are vital to realise an inclusive and gender-sensitive recovery for all, but countries face several challenges in this regard, including in mobilising gender analysis tools in the COVID-19 response** (OECD, 2020[99]). The OECD Policy Framework for Gender-Sensitive Public Governance [C/MIN(2021)21] highlights opportunities for governments to harness governance tools to improve policy outcomes for all and stimulate a gender-inclusive recovery.

125. **By engaging in social dialogue, governments, employers and trade unions on many occasions successfully mitigated the impact of the crisis.** Many agreements were reached that maintained jobs, provided business with more flexibility on working time, increased investment in training and, not in the least, facilitated the re-opening of workplaces by boosting workplace health and safety requirements. Since 2019, the OECD hosts the support unit of the Global Deal, a multi-stakeholder initiative with over 100 partners coming from governments, business, trade unions and civil society organisations.

The role of corporate governance and responsible business conduct to promote more inclusive, resilient and sustainable growth

126. **Corporate governance and responsible business conduct (RBC) have an important role to play in building resilient, inclusive and sustainable economies**. Strong corporate governance frameworks are essential to make the business sector more dynamic and resilient to possible future crises. Rebuilding trust in global markets in the aftermath of the Covid-19 pandemic will also require strategies to build more resilient and inclusive value chains – strategies that ensure the security of supply in essential goods, and strengthen the capacity of businesses to better anticipate and manage shocks, while protecting workers and the environment. By setting out an expectation that all businesses – regardless of their legal status, size, ownership or sector – avoid and address the potential negative impacts of their operations while contributing to sustainable development in the countries where they

operate, the OECD Guidelines for Multinational Enterprises (OECD, 2011[100]) can catalyse the positive contributions of business to inclusive and resilient growth and achieving the SDGs.

127. **The role of corporate governance frameworks is central to achieving these objectives.** The COVID-19 pandemic has highlighted the importance of identifying systemic risks and unexpected shocks. A corporate sector that is willing and able to identify and mitigate risk is at the very heart of a dynamic and resilient economy. Consequently, as new types of risks emerge or become more salient, companies, their shareholders and society all have an interest in the proper identification, management and disclosure of these risks.

128. **A lack of credible risk assessments not only increases uncertainty about expected performance and the long-term viability of individual companies, but also leads to inefficient allocation of economic resources, adversely impacting corporate and economy-wide resilience.** The need for robust structures and procedures for risk management and high-quality disclosure, including on environmental and social issues, is well articulated in both the OECD Guidelines for Multinational Enterprises and G20/OECD Principles of Corporate Governance (OECD, 2015[101]).

129. **The relationship between corporate governance, responsible business conduct and sustainability is receiving significant attention.** New initiatives on sustainable corporate governance are broadly aimed at promoting corporate governance models that move away from short-termism and shareholder primacy and from an understanding of corporate purpose and fiduciary duties that focus narrowly on short-term profit maximisation. They seek to promote models that take into account broad stakeholder and societal interests, integrate social and environmental objectives into business models and strategy, and assign responsibility for environmental and social risk management to boards and senior management. Stronger and more sustainable corporate governance frameworks will support a resilient recovery and longer-term growth.

130. **Strong corporate governance frameworks will also be essential for capital markets to function effectively in supporting a resilient recovery and longer-term growth.** Against this background, the review of the G20/OECD Principles of Corporate Governance will adapt the Principles to the post-COVID-19 environment, particularly in areas such as ESG risk management, increased ownership concentration, digitalisation, insolvency, audit quality and creditor rights (OECD, 2021[102]).

131. **OECD work with private sector coalitions on promoting a responsible business transformation and people-centred green transition complements work based on OECD RBC and corporate governance standards.** For example, work on metrics and non-financial performance measurement (OECD, Forthcoming[103]) looks at the well-being of business stakeholders and the resources that firms produce as well as those they deplete. Expanding the way businesses and governments evaluate progress and making these statistical approaches mutually consistent can help mainstream measures of financial and non-financial performance that consider sustainability and people's well-being at the firm- and industry-level.

132. **Social economy organisations, which account for 12 million jobs in Europe for example, have been at the forefront of new business models and social innovations** (OECD, 2021[104]). Many companies are now seeking to follow their lead by adopting corporate social purposes. However, to succeed, governments need to provide the right regulatory framework and incentives, especially for SMEs, where there are significant benefits from accreditation, but also significant practical challenges and corporate governance concerns.

Questions for discussion:

- *How do we better promote competition across all sectors to encourage inclusive, resilient, and sustainable growth?*
- *How can we level the playing field within labour markets and create economies that work for everyone?*
- *What can we do to help realise women's potential in contributing to economic growth?*

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OECD Paris
2, rue André-Pascal, 75775 Paris Cedex 16
Tel.: +33 (0) 1 45 24 82 00