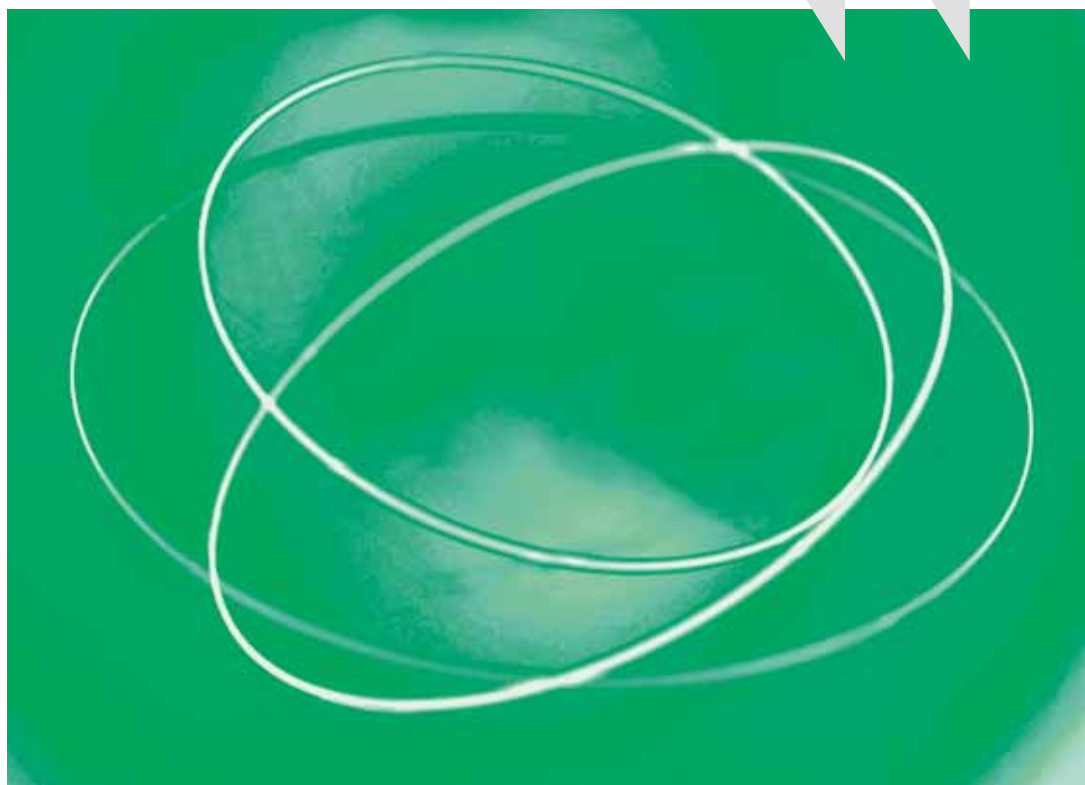


**2008 ANNUAL REPORT  
ON SUSTAINABLE  
DEVELOPMENT  
WORK IN THE OECD**





# **2008 Annual Report on Sustainable Development Work in the OECD**



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## *Foreword*

Each year, the OECD Annual Meeting of Sustainable Development Experts (AMSDE), which is composed of Delegates from Economics, Environment and other Ministries in the capitals of OECD countries, reviews the range of work carried out by the organisation to identify gaps in analyses relating to sustainable development and to enumerate priorities for future activities. This brochure contains the 2008 survey prepared by the OECD Horizontal Programme on Sustainable Development.

In 2008, the OECD published *OECD Insights: Sustainable Development: Linking Economy, Society, Environment* to explain sustainable development concepts to the broader public and for use as a textbook in Education for Sustainable Development.

The OECD is gradually increasing the level of horizontal work by Committees and Directorates in terms of integrating economic, environmental and social concerns. This report reviews progress on OECD sustainable development priority areas and on OECD horizontal programmes and projects. It also identifies sustainable development priorities for future mainstreaming to enhance the coherence, relevance and cost-effectiveness of OECD policy analyses.

This survey is published on the responsibility of the Secretary-General of the OECD.



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## Introduction

In outlining the 2008 strategic orientations for the OECD, Secretary-General Angel Gurría stressed that “identifying the necessary economic, social and environmental policies to address the challenges of globalisation and spread its benefits to all will remain at the centre of the OECD mission.” This recognises that failure to take into account environmental and social impacts is a severe threat to both economic growth and globalisation. The 2008 Annual Report on Sustainable Development Work in the OECD highlights where progress was made in 2008 to integrate and strike a better balance between economic, social and environmental concerns in the range of OECD work – including statistics, analysis, country reviews and policy discussions – and to incorporate longer-term perspectives.

The *2008 Annual Report on Sustainable Development Work in the OECD* was undertaken on behalf of the OECD Annual Meeting of Sustainable Development Experts (AMSDE). *First*, the report reviews progress on the sustainable development priorities identified by the AMSDE in previous years. *Second*, it describes the cross-cutting analyses of OECD horizontal programmes and projects, including the Horizontal Programme on Sustainable Development. *Lastly*, it presents priorities for future OECD sustainable development work: i) integrating sustainable development in country reviews, ii) developing methodologies for sustainable development measurement and assessments, and iii) recommending good governance practices for sustainable development.

For a broader look at OECD activities, this Report should be read in conjunction with the *OECD Annual Report 2008*, which reviews the ongoing work of the organisation in the economic, social and environmental spheres. The 2005, 2006 and 2007 *Annual Reports on Sustainable Development Work in the OECD* can be consulted for a history of sustainable development in the OECD context and progress in mainstreaming sustainability perspectives in the OECD work programme.



## **Progress on OECD Sustainable Development Priorities**

Each year, the OECD Annual Meeting of Sustainable Development Experts (AMSDE) proposes areas for cross-cutting OECD work in the effort to mainstream sustainable development into Committee work programmes. Below is a brief review of the status of activities on these priority sustainable development topics: climate change and sustainable development, sustainable consumption and production, sustainable trade and foreign investment, subsidy reform and sustainable development, education for sustainable development, economics of environment and health, and the OECD Outlook.

### **Climate change and sustainable development**

The AMSDE has recommended that the OECD better integrate ongoing climate change analyses in OECD Committees to identify the most cost-effective approaches for mitigation and adaptation. In 2008, the economics of climate change was a main topic of discussion at both the Environment Ministerial (Paris, 28-29 April 2008) and the Ministerial Council Meeting (MCM) (Paris, 4-5 June 2008). Environment Ministers concluded that “tackling climate change is essential for achieving sustainable development.” OECD Finance Ministers underlined the need for an effective post-2012 international framework on climate change and that countries should use a range of instruments in addressing the climate challenge, including regulations and standards, taxes, carbon-trading schemes, investment in new technologies, and sectoral approaches.

Ministers called on the OECD to identify cost-effective policy options in a variety of fields and sectors for climate change mitigation and adaptation. The Environment Policy Committee (EPOC) and Working Party No. 1 (WP1) of the Economic Policy Committee (EPC) are modelling the least-cost post-2012 measures to reduce greenhouse gas emissions. The Annex I Expert Group (AIXG) on the UN Framework Convention on Climate Change, staffed by the OECD Environment Directorate and the

International Energy Agency (IEA), is also focusing on the post-2012 climate framework. It is reviewing lessons to be learned from the Kyoto Protocol's flexibility mechanisms including emissions trading, the Clean Development Mechanism, and Joint Implementation (JI), as well as sectoral approaches to mitigation.

Joint work continues by EPOC with the Development Assistance Committee (DAC) to follow up the 2006 Environment-Development Ministerial Meeting, which recommended greater attention to climate change in development co-operation activities. In 2008, the DAC High-Level Meeting endorsed the *Statement of Progress on Integrating Climate Change Adaptation into Development Co-operation*. Climate change analysis is ongoing in the Joint Meeting of Tax and Environment Experts on the links between taxation and innovation; the Joint Working Party on Agriculture and Environment on agriculture's role in mitigating greenhouse gas emissions and adaptation of agriculture to climate change; and the Joint Working Party on Trade and Environment on the effects of trade liberalisation on the diffusion of climate change technologies.

EPOC also maintains joint activities on climate change with the Committee on Scientific and Technological Policy (CSTP) on incentives for innovation to address major global challenges; the Committee on Industry, Innovation and Entrepreneurship (CIIE) on climate-related sustainable manufacturing initiatives; and the Territorial Development Policy Committee (TDPC) on *Competitive Cities and Climate Change*, the topic of a 2008 conference (Milan, 9-10 October 2008).

Several OECD and IEA bodies are also analysing climate change issues: the IEA Committee on Energy Research and Technology (CERT) on development of energy-efficient and climate-friendly technologies; the International Futures Programme (IFP) on the role of biofuels in addressing climate change; and the Round Table on Sustainable Development on mobilising investments in clean energy technologies. A meeting of trade union and OECD experts discussed *Green Jobs* or how to increase the contributions of environment-based employment to addressing climate change (Paris, 13 March 2008). The International Transport Forum discussed how to reduce CO<sub>2</sub> emissions in the transport sector at their 2008 meeting on *Transport and Energy: the Challenge of Climate Change* (Leipzig, Germany, 29-30 May 2008).

## **Sustainable consumption and production**

The AMSDE identified sustainable consumption and production as a priority topic for horizontal work to contribute to the UN Marrakech

Process and to the sustainable consumption and production theme of the UNCSO in 2010-2011. AMSDE recommended that OECD Committees work together to identify effective approaches for promoting sustainable household consumption and industrial production, at both domestic and international levels. This would bring together the ongoing activities of the Committee on Consumer Policy (CCP), Environment Policy Committee (EPOC), Committee for Industry, Innovation and Entrepreneurship (CIIE), and Investment Committee.

The Committee on Consumer Policy (CCP) is including sustainable consumption aspects in its ongoing work on educating and informing consumers, understanding consumer behaviour, applying consumer economics, and strengthening consumer protection. Educating for sustainable consumption is a theme in both the *OECD Workshop on Education for Sustainable Development* (Paris, 11-12 September 2008) and the *Conference on Consumer Education* (Paris, 24 October 2008), which are reviewing best practices for educating students and consumers about the environmental and social impacts of their consumption patterns.

The Environment Policy Committee (EPOC) is conducting multi-country surveys of factors (socio-economic, demographic, attitudinal, government policies) influencing household consumption patterns. A 2008 survey of 10 OECD countries assessed the role of environmental policies in influencing waste generation and recycling, energy and water use, personal transport choices, and organic food consumption. A new household survey is planned on the effects of environmental policies in diffusing eco-innovations among consumers, including for reducing carbon emissions. A 2008 publication by the Horizontal Programme on Sustainable Development, *Promoting Sustainable Consumption: Good Practices in OECD Countries*, assessed the most effective use of various government policy tools (e.g. regulations, taxes and communications).

EPOC is also conducting surveys on the role of government incentives in the uptake of environmental management systems and the conduct of environment-related research and development (R&D) by companies. This includes a review of trends in policies for eco-innovation and case studies of the role of environmental policies in promoting innovation as indicated in patent activities, which will contribute to the OECD Innovation Strategy and to a *Global Forum on Good Practices in Promoting Eco-Innovation* in 2009.

The Committee for Industry, Innovation and Entrepreneurship (CIIE) initiated a project on *Sustainable Manufacturing and Eco-Innovation* to identify approaches to promote environmentally-sustainable production in manufacturing sectors. A Toolkit is being developed based on a survey of

corporate and governmental initiatives for promoting sustainable manufacturing processes. Concepts and practices for sustainable manufacturing in diverse businesses, including small and medium-sized enterprises (SMEs), were discussed at the *Conference on Sustainable Manufacturing* (Rochester, NY, 23-25 September 2008).

In 2008, *Measuring Sustainable Production*, a publication by the Horizontal Programme on Sustainable Development, reviewed metrics for assessing the economic, environmental and social aspects of sustainable production, including sustainability indices, based on a joint workshop (Copenhagen, Denmark, 20-21 June 2007).

## **Sustainable trade and foreign investment**

In 2007, the AMSDE recommended that the OECD strengthen corporate and governmental responsibility for sustainable globalisation, including through international, regional and bilateral investment and trade agreements. While separate activities have addressed the environmental and social aspects of international investment, including the *OECD Guidelines for Multinational Enterprises*, and the environmental aspects of trade, a coherent approach to addressing the environmental and social impacts of globalisation is lacking. The AMSDE believes that a joint activity on “globalisation and sustainable development” would foster synergies across analyses of the environmental and social aspects of international trade and investment trends and policies.

According to the OECD Guidelines, “multinational enterprises have the opportunity to implement best practice policies for sustainable development that seek to ensure coherence between social, economic and environmental objectives”. In 2004, the Investment Committee with EPOC reviewed the environmental components of the Guidelines which strengthened their ability to address issues relating to corporate environmental performance. In 2008, the Investment Committee with the Employment, Labour and Social Affairs Committee (ELSAC) and the International Labour Organisation (ILO) organised the *Annual Roundtable on Corporate Responsibility: Promoting Responsible Business Conduct in a Globalising Economy* to improve implementation of the Guidelines in the area of employment and industrial relations (Paris, 23-24 June 2008). In 2009, it is proposed that the Roundtable focus on links between consumers and corporate responsibility.

The effects of foreign investment on working conditions in host countries and the need for government incentives to promote responsible business conduct were reviewed in an *OECD Policy Brief: The Social*

*Impact of Foreign Direct Investment.* The Investment Committee also discussed the environmental and social clauses in international investment agreements, based on a survey published in 2008, as well as the *IISD Model International Agreement on Investment for Sustainable Development*, which promotes the systematic inclusion of environmental and social clauses in international, regional and bilateral investment agreements.

The environmental and social components of the Policy Framework for Investment (PFI) were reviewed at the *Global Forum on International Investment: Best Practices for Promoting Investment for Development* (Paris, 27-28 March 2008). In 2009-2010, EPOC will work with the Investment Committee to develop possible elements of a new environment chapter of the PFI. This joint work will serve as an input into the eventual review and revision of the PFI. In addition, policy dialogues are planned with China and other enhanced engagement countries on responsible environmental business conduct. In 2008, a chapter on Environmentally-Responsible Corporate Conduct was included in the *Investment Policy Review of China*.

The G8 countries focused on the social dimension of globalisation at the Heiligendamm Summit in June 2007 asking the OECD, with the ILO and UN Global Compact, to compile the most relevant standards of corporate social responsibility (CSR). The Heiligendamm Dialogue Process, administered by the OECD, organises structured dialogues between the G8 and Brazil, China, India, Mexico and South Africa, on promoting responsible business conduct in cross-border investment and also discussions on research and innovation, energy efficiency, and development in Africa.

Promoting sustainable trade is part of the ongoing work of the Joint Working Party on Trade and Environment (Trade Committee/EPOC). Recent analysis assessed the benefits and barriers to liberalising trade in environmental goods and services, to be extended to the effects of liberalising trade in climate change-related goods and services. New work is planned on illegal trade in environmentally-sensitive products and trade in non-hazardous recyclable materials. Analysis of the effectiveness of environmental provisions in regional (and bilateral) trade agreements continued with a second regional workshop on *Regional Trade Agreements and the Environment* (Chile, 6-7 October 2008).

In addition, the EPOC organised a *Global Forum on Transport and Environment in a Globalising World* (Guadalajara, Mexico, 10-12 November 2008) to examine the direct effects (*e.g.* transport pollution) and indirect impacts (*e.g.* trade and foreign investment patterns) of globalisation on the environment. The OECD Working Party on Export Credits and Credit

Guarantees (ECG) continues to monitor the environmental aspects of Officially Support Export Credits in line with the 2007 OECD Council Recommendation.

## **Subsidy reform and sustainable development**

The AMSDE has recommended that the OECD advance understanding of the political economy of achieving subsidy reform, building on OECD interdisciplinary analysis of environmentally-harmful subsidies and of subsidy reform efforts in sectors including agriculture, fisheries, energy, transport and industry. Beginning in 2002, a Secretariat coordination group (ENV, IEA, ITF, STI, SD, TAD) sponsored joint workshops on subsidy reform approaches and published several volumes: *Environmentally Harmful Subsidies: Policy Issues and Challenges* (2003); *Environmentally Harmful Subsidies: Challenges for Reform* (2005); *Subsidy Reform and Sustainable Development: Economic, Environmental and Social Aspects* (2006); and *Subsidy Reform and Sustainable Development: Political Economy Aspects* (2007).

Several OECD Committees (Agriculture, Fisheries, Steel, and Shipbuilding) conduct regular monitoring to track trends in government supports in their sectors and are taking more account of the environmental and social as well as economic impacts. Environmental cross-compliance in agriculture (where supports depend on farmers using certain environmental practices) was the subject of a joint EPOC/TAD workshop (Paris, 11-12 December 2008). In 2008, EPOC published the results of its work on environmentally-harmful subsidies in the transport sector, which recommended policy approaches for eliminating perverse supports to transport.

Biofuel subsidies were the subject of a special analysis in 2008 by the Trade and Agriculture Directorate (TAD). *An Economic Assessment of Biofuel Support Policies* includes IEA life-cycle analyses of feedstocks for biofuels, focusing on greenhouse gas impacts. The assessment concluded that OECD government subsidies to biofuels are costly, have a limited impact on reducing greenhouse gases and improving energy security, and have contributed to increases in world crop prices. It projected that continued biofuel subsidies would reduce greenhouse gas emissions from transport fuel by no more than 0.8% by 2015.



## Education for sustainable development

The AMSDE has proposed that the OECD review good practices and recommend tools for including sustainable development in education and lifelong learning as a contribution to the *UN Decade of Education for Sustainable Development* (2005-2014). In 2008, an OECD Workshop on Education for Sustainable Development (Paris, 11-12 September 2008) was organised by the Horizontal Programme on Sustainable Development in co-operation with the Education Directorate and the DSTI Consumer Policy Division. The workshop identified good practices in national strategies, curricula, and school practices for education for sustainable development; it also reviewed approaches for educating students and consumers about sustainable consumption.

The Education Directorate is covering aspects of education for sustainable development in various parts of its work programme. The Programme on Educational Building (PEB) is assessing the costs and benefits of sustainable education facilities and infrastructure and how these are linked to teaching programmes. The Programme for International Student Assessment (PISA) published a report on student attitudes towards the environment and sustainable development based on recent surveys. The Programme for the International Assessment of Adult Competencies (PIAAC), to be administered by EDU and ELS in 2011, will assess the ability of adults to fit into society and communicate with others. The OECD Centre for Educational Research and Innovation (CERI) is exploring how education affects social behaviour (the social outcomes of learning) and contributes to the development of human and social capital.

## Economics of environment and health

Since 2005, the AMSDE has promoted joint analyses of environmental policies and health, the drivers of innovation in the environmental health area, and the formulation of coherent environmental health policies. A sustainable development approach is needed to link the economic, environmental and social aspects of health care. Most analyses in this area have been conducted by EPOC, including case studies of governance factors for improving synergies between national environment and health policies, published as *Improving Coordination between Environmental and Health Policies* (2007). In 2008, an OECD Policy Brief summarised work on the environment-health interface, including the triple benefits (economic, environmental, and social) derived from more stringent environmental policies and regulations.

Addressing environmental health risks can lead to significant cost savings in terms of health care, environmental damage and human welfare. Analysis by EPOC, with input from the Health Committee, for the *2008 Environment Outlook* estimated that the costs of health care as a result of ecological damage, primarily air and water pollution, are a significant share of GDP. EPOC has ongoing work on the health care costs of inaction on environmental issues and the costs and benefits of reducing environment-related health risks, particularly for children. The economic and social benefits of improving water quality and sanitation are being considered in the horizontal programme on water.

As part of the OECD Innovation Strategy, the Committee for Scientific and Technological Policy (CSTP) is reviewing how to strengthen the contribution of innovation to health outcomes and to increase the diffusion and uptake of health technologies. New CSTP/EPOC work on nanotechnologies is assessing their contributions to meeting challenges in the health, environment, energy and water areas. This includes the review of the human health and environmental impacts of manufactured nanomaterials. Joint work is also being carried out on the use of biotechnology to benefit human health and environmental sustainability.

## OECD Outlooks

The OECD periodically issues publications in the “Outlooks” series, which feature cross-country analysis and thematic studies. In 2008, the OECD published Outlooks for Agriculture, Economy, Employment, Energy, Environment, Migration, Nuclear Energy, and Science, Technology and Industry. Regional Outlooks were also published by the OECD Development Centre for Africa, Central Asia, and Latin America, to be combined into a Global Development Outlook.

There are significant differences across these publications in terms of their timing and their timeframes and whether they forecast future developments or review past policies and trends. Some Outlooks contain country notes or summaries, and most include thematic studies conducted during the year. Since the Outlook forecasts are based on different models and assumptions, they can contain diverging views on economic, social and environmental futures.

The AMSDE has recommended that greater synergies be found among the many OECD Outlook publications to highlight inter-linkages between economic, environmental and social concerns and long-term trends. Consideration should be given to an *OECD Outlook* which includes elements of the different sectoral Outlooks and examines global trends from

a more comprehensive perspective. Integrated scenarios would allow the comparison and analysis of economic, environmental and social policy options as well as the costs of policy inaction. This would also allow for better prediction of the potential impacts of current policies and activities on future generations.



## OECD Horizontal Programmes and Projects

The OECD is implementing an increasing number of horizontal programmes and projects, which bring together the interdisciplinary skills of several OECD Committees and Directorates, while also promoting interactions across Ministries and greater policy coherence in OECD countries. In 2008, there were horizontal activities on sustainable development, political economy of reform, policy coherence for development, statistics and measurement, innovation, water, and migration. These programmes have similar aims in promoting synergies and cost-effectiveness in analytical approaches as well as policy integration and whole-of-government decision-making.

### Horizontal Programme on Sustainable Development

The OECD Horizontal Programme on Sustainable Development was established in 2005 based on recommendations from the Ad Hoc Group on Sustainable Development. The *Annual Meeting of Sustainable Development Experts* (AMSDE), held on 20-21 October 2008, reviewed this report to mark progress, identify gaps and recommend priorities for mainstreaming sustainable development in future OECD work. AMSDE Delegates discussed with OECD Committee Chairs and other stakeholders: 1) approaches for including sustainable development in country reviews, and 2) policies for promoting sustainable investment, production and innovation. AMSDE also reviewed work on sustainable development measurement and methodologies for sustainability assessments, and progress in National Sustainable Development Strategies (NSDS).

In 2008, the programme sponsored two workshops: *Sustainability Assessment Methodologies* (Amsterdam, 14-15 January 2008) and *Education for Sustainable Development* (Paris, 11-12 September 2008). It coordinated an integrated OECD contribution to the 16th session of the UN Commission on Sustainable Development (UNCSD) on *Towards Sustainable Agriculture*. The brochure presented analytical findings from ENV, GOV, TAD, STI, DCD, DEV and other OECD units on aspects of sustainable agriculture: i) economic (productivity, subsidies, development

assistance, trade and foreign investment), ii) environmental (resource management, land management, desertification, climate change), and iii) social (food security, rural development, gender roles, child labour). These issues were discussed in an OECD side-event at UNCSD which featured experts from agricultural producers, trade unions, NGOs, and OECD/TAD (New York, 12 May 2008). PAC maintained an information booth for the distribution of OECD publications and brochures to UNCSD participants.

The programme also produced a survey of OECD gender-related statistics and analyses in *Gender and Sustainable Development: Maximising the Economic, Social and Environmental Role of Women*. This brochure, published on International Women's Day (8 March 2008), used OECD work to show that better use of the world's female population could increase economic growth, reduce poverty, enhance societal well-being and help ensure sustainable development in all countries.

## Political Economy of Reform

In 2008, the OECD launched a project on the Political Economy of Reform, later retitled to "Making Reform Happen," to assist countries in successfully implementing policy reforms by identifying the factors behind resistance to reform and identifying ways to overcome them. At the 2007 and 2008 Ministerial Council Meetings (MCM), Ministers shared experiences with the implementation of reforms and called on the OECD to study the success stories and failures of the reform process to create conditions for change.

Several Committees have conducted analyses of the political economy of reform in their areas, e.g. the political economy aspects of subsidy reform (AMSDE), environmentally related taxes (EPOC/CTPA), structural adjustment in the fisheries sector (FISH) and agricultural sector (COAG), trade liberalisation (TC), education (EPC), and improving aid effectiveness (DAC). The Economic and Development Review Committee (EDRC) is preparing country case studies of the political economy of structural reform in retirement and pension systems, labour markets, and product markets, which will result in a synthesis of findings in 2009. These analyses show that successful reforms depend on whole-of-government decision-making, comprehensive approaches, clearly sequenced timetables, compensatory measures, transparency in potential costs and benefits, and consultations and coalition-building with stakeholders.

To further the reform process, three country publications (France, Mexico, and Hungary) were compiled to put together OECD country-specific policy recommendations on a range of issues. Political economy

considerations, including packaging and communications to citizens, were cited as part of the success of the Nordic model in the 2008 seminar on *Embracing Globalisation in the 21<sup>st</sup> Century: A Dialogue on the Nordic Approach* (Paris, 21 May 2008).

The Annual Meeting of Senior Officials from Centres of Government discussed the *Political Economy of Reform: Ensuring Stakeholder Support* (Mexico City, 25-26 September 2008). Countries exchanged experiences in the sequencing, integration and communication of reforms, with a focus on involving civil society. The next annual meeting will discuss *Ensuring the Coherence of Reforms: Steering from the Centre of Government* (Paris, September 2009).

The OECD is developing internal best practices to mainstream political economy issues into Committee work and improve intra-Secretariat co-ordination to share the results of political economy analyses. The organisation is also deepening consultations with the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) on political economy issues, and exploring means of strengthening relations with other civil society organisations.

## Policy Coherence for Development

In June 2008, the OECD Ministerial Council Meeting (MCM) adopted the *Declaration on Policy Coherence for Development*, stressing that “successful poverty reduction requires mutually supportive policies across a wide range of economic, social and environmental issues”. Increasing the coherence of OECD policies towards developing countries is essential to achieving the Millennium Development Goals by 2015. OECD analysis of policy coherence for development considers trade-offs and synergies across such areas as trade, investment, development co-operation and migration, and sector policies including agriculture, fisheries, health and education.

A series of Policy Briefs on achieving policy coherence for development in specific sectors was initiated in 2008, beginning with agriculture and fisheries. A *Global Forum on International Investment: Best Practices in Promoting Investment for Development* reviewed approaches for aligning aid with international investment initiatives to mobilise private financing for development objectives (Paris, 27-28 March 2008). The Environment Directorate explored the quantitative links between environment and development objectives and policies. Future work of the PCD programme will focus on improving policy coherence for development with regard to agricultural trade, information technology, and migration.

## Measuring the Progress of Societies

A global project on Measuring the Progress of Societies was launched by the OECD in co-operation with other international organisations at the 2007 *OECD World Forum on Statistics, Knowledge and Policy*. The next World Forum will be held in Korea in 2009. The project aims to encourage discussions on what progress means for different societies, to identify best practices on how to measure progress, and to ensure statistical measures are used and understood by governments and civil society. Key indicators to assess progress go beyond economic measures to include environmental (e.g. pollution, biodiversity) and social (e.g. education, health) indicators. Activities include the establishment of communication tools (website, Wiki-Progress platform, newsletter, and journal), regional working groups, training courses, thematic conferences, and guidelines and handbooks on measuring progress.

In 2008, analysis continued on identifying a set of indicators for measuring progress, including case studies of key indicator sets. The OECD participated in developing a training course on “Statistics, Knowledge and Policy: Understanding Societal Change” (Siena, Italy, 16-19 September 2008) and on “Composite Indicators Development” (Bratislava, 20-21 October 2008). Related events in 2008 include a conference on *Measuring and Fostering the Progress of Societies: A New Approach for Russia and Neighbouring Countries* (Moscow, 29-30 September 2008), *Measuring and Fostering the Progress of Societies: Regional Conference for Africa and Neighbouring States* (Tunis, November 2008), and *International Conference on Gross National Happiness* (Bhutan, 7-9 November 2008). The OECD is also a participant in the High-Level Commission on Measuring Economic Performance and Social Progress, established by French President Nicolas Sarkozy to investigate new measures of economic and societal progress.

## Innovation Strategy

Research to formulate an OECD Innovation Strategy was launched at the 2007 MCM, when Ministers asked the OECD to recommend ways to strengthen innovation performance and its contribution to economic growth and social welfare. This involves the development of new indicators and benchmarking approaches, consultations with a wide range of stakeholders, and going beyond the traditional focus on technological innovation (to more intangible and organisational innovation), R&D policies (to human resource, trade, business and other policies) and linear patterns of innovation (to interactive processes).



The final report, including recommendations on best practices to promote innovation, will be presented to Ministers in 2010. In 2008, the OECD and the World Bank held a joint conference on “Innovation and Sustainable Growth in a Globalised World” (Paris, 18-19 November 2008).

Four working groups have been formulated to foster cross-cutting OECD work on:

- 1) Changing nature of innovation – understanding the complex nature of innovation and its non-technological forms. This includes work on the valuation of intellectual assets (CSTP), business models and entrepreneurship (CIIE), the contributions of information technology (ICCP), and the role of consumers (CCP).
- 2) Global dimensions – stimulating innovation to address global challenges in health, energy, climate change and water. This includes analysis of the globalisation of R&D and innovation processes (CSTP) and of fostering innovation for addressing climate change, energy and water crises (EPOC).
- 3) Human capital – utilising skilled human resources and their interactions to enhance the innovation process. This includes work on developing relevant human skills and fostering innovation in education and training systems (EDU/CERI) and on fostering the mobility of the skilled workforce (CSTP and ELSAC).
- 4) Markets and governance – improving market and government incentives to promoting innovation. This includes work on the innovation effects of trade liberalisation and foreign investment (TC), tax policy (CFA), competition policy (CC), and other public policies and incentives (CSTP).

## **Horizontal Project on Water**

The horizontal project on *Sustainable Financing to Ensure Affordable Access to Water and Sanitation*, initiated in 2007, is analysing the economic, financial and governance aspects of water management. It involves co-operative work by the Environment Policy Committee (EPOC), the Development Assistance Committee (DAC), the Investment Committee, and the Committee on Agriculture. Recommendations for overcoming financial obstacles and using economic incentives to provide adequate and affordable water and sanitation services for all were discussed at the *OECD Global Forum on Sustainable Development* on “Financing and Pricing Water: The Roles of Government Policies, the Private Sector and Civil Society” (Paris, 1-2 December 2008). A synthesis of the findings and policy

recommendations will be presented to the 5th World Water Forum (Istanbul, 16-22 March 2009).

The horizontal water project is organised around three dimensions. *Pillar 1* has a dual focus: (i) pricing of water and sanitation services and water resources, including a review of the use of economic instruments in agriculture, and (ii) financing of water and sanitation services, including a review of trends in Official Development Assistance (ODA) to the sector and the analysis of the opportunities provided by innovative service delivery and financial mechanisms. *Pillar 2* is identifying good practices and developing policy recommendations for strategic financial planning for water and sanitation infrastructure in developing countries, including case studies of African countries. *Pillar 3* is developing guidance for improving the effectiveness of the involvement of the private sector in the development and management of water infrastructure, building on the *OECD Principles for Private Sector Participation in Infrastructure*.

## Horizontal Project on Migration

The horizontal project on *Managing Labour Migration for Economic Growth* was launched in 2007 to develop policy recommendations for better management of both low-skilled and high-skilled migration. Coordinated by the Directorate for Employment, Labour and Social Affairs (ELS), outputs will include better data on international migration movements and the incidence and impacts of return migration. The *Conference on Migration, Return and Development* reviewed the economic contributions of returning immigrants and their reintegration into the labour market (Milan, 2-3 October 2008).

Several Committees are pursuing aspects of the work on migration. The Development Centre sponsored a workshop on *Migration and Development: Looking Ahead* (Paris, 10-11 July 2008) to examine how better migration governance can contribute to growth and development in developing countries; one session focused on migration issues relating to China. The Health Committee has undertaken a project on the Health Workforce and International Migration and is organising a joint seminar with DAC on the Migration of Health Care Workers.

The Education Committee is preparing a thematic review on migrant education, focusing on outcomes for children, based on a series of expert meetings. The Committee for Scientific and Technological Policy (CSTP) is reviewing trends in migration of high-skilled workers as part of work on the international mobility of human resources in science and technology.

## Priorities for Future OECD Sustainable Development Work

At the 2008 Annual Meeting of Sustainable Development Experts (AMSDE), it was agreed that the following should be priorities for mainstreaming sustainable development in the OECD work programme: 1) integrating sustainable development into OECD country reviews, 2) developing sustainable development measurement and assessment methodologies, and 3) developing recommendations on governance for sustainable development.

### Integrating sustainable development in OECD country reviews

The AMSDE proposes that OECD country analyses assess how better integration of economic, environmental and social policy-making could enhance performance and the implementation of policy reforms. The OECD collects and compares a wide range of economic, environmental and social indicators and information on Member countries and certain non-Member countries. This information provides the basis for peer reviews, country monitoring and country-based thematic analyses, which are available on the OECD country websites ([www.oecd.org/countrieslist](http://www.oecd.org/countrieslist)). Most country reviews are confined to a specific field such as economic performance, environmental management or regulatory reform. Individually, these country reviews are becoming more interdisciplinary. However, joint consideration of interactions across the economic, social and environmental policies and performance of countries is lacking.

As a step in this direction, the OECD compiled three publications in 2007-2008 which summarised OECD policy recommendations for specific countries: Mexico (*Getting it Right*), France (*Le Pari de la Croissance*), and Hungary (*Reforms for Stability and Sustainable Growth*). These built on country reviews and analyses as well as thematic research by a number of OECD Committees and Directorates. In these studies, the countries were assessed on different aspects of their policies and performance, including economic (e.g. productivity, tax, competition,

innovation), social (*e.g.* employment, education, health, migration), environmental (*e.g.* energy, water, climate change), and governance (*e.g.* public administration, regulatory reform).

The OECD should produce more country publications on this model, but based on a common template which includes the assessment of policy and performance inter-linkages. These would draw on OECD peer reviews, which are one of its most powerful instruments for promoting policy reforms and for sharing insights among countries for addressing common challenges. A few Committees conduct peer reviews on a periodic basis, while others are voluntary and undertaken at the request (and with the funding) of the country.

OECD country reviews are gradually broadening to include more cross-disciplinary issues:

- 1) Economic and Development Review Committee (EDRC) – The EDRC reviews the economic performance and policies of OECD countries every 18 months and also a number of non-OECD countries. Structural topics are included in the reviews, including a discussion of specific environmental (*e.g.* climate change, energy) or social (*e.g.* education, health) issues when these are identified as a “key challenge” facing the country. In recent surveys, there have been full chapters on water (Australia) and on energy and climate change (Canada), with climate change issues being raised increasingly in the surveys in line with the stepped-up attention to these issues internationally.
- 2) Environment Policy Committee (EPOC) – EPOC is preparing for its third cycle of Environmental Performance Reviews, which assess countries on environmental variables and related economic policy instruments at the rate of 5-6 per year. The second cycle included a short review of sustainable development institutions (*e.g.* strategies, Councils) as well as analysis of the interface of environmental and social issues.
- 3) Development Assistance Committee (DAC) – DAC reviews the development assistance policies of OECD countries approximately every four years, focusing on the management of financial flows and achieving poverty reduction through implementation of the Paris Declaration on Aid Effectiveness. The degree to which countries foster policy coherence and integrate cross-cutting issues such as environmental sustainability, social inclusion and gender equality will be a larger part of future peer reviews. This was the subject of a workshop on “Strengthening the Development Results and Impacts of the Paris Declaration Through Work on Gender Equality, Social Exclusion and Human Rights” (London, 12-13 March 2008).

- 4) Committee for Scientific and Technological Policy (CSTP) – The CSTP reviews the innovation policies of 2-3 OECD countries per year and also non-Member countries (China, Chile, South Africa). These assess the major strengths and weaknesses of a country's innovation system and make recommendations for government policies, including for science and research and development (R&D). Country profiles of innovation performance are included in the biennial Science, Technology and Industry Outlooks.
- 5) IEA Standing Group on Long-Term Co-operation (IEA/SLT) – Energy policy reviews are prepared of the 27 countries of the International Energy Agency (IEA) every four years. From an original emphasis in the early 1990s on energy security issues, these reviews have broadened to cover environmental issues, particularly reducing the energy sector's contributions to greenhouse gas emissions.
- 6) Public Governance Committee (PGC) – Country reviews of regulatory reform policies and programmes have been conducted of most OECD countries starting in 1997. These are now being broadened into Public Management Reviews, starting with Ireland and Greece in 2008. The PGC is placing new emphasis on assessing whole-of-government decision-making, policy coherence, and public engagement in policy-making.

Other OECD Committees and Directorates publish country studies and notes based on their areas of expertise, including agriculture, health, migration, etc. Annual country profiles are prepared by:

- 1) **Economics Department** – One-page country notes assessing progress in responding to the key structural policy challenges identified in the previous year are included in the series on *Economic Policy Reforms: Going for Growth*. Short country notes on the macroeconomic situation are also included in the biannual *Economic Outlooks*.
- 2) **Employment, Labour and Social Affairs Committee (ELSAC)** – Short country notes comparing countries on aspects of labour market performance, including wage trends, unemployment, and discrimination are included in the annual *Employment Outlook*. In 2008, country profiles of trends in income distribution were published in *Growing Unequal: Income Distribution and Poverty in OECD Countries*.
- 3) **Statistics Directorate** – A statistical profile of all OECD countries with international comparisons is prepared each year based on indicators included in the *OECD Factbook: Economic, Environmental and Social Statistics*.

## Developing sustainability measurement and assessment methodologies

The AMSDE proposes the further development of sustainable development measurement and assessment methodologies to contribute to the improved design and implementation of government economic, environmental and social policies. This would allow countries to monitor progress on sustainable development at different levels according to set targets and goals. It would also provide a common set of economic, environmental and social indicators to facilitate comparisons of regions, countries and localities. These indicators could form the basis for cross-disciplinary peer reviews as well as for the assessment of proposed policies from the perspective of sustainable development.

In 2008, the *UNECE/OECD/EUROSTAT Joint Working Group on Statistics for Sustainable Development (JWGSSD)* issued its report proposing a short set of indicators for comparing sustainable development trends in countries, which can also serve as a reference point for sustainability assessments. The indicators are based on a capital framework, which defines sustainable development in terms of whether a country's capital base or national wealth is managed in a way that secures its maintenance over time. National wealth includes financial capital (currency, stocks), produced capital (machinery, buildings), natural capital (natural resources, ecosystems), human capital (education, labour), and social capital (institutions). It is proposed that future work further refine these sustainable development indicators, particularly human and social capital.

Also in 2008, the OECD developed a draft *Guide to Sustainability Assessments* based on the Workshop on Sustainability Assessment Methodologies (Amsterdam, 14-15 January 2008). It builds on OECD work on regulatory impact analysis (RIA), environmental impact analysis (EIA), strategic environmental assessment (SEA), poverty impact assessment (PIA), and the Competition Assessment Toolkit. For *ex ante* assessments, the Guide proposes a sequence of steps to determine with regard to proposed policies: 1) whether a sustainability assessment is needed, 2) the extent of the assessment to be conducted, 3) the most appropriate tools or methodologies, 4) the role of stakeholders, 5) the economic, environmental and social impacts, 6) synergies and conflicts across these impacts, 7) mitigating measures to optimise positive outcomes, and 8) the best presentation of options to decision-makers. This Guide should be further developed as a practical reference for sustainable development practitioners and for implementing National Sustainable Development Strategies.

## Recommending governance approaches for sustainable development

The AMSDE proposes that the OECD make concerted efforts to advise countries on the implementation of domestic governance structures that promote policy coherence and sustainable development. This should bring together ongoing OECD activities on public governance, the political economy of reform, policy coherence for development, and sustainable development. The goal is to promote policy reforms through whole-of-government decision-making which strikes a balance among economic, environmental and social objectives. The good governance practices for sustainable development identified for OECD countries should also be shared with non-OECD countries.

The Public Governance Committee (PGC) is taking a new integrated approach to its work focusing on: 1) innovative approaches for designing and delivering public policies, 2) public engagement in the governance of reforms, and 3) assessing public sector performance. These aspects will be assessed in country reviews of public management, with an emphasis on whole-of-government approaches to policy reforms and increasing transparency and stakeholder involvement in the reform process. The 2008 conference on *Building Citizen-Centred Policies and Services* (Slovenia, 26-27 June 2008) provided input to a set of “Guiding Principles for Open and Inclusive Policy Making”.

The 2008 Annual Meeting of Senior Officials from Centres of Government discussed the *Political Economy of Reform: Ensuring Stakeholder Support* (Mexico City, 25-26 September 2008). Through these meetings, the PGC is contributing to the horizontal project on the Political Economy of Reform, which was launched in 2008 to assist OECD countries in overcoming obstacles to implementing policy reforms. OECD analyses underline that successful reforms depend on whole-of-government decision-making, comprehensive rather than piecemeal approaches, correct timing and pacing, and the participation of stakeholders.

Endorsed by Environment Minister in 2008, the OECD adopted *The OECD Framework for Effective and Efficient Environmental Policies*, which states “sustainable development requires that an appropriate balance be struck between economic, environmental and social goals” and recommends tools for policy integration. This is being pursued by the Horizontal Programme on Sustainable Development which has identified *Good Practices in the National Sustainable Development Strategies of OECD Countries* (2006) and approaches to *Institutionalising Sustainable Development* (2007) in joint work with the UN Commission on Sustainable Development (UNCSD). Good practices for sustainability strategies include

high-level political commitment, policy integration, extended timeframes, and stakeholder involvement.

At its 2007 session, the OECD Annual Meeting of Sustainable Development Experts (AMSDE) discussed the results of external reviews of National Sustainable Development Strategies (NSDS) in France, Korea, the Netherlands and Norway, and of internal NSDS reviews in Belgium, Italy and Switzerland. Starting in 2008, a continuing feature of the AMSDE will be an update and discussion of developments in NSDS. It is proposed that future analysis address the development of sector strategies (e.g., tourism, energy, education) within the NSDS context.

In 2009-2010, it is also proposed that OECD experiences on NSDS be shared with accession countries (Chile, Estonia, Israel, Russia and Slovenia) and enhanced engagement countries (Brazil, India, Indonesia, China and South Africa). This would build on the 2007 OECD workshop with UNCSD and the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) on *Developing Sustainability Strategies in Asia*, which reviewed the integration of national development plans, poverty reduction strategies (PRS), and NSDS. The workshop stressed the need for more coordinated efforts on development strategies by international organisations, including the OECD, International Monetary Fund (IMF), World Bank, United Nations Environment Programme (UNEP), and the United Nations Development Programme (UNDP).



## Acronyms

### OECD Bodies

A1XG – Annex 1 Expert Group on the United Nations Framework Convention on Climate Change

AMSDE – Annual Meeting of Sustainable Development Experts

CC – Competition Committee

CCP – Committee on Consumer Policy

CERI – Centre for Educational Research and Innovation

CERT – IEA Committee on Energy Research and Technology (CERT)

CFA – Committee on Fiscal Affairs

CIIE – Committee on Industry, Innovation and Entrepreneurship

COAG – Committee for Agriculture

COFI – Committee on Fisheries

CSTAT – Committee on Statistics

CSTP – Committee for Scientific and Technological Policy

DAC – Development Assistance Committee

ECG – Working Party on Export Credits and Credit Guarantees

EDRC – Economic and Development Review Committee

EDU – Education Committee

ELSAC – Employment, Labour and Social Affairs Committee

EPC – Economic Policy Committee

EPOC – Environment Policy Committee  
HC – Health Committee  
IC – Investment Committee  
JWGSSD – Joint Working Group on Statistics for Sustainable Development  
PGC – Public Governance Committee  
SLT – IEA Standing Group on Long-term Co-operation  
TC – Trade Committee  
WP1 – Working Party 1 of the EPC

### **OECD Directorates and Associated Agencies**

DAF – Directorate for Financial and Enterprise Affairs  
DCD – Development Co-operation Directorate  
DEV – Development Centre  
ECO – Economics Department  
ECH – Trade Directorate  
EDU – Education Directorate  
ELS – Directorate for Employment, Labour and Social Affairs  
ENV – Environment Directorate  
GOV – Public Governance and Territorial Development Directorate  
IEA – International Energy Agency  
IFP – International Futures Programme  
ITP – International Transport Programme  
NEA – Nuclear Energy Agency  
STD – Statistics Directorate  
STI – Directorate for Science, Technology and Industry  
TAD – Trade and Agriculture Directorate

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