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KEY ISSUES PAPER

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BETTER POLICIES FOR BETTER LIVES

Key Issues Paper

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Securing strong, resilient, inclusive and sustainable growth for the next generation

1. In December 2021, supported by unprecedented measures in OECD countries and around the world, economic output in most OECD countries surpassed its pre-COVID 19 level (OECD, 2021[1]). While the recovery was uneven and downside risks remained, the global economy continued to recover, along with trade, employment and incomes. Since then, first the spread of the Omicron variant and then Russia's large scale aggression against Ukraine have hit global economic activity. Russia's war of aggression against Ukraine has caused a humanitarian disaster. Since the war began, almost seven million people have fled Ukraine. This is on top of the eight million internally displaced in Ukraine (UNHCR, 2022[2]). The war will have a major impact on migration and associated policy considerations. Beyond this, the economic damage is already being felt worldwide and risks becoming increasingly severe and long-lasting.

2. Russia's unprovoked war of aggression against Ukraine has also thrown the growth recovery from the COVID-19 pandemic into doubt. Amid the uncertainty, the OECD's initial assessment indicates that global economic growth could be more than 1 percentage point lower this year than was projected before the aggression, while global inflation, already high at the start of the year, could be 2.5 percentage points higher as a consequence of the war (OECD, 2022[3]) (see Figure A A.1). Since then the war has continued with the outlook unclear. This will further negatively impact the global growth outlook while prices are likely to continue to rise. In this unfolding scenario, the risk of stagflation looms larger. The war and its economic consequences have broader, global ramifications, which are aggravating food security and poverty in developing countries and could disrupt their timid recovery from COVID-19 [DEV/GB(2022)4]. The war also gives rise to systemic risks – such as tendencies towards protectionism and de-globalisation leading to market fragmentation and shortened supply chains, which may undermine open markets and multilateralism at large.

3. Russia and Ukraine together account for less than 3% of global GDP and less than 2% of world trade flows. Yet the disruptions and the negative effect that the war is causing go well beyond these relative proportions. Commodity prices have risen sharply. Russia and Ukraine are important producers of wheat, fertilisers and metals. Soaring metals prices could affect a wide range of industries such as aircraft, car and chip manufacturing. With Russia exporting around 19% of the world's natural gas and 11% of oil, energy prices have jumped alarmingly (see Figure A A.2). The price shock risks increasing inequalities and poverty, as well as disrupting the production of goods and services worldwide (OECD, 2022[3]). In response to the large scale aggression, many countries have appropriately introduced unprecedented sanctions on Russia. The aim of those sanctions is to maximise pressure on Russia to end its war against Ukraine, while causing minimal disruption in the countries introducing them. While impacts in different countries in different parts of the world will vary, clearly there will be disruptions and there will be costs. The aggression also has implications for cyber security, and represents an opportunity for Members to intensify co-operation in this area and on developing international standards around harmful content and security threats. And it has underscored the threats posed by the spread of mis- and disinformation and the dangers caused by widespread erosion of trust in institutions and information, providing a strong rationale for further co-operation through the OECD Reinforcing Democracy Initiative.

4. The OECD Council continues to condemn in the strongest possible terms the large scale aggression, has decided to formally terminate the accession process with Russia, which had already been suspended in 2014, and has suspended the participation of Russia and Belarus in OECD bodies, while expressing its solidarity with the Ukrainian people (as

stated by Council on 24 February 2022, followed by the OECD Secretary-General's statements on 25 February 2022 and 8 March 2022) (OECD, 2022[4]; OECD, 2022[5]; OECD, 2022[6]). The OECD will continue to advocate for effective multilateralism and to monitor and assess the economic and social repercussions of the large scale aggression by Russia against Ukraine, including through the establishment of an OECD Digital Hub on Economic and Social Impacts and Policy Implications of the War in Ukraine.

5. At the same time, governments need to respond now to the unfolding impacts of Russia's aggression. As a priority, they need to help and protect refugees. Experience from other major recent refugee crises, notably from Syria and Venezuela, has highlighted the importance of monitoring the evolution, composition, reception and needs of displaced Ukrainians; promoting education continuity; facilitating the development and use of displaced Ukrainians' skills and supporting the provision of healthcare, social assistance and housing, with a focus on the needs of women and children. Support is also needed for the cities that are now host to increasing numbers of refugees and are struggling to meet new service demands. Large movements of refugees are a global concern, and international co-operation will be instrumental to respond effectively. In the short term, governments will need to ease the impact of price increases on consumers through targeted, temporary and means-tested support to help the vulnerable and by ensuring that trade and agriculture keep flowing to emerging and lower-income economies.

6. The impact of the war in Ukraine has refocused attention on the importance of energy security. Over the longer-term, energy security can be improved through a concerted effort to maintain momentum towards climate goals, including the transition to net-zero emissions and reducing dependence on fossil-fuels. As highlighted in the 2022 International Energy Agency Ministerial Communiqué, ensuring energy security and addressing climate change in the energy and related sectors go hand-in-hand (IEA, 2022[7]).

7. Overall, OECD estimates indicate that well targeted government fiscal measures of around 0.5 percentage point of GDP could substantially mitigate the economic impact of the war without substantially adding to inflation (OECD, 2022[3]). At the request of Council, the Secretary-General is developing proposals for OECD support of Ukraine's recovery and reconstruction to be implemented if, when and as conditions allow, in close coordination with relevant international partners, with the aim to lay the foundations for long-term stability and sustained growth and development. In this regard, the OECD Ukraine-Kyiv Liaison office will be an important first step.

8. Alongside the immediate crisis response, and to ensure economic recovery that translates into strong, sustainable, inclusive and resilient growth, policy makers must also address long-lasting scars from COVID-19 as well as vulnerabilities and challenges predating the pandemic. This includes reducing inequalities, including gender inequalities, and other impediments to sustainable economic growth, transitioning to a net-zero economy in a way that leverages the opportunities of the digital transformation whilst addressing its potential challenges, and reviving productivity growth. Situations differ across and within countries, but there are some common actions to be taken to pave the way for future growth for the next generation that is aligned with the climate goals set out in the Paris Agreement. Moreover, with only eight years left until 2030, it is of key importance to ensure that economic policies continue to support the implementation of the 2030 Agenda for Sustainable Development, calling on all stakeholders to promote adherence to OECD standards and practices to improve transparency and accountability.

9. Governments across the globe have a crucial role to play in ensuring a level playing field for businesses that create jobs and economic opportunities for citizens to thrive. This means finding ways to ensure that SMEs – that were particularly hard hit by the COVID-19 crisis – can bounce back and invest in growth and innovation to play a full role in the

recovery. It also means removing policy barriers, where they exist, for firms to become more dynamic, innovative and green. The pandemic has accelerated ongoing digitalisation. This presents many new opportunities to revive productivity growth, address pressing social issues, for example related to health care or education, and accelerate the green transition. But digitalisation also raises new challenges and risks, including those brought about by automation, which may be increasingly felt by the lower skilled. Policy makers need to ensure people are not left behind by these profound economic changes and have opportunities as well as incentives to upskill and look for quality jobs. In this context, social dialogue constitutes an important instrument through which labour market stakeholders can mitigate risks and maximise the benefits of changes such as automation and the green transition.

10. Over the last ten years, the reform of the international tax system has addressed issues of multinational tax avoidance, base erosion and profit shifting, and governments around the world continue to work together to implement the landmark agreement between 137 members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting reached in October 2021. Under Pillar One, taxing rights on more than USD 125 billion of profit are expected to be reallocated to market jurisdictions each year. Following years of intensive negotiations to bring the international tax system into the 21st century, the two pillar agreement will also ensure that multinationals with revenue above EUR 750 million will be subject to a minimum 15% tax rate as early as 2023, which will see countries collect an estimated USD 150 billion in new revenues annually (OECD, 2021[8]; OECD, 2021[9]).

11. A major concern for governments is the situation and future faced by the youth. Joint efforts are needed to promote equal opportunities for all young people, regardless of socio-economic status and geographic area, age, gender, race and ethnicity, indigeneity, migrant status, (dis)ability status and all other identities young people associate with, and their intersections. Young people were severely affected by the COVID-19 crisis, which risks leaving long-lasting scars on their lifelong opportunities, well-being and engagement in public life. At the onset of the pandemic, unemployment among 15-24 year-olds in the OECD surged, from historical lows of 11.5% in February 2020, to 19% in just two months (OECD, 2021[10]). Youth entrepreneurs also suffered. For example, 86% of youth entrepreneurs in the Asia-Pacific reported that COVID-19 had a negative impact on their business (UNDP, Citi Foundation, 2020[11]). While youth employment rates have recovered in most countries, supporting young people in the recovery from the COVID-19 crisis and addressing the pre-existing challenges they faced calls for decisive and whole-of-government policy action looking at education (including financial education), skills and employment policies, entrepreneurship, social policies and public governance.

12. In parallel, it will be essential to promote gender equality. This includes the collection and analysis of gender disaggregated data and addressing discriminatory social norms and institutions. During the early stages of the pandemic, women were among the hardest hit. Thanks to proactive policies and a strong recovery, however, by mid-2021 there was no clear remaining gender gap in the impact of the crisis on employment rates. Nevertheless, pre-crisis gender inequalities in labour market outcomes persist. In the last quarter of 2021, for example, there was a 14.4 percentage point gap in the employment rate between women and men (OECD, 2022[12]). Tax policy has a role to play in reaching gender equality. Even in tax systems that do not include overt gender biases, other implicit biases exist due to the interaction of the tax system with differences in the nature and level of income earned by men and women, consumption decisions, the ownership of property and wealth, and the impact of different social expectations on male and female taxpayers (OECD, 2022[13]; Harding, forthcoming[14]). Affordable early childhood education and care

(ECEC) services are also crucial to allow women with young children the opportunity to stay in paid work and to enhance their career opportunities (OECD, 2020[15]).[1]

13. Too many women are still in low-quality and under-valued jobs such as in the paid care economy. There are also too few female entrepreneurs. In addition, women do nearly twice as much unpaid work as men (OECD, 2022[16]). While participation of women in politics has increased, it is still far from parity with 32% of the seats in the lower/single house held by women in OECD countries on average (OECD, 2021[17]). The COVID-19 crisis has also drawn attention to gender-based violence, with domestic violence increasing since the start of the pandemic. Even pre-crisis, more than one in three women worldwide had experienced physical and/or sexual intimate partner violence or non-partner sexual violence in their lifetime. Redoubling efforts to eliminate gender gaps, to create more opportunities for women and girls, and to address discriminatory social norms and institutions must be a central part of all recovery efforts. This should include efforts by Adherents to implement the OECD Gender Recommendations[2] and efforts to collect and analyse gender disaggregated data.

14. Shaping a better future for next generations requires taking swift action to combat climate change, as well as biodiversity loss and pollution. While countries are raising the level of ambition, at both national and sub-national levels, they need to clearly set out the steps they will take to deliver on their pledges. This will also serve to reduce policy uncertainty, thus boosting clean energy investment. The recovery is an opportunity to set the global economy on a resilient net-zero transition. The latest OECD figures suggest that around one third (33%) of economic recovery spending in OECD countries, EU member states and Key Partners is currently allocated to environmentally positive measures. At the same time, environmentally negative and mixed measures account for 14% of recovery measures, with different environmental impacts across different sectors (see Figure A A.3), and ongoing annual support to fossil fuels will surpass all the one-off green recovery spending in just a few years, making it harder to meet the Paris climate goals (OECD, 2021[18]; OECD, 2022[19]).[3] Current geo-political pressures for increased energy security present additional considerations and momentum for governments to take swift action. Co-ordinated, multilateral action is more important than ever to set the course for transformative environmental policy and for achieving global carbon neutrality. To this end, the OECD has proposed an Inclusive Forum on Carbon Mitigation Approaches with a view to supporting the design of effective policies, taking into account respective national circumstances, and to facilitating greater overall international ambition while avoiding negative spill-overs.

[1] Good quality ECEC services have also the potential to impact on children's early learning, thereby fostering the development of future human capital (OECD, 2021[40]).

[2] The OECD Gender Recommendations are the 2013 OECD Recommendation on Gender Equality in Education, Employment and Entrepreneurship [OECD/LEGAL/0398] and the 2015 OECD Recommendation on Gender Equality in Public Life [OECD/LEGAL/0418].

[3] Alongside the OECD Green Recovery Database, which tracks recovery measures with a clear environmental impact adopted by OECD Member countries, the European Union and selected large economies, the OECD Government Support and Subsidies Portal provides access to OECD work on government support to agriculture, fisheries, fossil fuels and industrial sectors. See also the joint OECD, IMF, WB and WTO publication on subsidies, trade and international co-operation.

15. Securing sustainable growth requires the capacity of public finances[4] to promote investments in order to maintain a pace of productivity and potential growth, which is compatible with future generations' needs. In this perspective, sustainability is linked to the use of debt as well as its level: the increase in debt during the pandemic was needed to support economies during the most intense period of the COVID-19 crisis. Now is the time to refocus fiscal support and pro-competitive policies for productive investment that will boost growth, also by facilitating the digital and green transition. Private sector vitality is also needed to ensure sustainable growth. To help companies recover from the pandemic recession and to adapt to structural changes in the economy and society, it is important to develop capital markets and policies to enhance access to finance for SMEs, and strengthen corporate governance, supported by the OECD's review of the Principles of Corporate Governance. In addition, better implementation of OECD anti-corruption and integrity standards, including the Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions [OECD/LEGAL/0378], revised in November 2021, would help ensure that such investments also promote a sustainable economic recovery. Effective budget institutions and a clear and responsible fiscal framework are needed to secure a sustainable public finance pathway, invest in the future and enhance trust in governments. Drawing lessons from the 2008-2010 financial crisis, after which it took ten years to restore public trust in institutions to pre-crisis levels, will be key to reinforcing growth and democracy.

16. On all these issues, international co-operation will be of essence. While the COVID-19 pandemic has had severe adverse effects on all economies, emerging and developing countries have seen their economies particularly weakened by the crisis. In addition, as their growth rates reduced considerably, with significant impacts on debt sustainability, current account deficits and food security, the war in Ukraine is aggravating this situation [DEV/GB(2022)4]. While many countries had already significantly increased their interest rates in the context of persistent inflationary pressures, rising energy and food prices will add further pressure on current accounts and food security in net food importing countries, raising risks for global growth and macro-economic stability. In line with the OECD's Convention objective "to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development", further engaging with partner countries to disseminate OECD standards and best practices to support structural reforms and crisis recovery will be of essence. International co-operation is needed to strengthen the resilience of health systems, reinforce functional, fair and accessible markets, enhance financial consumer inclusion, literacy and protection as well as uphold open trade. All these areas are of paramount importance to allow low and middle-income countries to embark on a sustainable and green recovery, to the benefit of the entire global society. OECD's Global Relations tools, including collaboration with the G7, G20, Key Partners, Regional and Country Programmes, as well as programmes and bodies in which developing countries and emerging economies participate, can provide a key contribution in this regard.

[4] The Recommendation on Effective Public Investment across Levels of Government [OECD/LEGAL/0402] sets out principles to help governments at all levels to assess the strengths and weaknesses of their public investment capacity.

Questions for discussion [MCM Session 1]

- *While Russia's war on Ukraine heavily weighs on the economy still afflicted by pandemic risk, what are the most pressing policy priorities to bolster economic growth and contain inflationary pressures in the near to medium term? How can issues of food and energy affordability and security be addressed so as not to undermine the longer term inclusive sustainable growth?*
- *In what ways can the OECD support Ukraine, its people and its economy?*
- *In this challenging environment, how could OECD promote its shared values, such as democracy, gender equality, rule of law, commitment to trade and open and transparent markets?*

Shaping a better future for and with young people

17. Young people are coming of age in a crisis. While individuals aged 15-29 have been at a lower risk of experiencing severe COVID-19 symptoms, they have been severely affected by the pandemic. Youth unemployment in OECD countries surged at the onset of the pandemic, and the hours worked by young people fell by nearly twice as much as the hours worked by prime-aged and older workers (OECD, 2021[10]). Many young people saw their schools and universities closed, their learning disrupted, and internship, employment and opportunities to participate in public life fade away. Young entrepreneurs saw their businesses struggle and close for long periods if not entirely. Many young people are experiencing financial insecurity, housing instability, high levels of mental distress and difficulty to access affordable, quality housing (an issue the OECD is helping to address through the Horizontal Project on Housing, which includes the social rental housing dimension). Young people reported the largest drop in life satisfaction during the pandemic, and became the "loneliest cohort". Around 40% of people aged 15 to 24 were at risk of anxiety or depression in 2020 (OECD, 2021[20]).

18. The COVID-19 crisis risks leaving long-lasting scars on young people's well-being. Schools and universities have progressively reopened and employment rates have since returned to pre-crisis levels in a number of OECD countries (see Figure A A.4), but young people in vulnerable circumstances and the young people of tomorrow – children – risk experiencing long-term consequences of these disruptions, including learning losses, employment and financial insecurity, housing instability and mental distress. The young people who faced the greatest challenges prior to the crisis have been the hardest hit and are at risk of persistent unemployment, low job quality and social exclusion. Concerns about rising intergenerational inequities have gained further traction, as the repercussions of the crisis are unfolding with differentiated impacts across age groups, and adding to the challenges of demographic ageing.

19. There is also a risk that young people's trust in government and satisfaction with our economic system and democracy is affected in the long term (OECD, forthcoming[21]). Young people are bringing strong and critical perspectives about how our societies should adapt to the green and digital transitions, which will play out over their lifetimes and impact future generations. Young people are seeking jobs that make a difference, so they can be a driving force in social innovation and for the social economy. Yet they tend to participate less in elections than their older peers and continue to be underrepresented in policy-

making. While people aged 20-39 represent 34% of the population, they account for just 22% of Parliamentarians (OECD, 2021[17]). Participative processes for young people remain limited.

20. Governments have responded to the COVID-19 crisis with decisive measures for young people. Almost two-thirds of OECD countries introduced emergency income support for young people; many countries incentivised the hiring of young people or strengthened mental health services (OECD, 2021[22]). Businesses, employers, unions and civil society organisations have also played key roles in supporting young people during this unprecedented crisis.

21. The COVID-19 crisis should spur further action to address some of the longstanding challenges that young people face. While today's young people are the most educated generation in history, labour market conditions have deteriorated for them in many countries, regions and cities since the mid-2000s – with important skill mismatches and often insufficient student orientation and career guidance. There can be stark subnational variation in youth unemployment, over 30 percentage points in the countries with already high youth unemployment rates.[5] Young people also face barriers to entrepreneurship: 45% of young people express an interest in starting a business, but only 8% manage to do so (OECD and European Commission, 2021[23]). Informal, insecure jobs are becoming the norm for many young people and informality is the norm for many people in developing countries, including young people.

22. Investing in young people's education, entrepreneurship, and skills alongside action to combat their social and economic exclusion (including for people with disabilities) will generate social and economic benefits for decades to come. Such investments will promote opportunities all along the life-cycle and reduce intergenerational inequalities. Investing in skills should focus on basic skills (literacy, numeracy and problem-solving), as well as social, emotional, entrepreneurial, financial, communication, creativity and language skills, as well as skills in the science, technology, engineering and mathematics (STEM) disciplines. Building on the OECD 4th Skills Summit in Cartagena, Colombia (24-25 March 2022), which focused on the topic of "Strengthening skills for equity and sustainability", lifelong learning, and in particular up-skilling and re-skilling opportunities, should keep pace with rapidly changing economies and society, including to ensure refugee children have opportunities to continue learning in difficult times. While 75% of OECD countries have adopted integrated national strategies to deliver policies and services to young people, only 20% are fully participatory, budgeted, monitored and evaluated (OECD, 2021[22]). Economic growth and societal well-being also hinges on young people's successful engagement in public and political life and in society overall.

23. Employers also have a key role to play in supporting young people, as shown by the OECD Stand by Youth Initiative. The Initiative brings together twelve international organisations, including *Business at OECD*, to rally the business community in support of young people, and promote public-private partnerships to create new learning and employment opportunities. It has a particular focus on opening up opportunities and career pathways for young people from disadvantaged backgrounds.

24. To support countries in achieving the above goals, the OECD is working to deliver a Recommendation on Creating Better Opportunities for Young People. The Recommendation will provide a whole-of-government agenda for action, to improve youth measures and outcomes in all relevant policy areas, including education, skills and employment policies, social policies and public governance. Upon its adoption, the OECD

[5] OECD Regional Database (data for 2020 or latest available year).

would support countries in the implementation of the Recommendation and assess progress on a quinquennial basis. Bringing young people on board in the recovery and addressing the structural disadvantages they face – along with other disadvantaged groups – is a priority also for the OECD Employment and Labour Ministerial Meeting (7 June 2022). Youthwise, the OECD's youth advisory board, provides a channel for soliciting young people's views on OECD work – including for the development of its Youth Recommendation. The OECD will continue to support effective youth policies also through its work on financial literacy for youth and its contributions to relevant G20 work streams, including the Global Partnership for Financial Inclusion. The work of the OECD to encourage countries to step up their effort to improve digital financial literacy and financial consumer protection is crucial to address the risks of financial exclusion and financial vulnerability of young people.

Questions for discussion [MCM Session 4]

- *How has the pandemic affected youth, both young women and men, as well as youth from diverse background?*
- *Which areas shall be the focus of action for national governments? What policies and tools can be used to involve youth in decision-making processes?*
- *How can the OECD support the implementation of the proposed Recommendation of the Council on Creating Better Opportunities for Young People?*

A green transition to leave a better planet to future generations

25. The Paris Agreement sets a goal of "limiting global temperature increases to well below 2°C from pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels". At COP26 countries agreed to enhance urgently their efforts to curb greenhouse gas emissions (see Figure A A.5) and called on Parties to accelerate the transition toward low emissions energy systems, including by rapidly scaling up the deployment of clean power generation and energy efficiency measures, accelerating efforts toward the phase-down of unabated coal power and phase out of inefficient fossil fuel subsidies, while providing targeted support to the poorest and most vulnerable in line with national circumstances, and by recognising the need for support towards a just transition. At the OECD's Environment Ministerial Meeting (30-31 March 2022), Ministers and high-level representatives committed to intensify their work on climate and the environment, including doing more to curb biodiversity loss, address plastic pollution including in the marine environment, align finance with environmental objectives and accelerate climate change action with a view to keeping the 1.5°C temperature rise limit within reach. They also called on the OECD to strengthen work on reform of environmentally harmful subsidies and government support, and on environmental aspects of effective ocean management in particular enhancing protection, conservation and restoration of marine and coastal biodiversity, and addressing pollution, especially marine plastic litter. In this regard, the OECD stands ready to support the conservation and sustainable use of biodiversity as well as the objectives of the upcoming intergovernmental negotiating committee mandated to develop an international legally binding instrument on

plastic pollution, drawing on relevant OECD analytical work, including its Global Plastics Outlook.

26. Despite this strong impetus, emissions have bounced back after the outset of COVID-19 confirming that current policies remain insufficient to decouple emissions from economic growth. According to the IPCC Synthesis Report of the Sixth Assessment Report, less than ten years remain to cut emissions by nearly half if we are to have a chance of limiting global warming to 1.5°C. More needs to be done using the full range of policy tools, if countries are to match their long-term climate ambitions with outcomes (OECD, 2021[24]; OECD, 2021[25]; IPCC, forthcoming[26]). At the same time, countries need to strengthen their capacity to mitigate and adapt to the devastating impact of climate change and broader environmental degradation on our economies and societies. This includes adopting actions to halt global loss of biodiversity and ecosystem services, address the global plastics challenge, improve resource and water efficiency, or mitigate financial impacts from climate-related disasters. Actions to support developing countries will be critical: annual clean energy investment in emerging and developing economies needs to increase seven fold – from less than USD 150 billion to over USD1 trillion by 2030, to put the world on track to reach net-zero emissions by 2050 (IEA, 2021[27]).

27. The OECD is uniquely placed to act as a catalyst for climate and environmental action, bringing together different communities and actors and providing the data and evidence-based policy advice and standards governments need to deliver on their commitments. The OECD's Horizontal Project on Climate and Economic Resilience offers a holistic perspective to support policy makers in tackling climate change as part of their efforts to improve social and economic resilience, both in the recovery from COVID-19 and faced with ongoing disruptions. One of its modules, the International Programme for Action on Climate, which continues to develop, is delivering tools to allow countries to enhance their climate action policies and activities through tracking, measuring, reporting and sharing of best practices and climate action efforts pursued by advanced and emerging countries[6]. Moreover, as part of the Horizontal Project, the OECD has put forward a "Framework to Decarbonise the Economy", for designing and implementing country-tailored decarbonisation strategies with a cost-effective, comprehensive, inclusive and acceptable policy mix (OECD, 2022[28]). Governments need to lead the transition and this implies a transformation of public governance to set expectations and direction to deliver on green goals, using green budgeting, public procurement, infrastructure and regulations as key levers. This requires appropriate institutional set ups and public sector competences. Long-term strategies that integrate the OECD's multi-disciplinary expertise are key to strengthening coherence and alignment across different policy domains and ministerial portfolios. Moreover, following the OECD Standard-Setting Review, there is now a real opportunity to update OECD standards on environment so as to align them with the policy priorities of today and to help ensure ambitious and sound environmental management in areas such as climate, biodiversity, plastics and energy.

28. The digital transformation could be a key enabler for reaching climate goals, thanks to technologies like smart grids, sensors and artificial intelligence, and to digitally-induced changes in business models and consumption patterns. In this regard, the OECD's standards on governance of new technologies could play an important role, including the 2019 OECD

[6] The OECD International Programme for Action on Climate (IPAC) supports country progress towards net-zero greenhouse gas (GHG) emissions and a more resilient economy by 2050. Through regular monitoring, policy evaluation and feedback on results and good practices, IPAC helps countries strengthen and co-ordinate their climate action. It complements and supports the UNFCCC and the Paris Agreement monitoring frameworks.

Recommendation on Artificial Intelligence [OECD/LEGAL/0449] and the proposed Recommendation on Blockchain and other Distributed Ledger Technologies, which is being developed by the Committee on Financial Markets for possible adoption at the MCM. Likewise, digital technologies are also embedded in climate-related goods and services, helping to accelerate low-carbon innovation, including through greater connectivity and encouraging changes in consumer behaviour. Green FinTech initiatives are harnessing innovative technologies to enable more transparent and trusted Environmental, Social and Governance (ESG) investing. At the same time, digital technologies themselves impose a large and growing carbon footprint due to the energy, metals and minerals needed. Addressing these issues will require a joined up approach, where policy packages that support the twin transitions help pave the way for a greener and a more digital future.

29. Building social support is essential for a resilient and just transition. Governments should ensure that climate policies are trusted by and acceptable to citizens to secure democratic buy-in for the green transition, and implemented in a way that is fiscally sustainable. This entails reinforcing trust in government and participation in public life, including for young people, coupled with efforts to strengthen information ecosystems to tackle mis- and disinformation. An important milestone in OECD work in this area will be the Ministerial meeting of the Public Governance Committee on Rebuilding Trust and Reinforcing Democracy in November 2022. A rapid net-zero transition, coupled with the digital transformation, will mean significant disruption to skills and labour demands: job displacement may be small in aggregate, but will be large for some sectors and regions; demand for skills will shift; and some households may face specific costs. A green transition that fails to cater to social inclusion may widen existing inequalities of income, skills and opportunities. Ensuring that complementary policies to enhance social inclusion, including with reference to gender issues and based on gender-disaggregated data, are included in the design of net-zero transitions is also critical for a just transition. "One-size-fits-all" transition pathways are not feasible, as significant differences exist between countries and across regions in the occurrence and intensity of climate-related natural hazards. Consequently, policy packages for a fair and equitable green transition will vary from one region to another. At the same time, governments need to set the right incentives to redirect support away from emissions-intensive or unsustainable activities, starting from the phasing out of inefficient fossil fuel subsidies and environmentally harmful subsidies and support for agriculture, fisheries, and industry, as well as leveraging green taxation.

30. Considering the urgency of addressing the climate crisis, countries and regions willing to do so should implement more ambitious climate policies without delay. At the same time, given this is a global challenge, effective international co-operation is essential for climate action to be successful. Transitioning to global net-zero requires a broad set of effective globally better coordinated carbon mitigation policies. Current approaches cover both price-based instruments as well as non-price based measures – with policy approaches adapted to countries' specific current circumstances. To help optimise emissions reduction outcomes globally, there is a need for better sharing of data and information about the comparative cost and effectiveness of different carbon mitigation approaches and for more co-operation between advanced, emerging market and developing economies. As individual countries and jurisdictions lift their ambition and effort to the level required to achieve carbon neutrality, without better global co-operation and coordination, there is increasing risk of negative spill-over effects. The proposed Inclusive Forum on Carbon Mitigation Approaches, in conjunction with other multilateral forums and initiatives, would use longstanding OECD capabilities and bring countries together to analyse the costs and impacts of different mitigation instruments on emissions, with the transparent reporting of that analysis helping to inform better decisions over time, while also facilitating multilateral co-operation and exchange on a globally more coherent approach to carbon mitigation. This

initiative, envisaging the participation of all interested countries on an equal footing, including OECD countries as well as emerging market and developing economies, is also being discussed in the context of G7 and G20 meetings on climate mitigation action, and will take into account the work already produced within the OECD as well as in the broader expert community. In time, the Inclusive Forum on Carbon Mitigation Approaches should help ensure individual jurisdictions can lift their level of ambition and effort on climate to the level required to reach net-zero emissions, while maintaining to the greatest extent possible a global level playing field. Indeed, this multilateral dialogue, informed and facilitated by technical and objective analysis, will help ensure the global effectiveness of combined carbon mitigation efforts, also by working to avoid any negative spill-overs, which may slow progress in lifting climate ambition and effort to the level required to achieve net-zero emissions, like trade distortions and carbon leakage. To date there is no forum that provides comprehensive analysis on policies to address climate change, their comparative effectiveness and costs.[7]

31. A transformation of the financial system is also needed to better incorporate long-term climate risks and opportunities, to channel greater amounts of capital towards green activities, and to align financial flows with the low-carbon transition.[8] The difficulty of establishing standards, which can accommodate various pathways, and the wide range of metrics and methodologies used to report and track climate transition strategies are some of the factors slowing market alignment with low-emissions pathways. This, in turn, undermines the credibility, integrity, and efficiencies of financial systems to support an orderly transition. To address this challenge, the OECD is working to support an integrated approach to sustainable finance for climate-resilient growth, including ongoing work on market practices for climate transition. As part of this, and through a collaborative effort, the OECD established a new Platform on Financing SMEs for Sustainability.

32. The OECD is also working to promote the alignment of sustainable finance and investment with long-term value, resilience and the Sustainable Development Goals. It is also essential to promote a higher level of quality infrastructure investment that takes into account medium- and long-term impacts and integrates ESG risk factors. In this regard, the OECD is undertaking a mapping of the fragmented infrastructure ESG landscape, which can serve as a stepping-stone for fostering convergence and interoperability across existing ESG frameworks and related international initiatives. The contribution of the OECD is crucial to support the implementation of the Sustainable Finance Roadmap, endorsed by G20 Leaders in 2021, which aims at improving the comparability, interoperability and consistency of existing approaches to align investments to sustainability goals. Additional and complementary support to the development of inclusive and transparent financial products and services for sustainable investment will come from the revision of the G20/OECD High-Level Principles for Financial Consumer Protection.

[7] The proposed project on the Inclusive Forum on Carbon Mitigation Approaches was approved under the written procedure on 20 May 2022 by the Environment Policy Committee, Economic Policy Committee and the Committee on Fiscal Affairs and subsequently transmitted to Council, with a view to its launch at the 2022 Ministerial Council Meeting. On 1 June, Council agreed to the launch of the Inclusive Forum on Carbon Mitigation Approaches at the MCM.

[8] In this regard, it is worth mentioning that the OECD is an Observer in the EU International Platform for Sustainable Finance, a multilateral forum of dialogue between policymakers that are in charge of developing sustainable finance regulatory measures to help investors identify and seize sustainable investment opportunities that truly contribute to climate and environmental objectives and scale up the mobilisation of private capital towards environmentally sustainable investments.

33. The OECD is also supporting countries in enhancing their ambition on climate finance and reaching the Paris Agreement's USD 100 billion goal for emerging and developing countries. The OECD has tracked country progress on this vital metric since 2015, and in 2021 produced additional forward-looking analysis to provide technical input to the Delivery Plan presented by donor countries ahead of COP26. Alignment of development aid is a key issue for the OECD – in 2021, members of the OECD Development Assistance Committee (DAC) adopted ahead of COP26 a Declaration committing to align Official Development Assistance (ODA) with the goals of the Paris Agreement [OECD/LEGAL/0466]. The OECD is supporting DAC members' implementation of their commitments in the Declaration, including supporting developing countries' enhanced resilience, adaptation and net-zero energy transitions, biodiversity, Small Island Developing States and oceans, and mobilisation and alignment of all sources of finance.

Questions for discussion [MCM Session 6]

- *What are the tools that can support the design of an appropriate policy mix and alleviate the effects of the transition while reducing the risk of carbon leakage?*
- *How could the Inclusive Forum on Carbon Mitigation Approaches enhance international co-operation on climate mitigation policies, while avoiding any duplication with other initiatives?*
- *What further technical work could the OECD carry out to encourage advanced and emerging countries to accelerate the green and digital transitions, innovation, and technological changes while ensuring gender equality?*

Strengthening pandemic prevention, preparedness and response for future generations

34. The COVID-19 pandemic, the worst health crisis in a century, has highlighted how health systems are not as resilient to shocks as they ought to be. The virus has caused over 6 million reported deaths globally in two years and in 2020 life expectancy fell in nearly all OECD countries (OECD, 2021[29]; WHO, 2022[30]). Anticipating and mitigating the next major pandemic – or other health shock – is of critical importance to protect population health, opportunities and prosperity for future generations, with the necessity of taking into account the needs of women and girls.

35. Drawing lessons from the COVID-19 crisis, governments need to engage in proactive national policy making, combined with strong international co-operation and coordination, to strengthen pandemic prevention, preparedness and response. A multi-sectoral approach with strengthened risk governance is critical. This means taking steps to address workforce shortages and skill gaps, strengthening data infrastructures for policy making, building resilient supply chains for essential goods (including vaccines and medical equipment), in co-operation with developing countries, reinforcing the foundations of health systems and adopting the *One Health* approach[9]. It also means strengthening the

[9] The One Health approach recognises the inherent linkages between the health of humans, animals and the environment, and advocates cross-sectoral collaboration to achieve a broad range of public health, food

availability to use health data within countries and across borders, in line with the OECD Recommendation on Health Data Governance [OECD/LEGAL/0433]. Technology transfer and co-operation in capacity-building will also be important in ensuring equitable access to health technologies and resources needed for preparedness and response. Health system strengthening should also include applying a gender lens, addressing gender-specific health risks and needs, and ensuring that policies to strengthen health systems also promote gender equality, for example in the health workforce.

36. In this context, OECD countries now face the simultaneous challenge of ensuring the financial sustainability of health systems, whilst creating space for the additional investments needed to strengthen their preparedness to future shocks and overall resilience. This is a challenge that finance and health ministries must address together. During the pandemic, OECD governments mobilised extraordinary levels of investment to contain the pandemic and keep health systems running, and the OECD average health spending to GDP ratio jumped from 8.8% in 2019 to 9.7% in 2020 (OECD, 2021[29]) (see Figure A A.7). At the same time, the OECD has estimated that improving health system resilience will require additional investments in the order of 1.5% of GDP across OECD countries, of which approximately two thirds is needed for health workforce strengthening [DELSA/HEA(2020)21]. These investments include increasing the pay of many nursing and care staff – roles traditionally filled more often by women – as a means to retain current staff and attract more people to these professions.

37. Such additional spending represents a small fraction of the human, social, and economic losses associated with repeated health shocks. OECD countries need more joined up policy-making, in close co-ordination with other relevant stakeholders including development co-operation ministries, and leveraging multilateral co-operation and effective public-private partnerships, in line with the OECD Recommendation on Principles for Public Governance of Public-Private Partnerships [OECD/LEGAL/0392], to improve resilience to global health risks through strong and resilient health systems and progress towards universal health coverage. OECD Member countries have collectively provided record levels of development assistance – reaching an all-time high of USD 161.2 billion in 2020 (OECD, 2020[31])[10], yet aid alone cannot meet the estimated USD 31 billion global investment required annually to support health system resilience, even if many of these financing gaps are in developing countries (World Bank and WHO, 2022[32]).

38. Understanding where investments should be targeted will be key to both strengthening health system resilience and stimulating the economic recovery. OECD analysis of health system strengthening and sustainable health financing, which is unique in its multidisciplinary approach, has already been contributing to an understanding of the key issues at stake. The OECD is well-placed to support such discussion of available policy options, in particular through the OECD's longstanding *Joint Network on Fiscal Sustainability of Health Systems*, which is well-aligned with other international initiatives, notably the G20 Joint Finance-Health Task Force. Furthermore, tracking finance through OECD tools can help identify and address gaps in financing as well as promote greater transparency and accountability on health financing to support developing countries. The

security and trade outcomes. The critical role of development co-operation in supporting One Health approaches and building resilience to pandemic and other global shocks is outlined in the 2020 Development Co-operation Report.

[10] Official Development Assistance (ODA) increased 3.5% in real terms from 2019, boosted by additional spending mobilised to help developing countries grappling with the COVID-19 crisis. Bilateral ODA to Africa and least-developed countries rose by 4.1% and 1.8% respectively.

new Total Official Support for Sustainable Development (TOSSD) tool provides the first official statistics on the financing of both cross-border flows and global public goods. With both the OECD/DAC Creditor Reporting System and TOSSD statistics forming part of the data sources of the SDG indicator, these measures monitor progress in financial resources for SDGs, including health.[11] As a global hub for development data, the OECD is uniquely placed to deliver SDG indicator data produced by TOSSD and expand its framework. This also contributes to the evidence base for global decision-making (UN, G20 and G7) on assessing financing gaps and agreeing on efforts to help prevent major health shocks in the future.

Questions for discussion [MCM Session 5]

- *How can we incorporate pandemic Prevention, Preparedness and Response (PPR) risks and mitigation measures when designing public policies? What government policies should be implemented to build a strengthened PPR system, and improve health systems resilience, while safeguarding the financial and fiscal sustainability?*
- *What would be the most urgent PPR gaps to close? How do we mobilise public and private stakeholders, including philanthropies, to help governments address PPR gaps?*
- *Given the global nature of threats posed by infectious diseases, how can we ensure that finance and health policies are better harmonized at the national, regional and international level, and are consistent with the One Health approach? How can we ensure that finance and health policies are gender inclusive?*
- *How can the OECD, with its multidisciplinary approach, continue to contribute to the ongoing debate in this field?*

OECD and Africa: A future together

39. In recent decades, several African economies engaged in significant reform efforts to transform their economies and better integrate into the global economy. Quality jobs for youth, enhanced energy access, environmentally sustainable and climate resilient economies and communities and gender equality are amongst the priorities of the African Union's Agenda 2063. In parallel, the OECD's 60th Anniversary Vision Statement aims to foster trust and global co-operation to address growing challenges, including several issues identified by African policy makers as critical for the development prospects of their continent. Both approaches are also guided by the Sustainable Development Goals (SDGs). As such, and in line with the OECD's Global Relations Strategy, which also states the strategic priority of regions such as South East Asia as well as other regional programmes

[11] TOSSD captures both cross-border flows to developing countries, such as international assistance, and domestic contributions to global public goods, such as pandemic preparedness. TOSSD can serve as a critical tool to measure and incentivise public and private financing for a range of current and future challenges, while also highlighting key gaps in policy coherence for sustainable development.

with Eurasia, MENA, Latin America and the Caribbean as well as Southeast Europe, strengthening the Africa-OECD partnership has become critical.

40. The COVID-19 crisis is setting back Africa's economic convergence with the rest of the world. It is estimated that it will take Africa more than five years to regain its pre-COVID share of the world's GDP (about 5%) (AUC/OECD, 2022[33]) (see Table A A.1 and Figure A A.8). Increasing energy and wheat prices could put Africa's food security at risk and fuel social discontent[12]. Africa prioritises economic transformation through foreign direct investment (FDI), trade integration and SMEs development. Accelerating productive transformation and financial inclusion will be critical to help create quality jobs for the 29 million young Africans reaching working age each year until 2030. The African Continental Free Trade Area – a milestone achievement, could be an important tool to advance some of these economic reforms. Moreover, multilateral co-operation can further support Africa in mobilising new resources for productive investment. To that end, taking into account the work of the OECD Investment Committee through the Sustainable Investment Programme for Africa and the joint AU-OECD Development Centre policy dialogue Platform on Investment and Productive Transformation, the OECD and the AU will set up a joint Observatory on Investments, as proposed by the Development Centre Governing Board, which will contribute to assessing the investment needs, challenges and strategies across the continent and promote synergies and collaboration with relevant partner organisations[13].

41. Trade, investment and productive transformations, alongside women's economic empowerment, will play a pivotal role for the economic recovery and are closely linked to energy and the environment. While Africa is contributing negligibly to global greenhouse gas emissions, local environmental degradation is becoming a growing threat: new OECD data shows that over the 2010-19 period, the death toll from air pollution in Africa outpaced that of the world by 30% and that of China by 50% (AUC/OECD, 2022[33]). Africa can meet growing demand for electricity in this decade with 90% of new capacity coming from renewables and creating substantial job growth in Africa (IEA, 2021[34]). More attention is however needed to consider how African countries, which are heavily reliant on fossil fuels as a source of revenue, foreign exchange, energy and jobs, can progressively reduce their dependence on coal and hydrocarbons, whilst expanding access to energy and safeguarding the livelihoods of citizens. Although there is uncertainty around future low-carbon technology development and choices, mineral-rich developing countries could seize the opportunity created by the increasing demand of minerals required for low-carbon technology manufacturing, including developing segments of production with higher value added produced locally. Through the *Equitable Framework and Finance for Extractive-based Countries in Transition* (EFFECT), the OECD is assisting fossil-based economies define equitable and resilient transition pathways (OECD, 2020[35]). Considerations must also factor in the far-reaching effects of population growth and urbanisation. The OECD is supporting this transition through the world's first continent-wide comparable database on urbanisation, Africapolis (SWAC, 2022[36]), and by elevating the topic in the international

[12] The COVID-19 crises already pushed about 46 million people into undernutrition, and Africa represents the largest destination for Ukraine's wheat exports (36%) in 2020 (FAO, IFAD, UNICEF, WFP and WHO, 2021[41]).

[13] The 2019 High-Level Meeting of the Governing Board of the Development Centre (DEV) mandated the Centre to further develop its work on financing public policies and investment with the African Union. Following the launch of the AU-OECD Platform on Investment and Productive Transformation in February 2021, the Chair of the DEV Governing Board proposed to the OECD Council the establishment of an Africa Investment Observatory as an open invitation for collaboration with other relevant OECD Directorates and other institutions.

development agenda through the *Cities Connect Initiative* and the *G20 Platform on Localisation and Intermediary Cities (G20 PLIC)*.

42. Climate change, urbanisation, land degradation, deforestation and population growth will add further pressure on water resources in the African continent. OECD studies on water governance in Africa highlight the need to effectively develop and implement institutional, policy and regulatory frameworks at national and local level and to build capacities. The OECD launched the Roundtable of African Mayors for Water Security at the 9th World Water Forum (March 2022), as a platform aiming to produce new data and evidence, share knowledge, experience and best practices, and enhance collaboration among Mayors to boost city government capacity to drive water security in Africa.

43. As highlighted in the *Social Institutions and Gender Index 2021 Regional Report for Africa*, advancing African women's empowerment, not only in the economic sphere, but across all aspects of their lives, requires transformative policy action (OECD, 2021[37]).Discriminatory social norms and institutions confining women to reproductive and care roles are among the leading causes of the gender gap in labour force participation[14] (OECD, 2021[37]). Supporting employment for women is also instrumental in securing initial investment in girls' education, which should include STEM disciplines.

44. Addressing the above challenges requires new forms of partnerships in line with SDG17 – recognising that all countries have a responsibility to contribute to meeting global decarbonisation objectives, and should do so by leveraging innovative solutions to structural challenges. These new partnerships should also enhance Africa's capacity to access and mobilise financing, for example through strengthening Africa's ability to set robust fiscal policies (including for green taxation) to increase domestic revenues, as well as to mobilise external financing sources. Following African countries' deteriorating credit conditions, transparency of debt data merits continued attention, drawing on the OECD Debt Transparency Initiative (OECD, 2022[38]). Partnerships should also strengthen the capacity of African policymakers to promote their vision in ongoing and new dialogues on global and continental challenges such as, *inter alia*, those on climate change mitigation and adaptation, trade, investment, development effectiveness, the financing of development, fragility and humanitarian assistance. Moreover, some OECD countries' own practices may warrant revisiting. They may consider extending the trade preferences afforded to Least Developed Countries (LDCs) to other low income countries, including those in Africa, and in this context, also consider aspects such as good governance and sustainable development policies. As agreed by WTO Ministers in 2005, OECD countries should fulfil their commitment to implement duty-free and tariff-free market access for products originating from LDCs (WTO, 2005[39]). Given the role of effective public governance in enabling governments to pursue reforms and deliver effective public services, the strengthening of public institutions and their capacities can be a key enabler for long-term economic and social development in Africa.

45. This year, back to back with the MCM, the OECD is holding the International Economic Forum on Africa. This high-level forum builds on the evidence base provided by the *Africa's Development Dynamics* and *Revenue Statistics in Africa* reports developed jointly with the African Union, as well as other databases covering some African countries, such as the *Trade Facilitation Indicators* and the *FDI Restrictiveness Index*. These provide good examples of how evidence-based OECD tools could support Africa's reform agendas and advance OECD's engagement with the continent. The OECD has significantly expanded its engagement with Africa over the last decade, including through greater

[14] Around 20 percentage points in 2020 at the continental level; and African women spent on average four times more than men on unpaid care and domestic work in 2018 (OECD, 2021[37])

African participation in OECD bodies and alignment with OECD standards. Examples include the OECD/G20 Inclusive Framework, which agreed in 2021 a two-pillar solution to the tax challenges arising from digitalisation, and participation of several African countries as full members in the OECD Development Centre and its Governing Board. As the OECD is embarking in a process to review and strengthen its existing partnership with the African continent, the MCM provides the occasion for the OECD to engage in a consultation process with relevant African stakeholders in order to design a new co-operation framework that promotes better mutual understanding and stronger co-operation on an equal footing.

Questions for discussion [MCM Session 3]

- *What challenges and opportunities does the African continent face, in the perspective of the 2063 Agenda?*
- *In which thematic areas can the OECD-AU Partnership contribute to tackle these challenges generating added value for the creation of a stronger, resilient and sustainable political and economic partnership?*

Trade, investment and environment

46. The large scale aggression of Russia against Ukraine has caused significant strains on the international trading system and certain supply chains. It has prompted intensified discussion at the political and technical level on phasing out dependency on Russian fossil fuels (see Figure A A.6), including by means of green investments, and, more broadly, debates over the feasibility and desirability of reducing strategic dependencies by limiting reliance on global supply chains and bolstering domestic production for certain products. The OECD remains committed to open markets and a rules-based international trading system. Alongside the OECD's evolving analyses of the trade implications of the Russian aggression, the MCM will provide the occasion to discuss the OECD's contribution to further reinforcing the nexus between trade, investment and environment.

47. Trade, investment and environment policies often intersect – trade and investment policies can have direct and indirect impacts on emissions and other environmental externalities, while environmental policies can impact global competitiveness. Trade, investment and open markets underpin access to the goods, services, technologies and finance needed for the green transition, but can also have a role in carbon leakage, increased environmental footprint, increased plastics pollution and biodiversity loss. At the same time, trade in environmental goods and services provides access to environmental technologies, which can in turn stimulate innovation and technology transfer. Likewise, openness to environmentally related services can contribute to increasing energy efficiency, reducing pollution, and upholding biodiversity. The proposed Recommendation of the Council on International Regulatory Co-operation to Tackle Global Challenges, which is being developed by the Regulatory Policy Committee for possible adoption at the MCM, could play an important role helping countries balance trade facilitation and other policy objectives.

48. Yet tariffs remain high on environmental goods, notably in developing economies, and critical minerals used in renewable energy production face export restrictions. The circular economy relies on trade to reach the needed economies of scale, and OECD work can help advance the further international co-operation needed, including at the World

Trade Organisation (WTO). For all these reasons, better alignment between trade and environmental policies is critical to inclusive and sustainable growth.

49. Foreign direct investment (FDI) is a key source of financing for sustainable development, and particularly the green transition. Globally, greenfield FDI accounts for a sizeable share of new investments in renewable energy, reaching 30% in 2020. FDI flows to renewable energy as a share of total energy FDI have been rising rapidly in the OECD, from below 5% in 2003 to 70% in 2021, meaning that 30% of energy FDI went to non-renewable sources in the OECD last year.[15] But the quality of FDI matters. The development of the draft OECD Recommendation on FDI Qualities and accompanying Policy Toolkit aims to provide guidance on policies and institutional arrangements to maximise the benefits of FDI for sustainable development in the areas of decarbonisation, job quality and skills, gender equality, and productivity.

50. Efficient, responsible and sustainable global supply chains also merit urgent attention. Risk-based due diligence for Responsible Business Conduct (RBC) is an important tool to mitigate adverse climate, environmental and social impacts from business operations, improving sustainability and resilience throughout supply chains. The ongoing stocktaking of the OECD Guidelines for Multinational Enterprises [OECD/LEGAL/0144] including exploring a potential targeted update, and the development of a draft Recommendation on the Role of Government in Promoting RBC, will further enhance the OECD's capacity to place RBC at the centre of the open and rules-based trading system. The forthcoming OECD Ministerial Meeting on Responsible Business Conduct will be an opportunity to reinforce these objectives.

51. Government support also needs to be better aligned to ensure a level playing field while advancing global policy priorities. In October 2021, the Participants to the OECD Arrangement on Officially Supported Export Credits [OECD/LEGAL/5005] agreed to eliminate support to unabated coal fired power plants. Work is currently under discussion to enhance the environmental and climate friendliness of supported exports and the projects for which they are destined, as well as to strengthen guidelines for environmental and social due diligence in the provision of official export credits. Government support to industrial sectors is also associated with investments in fixed tangible assets that may have contributed to increased emissions in energy intensive sectors. In the agriculture sector, support for innovation, biosecurity and infrastructure account for 17% of total support to the sector, and they play a role in boosting sustainable productivity growth[16]. Environmentally harmful support across all sectors needs to be better defined, identified and tracked. Reform should aim at making any support more effective, less harmful for the environment and less market distorting. The OECD is well placed to undertake this work, given its extensive track record on measuring and analysing government support across a range of sectors and in analysing the environmental impact of policies. OECD work on government support builds upon and feeds into discussions in the WTO to support a strengthened rules-based multilateral trading system.

52. Finally, beyond environmental impacts, the social and economic dimensions of sustainability merit equal attention. Ensuring the equality of opportunities and benefits of trade is critical, and the OECD has developed a Framework of Analysis for country reviews of trade and gender, with a first pilot study with New Zealand. These reviews aim to help

[15] Secretariat calculations based on Bloomberg NEF (2021) and Financial Times FDI Markets (2021).

[16] In the 54 countries, comprising all OECD and EU economies plus 11 key emerging countries, covered by the annual OECD *Agricultural Monitoring and Evaluation* report, covering around three quarters of the global agricultural value added over the period 2018-20.

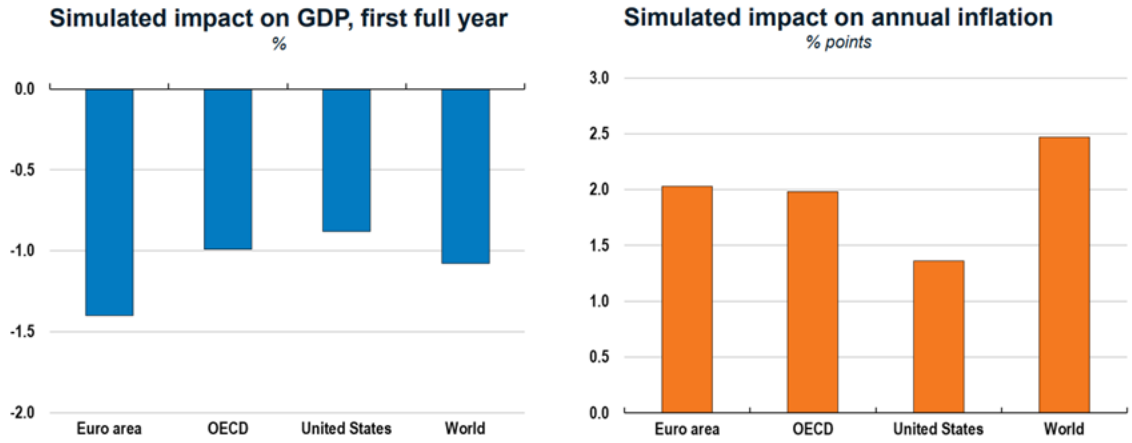
inform how trade policy instruments and programmes can support women's economic empowerment.

Questions for discussion [MCM Session 2]

- *How are provisions on trade and environment/climate implemented and enforced in your trade agreements and with what effect on your trade partners?*
- *How can OECD work on environmental goods and services (EGS) best contribute in promoting trade in EGS and support related discussions and negotiations in the WTO?*
- *How can we support a discussion on environmentally harmful subsidies and support and reform of harmful incentives for biodiversity and environmental degradation and on putting a price to environmental externalities?*

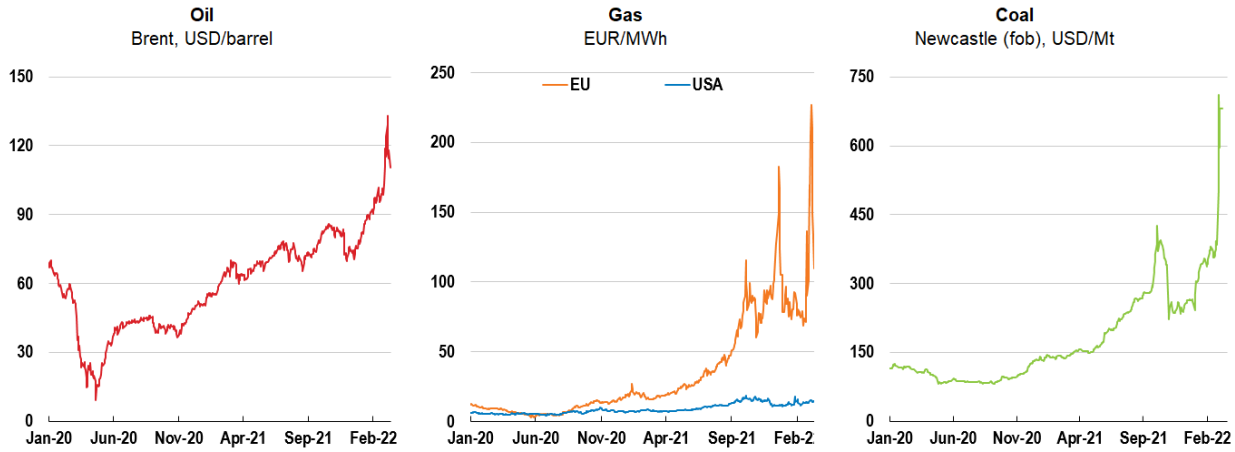
Annex A.

Figure A A.1. The consequences of the war are already weakening global growth and adding to inflation



Note: Based on simulations with the NiGEM macroeconomic model of the combined effect of differences between commodity prices in the period from 24 February to 9 March and the January average, a 50% rouble depreciation against the US dollar, bilateral currency depreciations of 5% against the US dollar in Bulgaria, the Czech Republic, Hungary, Poland, Romania and Turkey, increases of 10 percentage points in policy interest rates and risk premia in Russia, higher risk premia in emerging-market economies, ex-ante declines of 15% and 40% respectively in domestic demand in Russia and Ukraine in 2022H1
Source: OECD calculations using the NiGEM global macroeconomic model

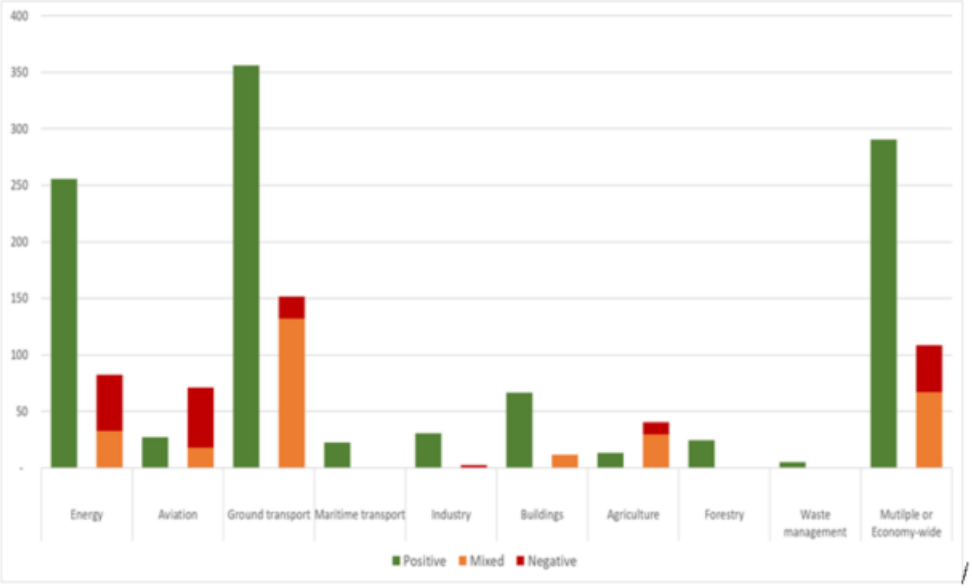
Figure A A.2. Prices of fossil energy are increasing dramatically



Oil-
Note: Latest data 14 March 2022. Source: Refinitiv
Gas
Note: Shows the evolution of TTF Neutral Gas Price for Europe and Henry Hub for the United States. Latest data 14 March 2022.
Source: Refinitiv; and OECD calculations.

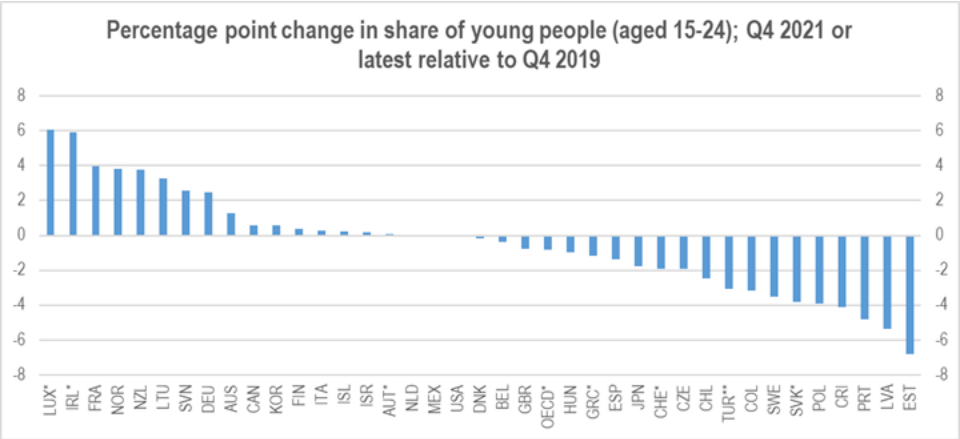
Coal:
Note: 6000 kcal/kg coal. Newcastle refers to Newcastle, Australia. Latest data 11 March 2022
Source: Refinitiv; and OECD calculations.

Figure A A.3. Green recovery funding totals by sector and environmental impact



Note: "Multiple or other" category includes economy-wide or non-specific measures.
Source: OECD Green Recovery Database

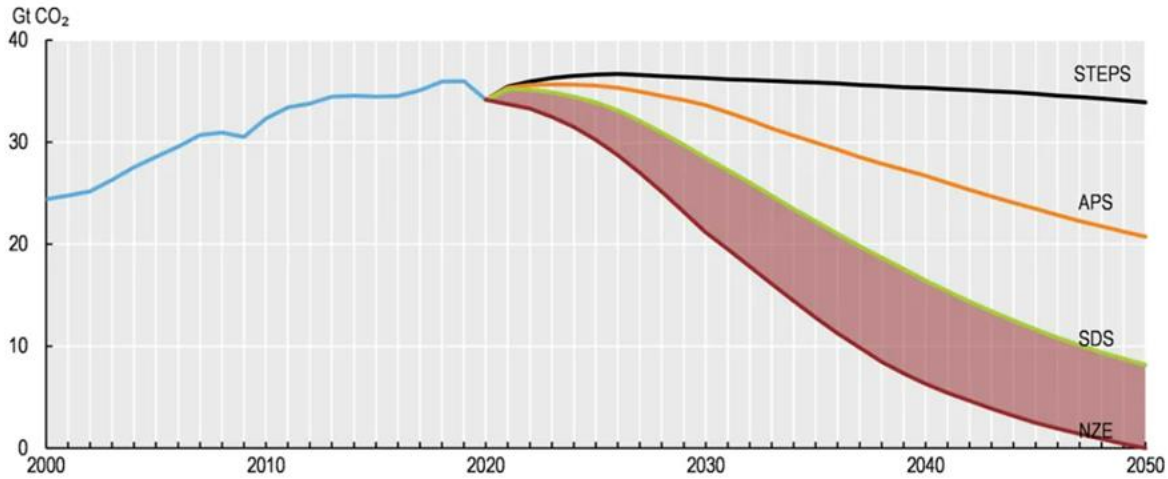
Figure A A.4. Young people's employment rates present a mixed picture in terms of recovery to pre-crisis levels in OECD countries



Note: Latest data for LUX, IRL, AUT, GRC, CHE, SVK is Q3 2021, for TUR is Q4 2020. OECD average calculated for Q3 2021 data.
Source: OECD Labour Force Statistics

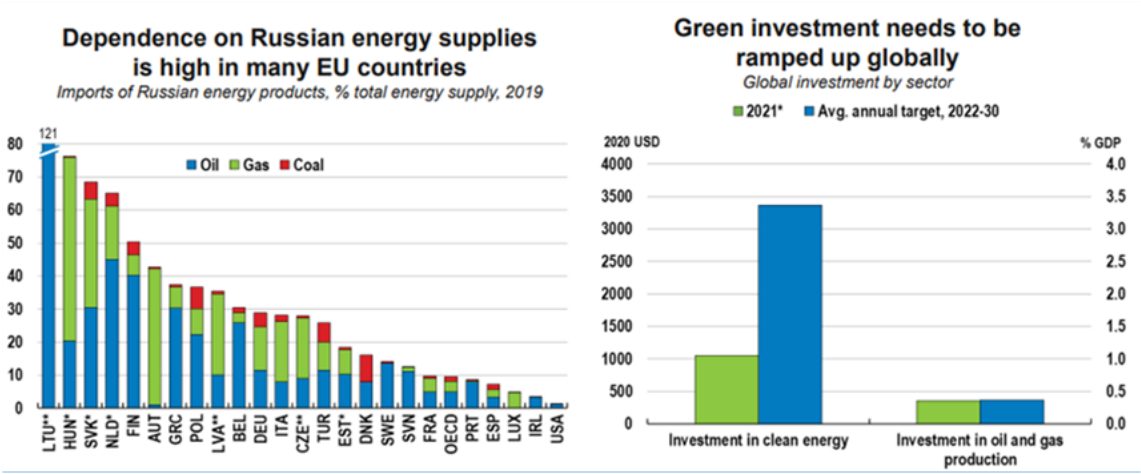
Figure A A.5. The world's carbon emissions are not in line with net-zero by 2050

Energy-related and industrial process CO2 emissions in the IEA World Energy Outlook 2021 scenarios



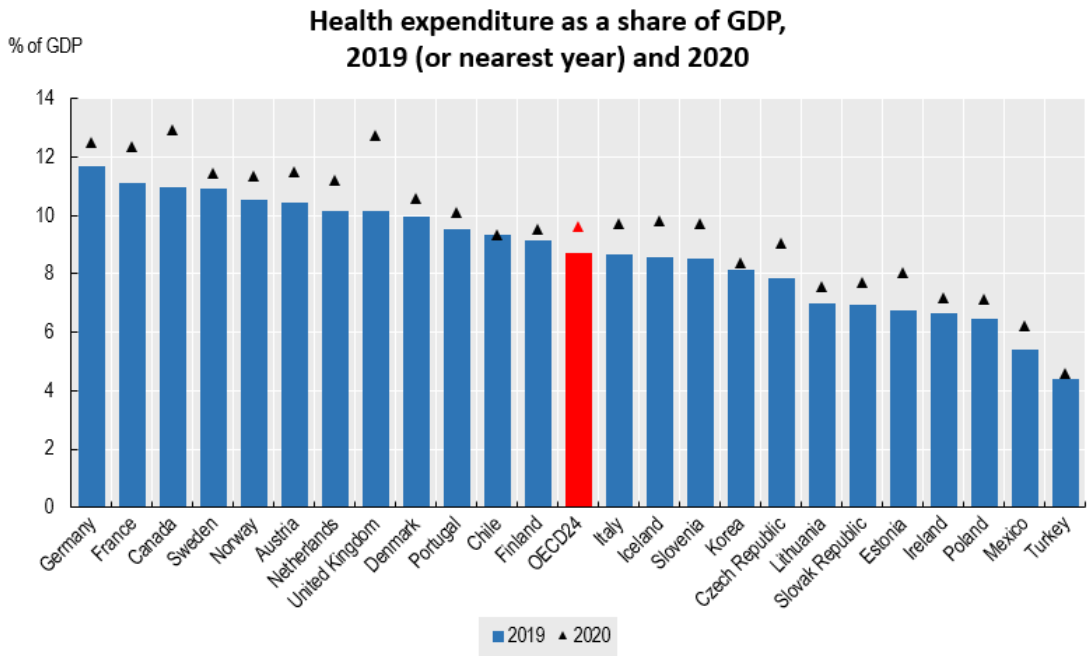
Note: The Net-Zero Emissions by 2050 Scenario (NZE) sets out a narrow but achievable pathway for the global energy sector to achieve net-zero CO2 emissions by 2050. The Announced Pledges Scenario (APS) assumes that all climate commitments made by governments around the world, including Nationally Determined Contributions (NDCs) and longer term net-zero targets, will be met in full and on time. The Stated Policies Scenario (STEPS) reflects current policy settings based on a sector-by-sector assessment of the specific policies that are in place, as well as those that have been announced by governments around the world. STEPS is based on prevailing policy settings and so provides a useful barometer of the strength and impact of these policies over time. The Sustainable Development Scenario (SDS), like the NZE, achieves key energy-related United Nations Sustainable Development Goals related to universal energy access and major improvements in air quality, and reaches global net-zero emissions by 2070 (with many countries and regions reaching net-zero much earlier).
Source: IEA (2021c), World Energy Outlook 2021, IEA, Paris
https://www.iea.org/reports/world-energy-outlook-2021.

Figure A A.6. In 2019, dependence on Russian energy supplies was high in many EU countries



Note: Left: Total energy supply includes energy in total final consumption, transformation processes, distribution losses and energy own-use. In the specific case of oil, crude oil and oil products are computed together. Some countries import crude oil, refine it, and export oil products, which can lead to figures of imports higher than TES, as a significant part is exported, or especially large reliance figures (e.g. Finland uses Russian crude oil imports to feed refineries for export purposes). *Country imports include transit trade figures **Figures include amounts that went to stocks. Components for LTU are: oil (105.8%), gas (13.1%) and coal (2.3).
Right: The 'Annual Target' refers to the Net-Zero Goal (NZE) by the International Energy Agency (IEA). The NZE includes the projected average annual investment required in order to bring global energy-related CO2 emissions to net-zero by 2050 and limit global temperature rise to 1.5 °C. *IEA estimation.
Source:
Left: IEA Energy Balances database, and OECD calculations.
Right: World Energy Outlook 2021, IEA, and OECD calculations.

Figure A A.7. Health expenditure as a share of GDP increased during the COVID-19 crisis



Note: OECD estimates for 2019 2. OECD estimates for 2020. 3. Preliminary data
Source: OECD Health Statistics

Table A A.1. Data on Africa and OECD

Share of Africa and OECD in global GDP, global trade, global investment and global population

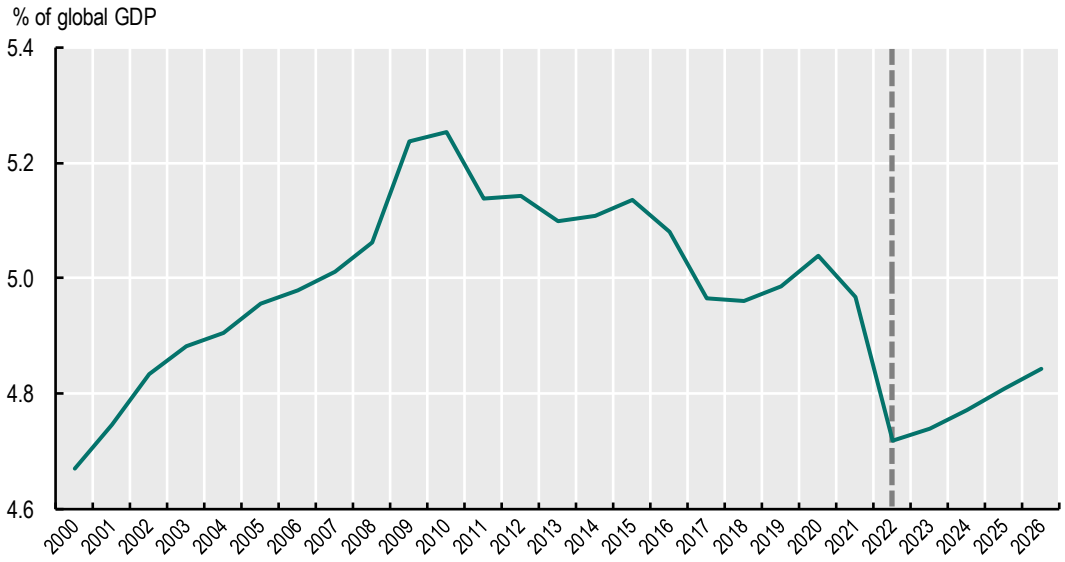
	OECD	Africa
Share of global GDP	61.8 % (2020)[17]	4.7% (2022)[18]
Share of global trade	57.6% of global exports and 61.4% of global	2.2% of global exports and 2.8% of global

[17] Authors' calculations based on World Bank (2022), https://data.worldbank.org/indicator/NY.GDP.MKTP.CD (accessed 28 March 2022).

[18] AUC/OECD (2022), Africa's Development Dynamics 2022, calculations based on data from IMF (2021), World Economic Outlook Database, October 2021 projections, www.imf.org/en/Publications/WEO/weo-database/2021/October.

	imports (2020)[19]	imports (2020)[20]
Share of global investment	36.9% of global FDI flows and 70.9% of global FDI stock (2020)[21]	3.9% of global FDI flows and 2.7% of global FDI stock (2020)[22]
Share of global population	17.5% (2021)[23]	17.4% (2021)[24]

Figure A A.8. Africa's output as a share of global gross domestic product, 2000-26



Note: AUC/OECD (2022), Africa's Development Dynamics 2022, calculations based on data from IMF (2021a), World Economic Outlook Database, October 2021 projections,
Source: www.imf.org/en/Publications/WEO/weo-database/2021/October.

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