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Better Policies for Development
Report on the DevGoals Exercise

OECD
BETTER POLICIES FOR BETTER LIVES

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I. INTRODUCTION

1. The OECD has been working towards a broader OECD Strategy for Development. This effort (known as the DevGoals exercise) aims to define a more coherent and comprehensive approach to development in order to better articulate the OECD's multidisciplinary expertise on a wider range of policy areas with its accumulated knowledge on development issues, and to ensure that this work is accessible and relevant to countries at all stages of development. The following outcomes are foreseen:

– May 2011 MCM. Endorsement of the framework for an OECD Strategy for Development setting out the key elements of the Strategy [C/MIN(2011)8].

– May 2011 – December 2011. Development of the Strategy based on further consultations within the OECD and with member and partner countries. Setting up a roadmap for implementation, monitoring and evaluation.

– January 2012. Council. Launching of the OECD Strategy for Development.

2. The endorsement of the *Framework for an OECD Strategy for Development* by Ministers at the MCM will provide the political basis to launch a broad-based consultation process to develop the Strategy. This Strategy will build on the 2008 OECD Ministerial Declaration on Policy Coherence for Development and the experience and findings from the DevGoals exercise.

Purpose of this document

3. This report has been prepared for the development session of the Ministerial Council Meeting 2011. The document consists of three main sections. The first section provides the general findings and recommendations from the DevGoals exercise to consider for the preparation of an OECD Strategy for Development. These elements served as a basis for the preparation of the *Framework for an OECD Strategy on Development*. The second section reports on the progress made on the four pilots of the DevGoals exercise - including tax and development, food security, investment in infrastructure development, and green growth - and highlights key policy challenges and next steps to be taken for each of these four areas of work. The last section presents other key areas of work where the OECD has core competence and can add value, including good governance, human resource development and social inclusion, and gender. The annex to this document provides the background of the DevGoals exercise.

The context

4. Globalisation and the emergence of new economic powers in the world economy have transformed the economic landscape creating both opportunities and challenges for development. The multiple and inter-related global crises of recent years – financial, economic, food, energy crises, and climate change – have had a serious impact on the world's poorest. This calls for collective and coherent action to ensure progress towards the Millennium Development Goals (MDGs), promote strong and inclusive growth, and successfully integrate developing countries in the world economy, particularly the least developed.

5. In this context, ODA has and will continue to play a crucial role as an instrument of development co-operation to reduce poverty and leverage other resources for development. Honouring ODA commitments and improving aid effectiveness are therefore critical to achieving the MDGs and furthering the principles embodied in the Paris Declaration. At the same time, global and domestic policies beyond aid – such as international trade, taxation, agriculture, innovation, climate and environment – as well as public and private investments, can stimulate or hinder growth and development in developing countries and impact on poverty reduction. Aid efforts need to be supported by mutually supportive and integrated policies across a wide range of economic, social and environmental areas in order to have a greater impact and contribute to a the future in which no country will depend on aid.

6. The need for more comprehensive approaches to development has been highlighted by both the Global Action Plan to achieve the MDGs adopted at the last UN MDG Summit in September 2010, and by the "G20 Development Consensus" and its multi-year action plan adopted at the G20 Seoul Summit in November 2010. It is consistent with efforts to prepare the Busan High Level Forum on Aid Effectiveness.

The OECD offers a unique value-added

7. The OECD brings together within a single institution the expertise of a wide range of policy communities, whose collective efforts are critical to global economic growth, sustainable development and poverty reduction in a comprehensive manner. This multidisciplinary expertise is backed by high-quality and evidence-based analyses, policy dialogue and peer learning. The OECD has contributed to improve the economic and social well-being of people in member countries through high quality standards of public policy. The Organisation is working to strengthen its tools and mechanisms to continue to provide relevant advice to governments in their efforts to design and implement better policies for better lives.

8. The OECD also has a rich experience in development policy. It works on this area through complementary bodies and units composing the Development Cluster. The Development Assistance Committee (DAC) helps countries to coordinate international efforts in development co-operation and aid effectiveness. The DAC has built partnerships with developing countries, through its subsidiary bodies and networks, which contribute to design policy guidance and principles for development. The Development Centre provides extensive analytical work on development, which helps policy makers find innovative solutions to development challenges. It is also an effective platform to foster dialogue and policy sharing with partner countries.

9. Through the DevGoals exercise, the OECD has made significant progress in bringing its development experience together with its multidisciplinary expertise to build and apply a broad approach to development. The OECD has been tasked to work in collaboration with other international organisations in six of the nine action pillars of the G20's new Multi-year Action Plan on Development. This is a reflection of the external demand for - and validation of - the OECD's comprehensive approach which looks at development beyond aid, is growth-oriented and based on knowledge sharing and policy dialogue.

10. The challenges now are to apply this broad approach across the organisation, exploit the synergies more systematically among these strands of expertise within the Organisation; enhance OECD's working methods; and expand policy sharing beyond the membership. The OECD's 50th anniversary provides an opportunity to reinforce the Organisation's commitment to development and move towards a new OECD Strategy for Development. One that: combines effectively OECD's collective expertise; integrates the demands of developing countries; strengthens partnerships with other international organisations; ensures policy coherence for development; and reinforces OECD's working methods.

II. MAIN RECOMMENDATIONS FROM THE DEVGOALS EXERCISE

11. The following general recommendations draw on the findings and lessons learned from the four pilots carried out through the DevGoals Exercise. These recommendations provided the key elements to prepare the framework for an OECD strategy for development and could serve as a basis to develop the future OECD strategy for development.

Guiding principles for OECD work on development

12. The DevGoals exercise has underlined the need to strengthen OECD's role as an open and inclusive forum for policy dialogue, mutual learning and knowledge sharing as a means to strengthen its contribution to poverty reduction, sustainable development, and growth. To achieve this aspiration, the OECD could agree on guiding principles on the direction for its future work on development, including:

- *Inclusiveness* – the OECD should facilitate the participation of developing countries and integrate the perspectives and priorities of both member and partner developing countries;

- *Flexibility* – the OECD should be able to adapt its work on development to emerging global challenges and incorporate issues which could have a direct impact on international development efforts;

- *Value added and complementarity* – the OECD should build on its comparative advantages, identify its concrete value added and ensure coordination with other regional and international organisations.

Criteria for OECD work on development to maximise impact

13. Through the DevGoals exercise, the following criteria have been defined and proved useful to facilitate horizontal collaboration and coordination within the organisation, and could be applied for future work in key areas where the OECD has core competence:

- Address development in a comprehensive manner by enhancing horizontal collaboration among different OECD policy communities;

- Enhance policy coherence for development (PCD);

- Demonstrate OECD's value added vis-à-vis other regional and international organisations;

- Enhance the potential to meet greater demand from partner countries (emerging and developing countries) for OECD development oriented work, based on common interest in sharing experiences and peer learning on a wide range of policy issues, through existing networks and consultation mechanisms;

- Strengthen partnerships with emerging and developing countries as well as regional and international organisations and forums;

- Improve complementarity through efficient internal collaboration and co-ordination.

Key recommendations from the DevGoals pilots

Strengthen existing OECD mechanisms for policy dialogue and knowledge sharing

14. The Organisation has several interaction mechanisms in place to broaden dialogue with developing countries. These mechanisms include the OECD Council on Development, Global Forums, regional economic forums, regional initiatives (MENA, LAC initiative), the Development Centre Governing Board, DAC and DEV networks (GOVNET, EmNet, DeFiNe), as well as other platforms such as the Working Party on Aid Effectiveness. The DevGoals exercise has underlined the need to exploit such mechanisms to foster policy dialogue and build partnerships to work with developing countries on development issues beyond aid. This will contribute to learn from experiences from different development paths, and new sources of financing for development as well as from south-south co-operation. More systematic policy dialogue and knowledge sharing with developing countries will also help to leverage OECD multidisciplinary expertise to design more effective solutions for development adapted to the diverse realities and institutional settings of developing countries. One example - provided by the DevGoals pilot on food security - has been the Global Forum on Agriculture (GFA) in November 2010 which provided an opportunity to share findings of OECD's analysis with a broad range of international organisations (FAO, World Bank, IFPRI, and the UN HLTF) and a significant number of representatives of emerging and developing countries, as well as country experts and academics.

Apply a comprehensive approach to development

15. The DevGoals exercise has underlined that applying a comprehensive approach to development requires greater horizontal collaboration among different OECD policy communities, building on their respective approaches and perspectives. Joint initiatives, such as tax and development, could be promoted to systematically combine the development experience of the DAC with key competences in other committees in areas relevant for development. New streams of horizontal work could also be promoted on topics related to the priority areas identified for the new OECD strategy for development and on current and emerging development challenges.

Enhance policy coherence for development (PCD)

16. Policy coherence for development has been considered by the DevGoals exercise as a key element to maximise impact and ensure sustained results. The OECD has a leading role on PCD and is well positioned to promote itat three different and complementary levels: *1) Emerging and developing countries,* by working with them to find solutions and to build and strengthen their capacities to design more coherent policies for their own development; *2) OECD Members,* by raising awareness on PCD in member countries through evidence-based analyses on the benefits of coherence as well as on the costs of incoherence, but also by strengthening members' capacities to design mutually reinforcing policies with positive impacts for development; *3) OECD* by monitoring and assessing the development impact of its policy recommendations, practices and instruments. The DevGoals exercise has demonstrated that better coordination and collaboration across the house would contribute to enhance PCD first at the level of the OECD but also at the level of members and non-members.

Contribute effectively to regional and global processes and partnerships

17. The DevGoals exercise has underlined the need to create an overarching umbrella – an OECD strategy for development – where all the OECD development work is put in a common framework that allows for a more coherent, efficient and effective contribution to development and increased relevance, value added and impact in major international and regional processes - such as the G20 development

agenda, the Action Plan for the Least Developed Countries (LDCs), HLF4 in Busan, Earth Summit 2012 (Rio+ 20), MDGs and beyond.

18. Strengthening partnerships with other international and regional institutions will be also key for this purpose. This could be achieved by developing further co-operation in priority areas defined through the new OECD strategy for development. This strengthened collaboration will help to identify and reinforce OECD's comparative advantages vis-à-vis the work of other international organisations working on the same development issues, while avoiding duplication of efforts.

Organisational framework for a broader approach to development

19. Applying the broad approach to development that involves the work of the different OECD policy communities will require identifying and defining an efficient organisational framework. The DevGoals exercise has emphasised the importance to define the following:

– Stronger coordination mechanisms for OECD work on development at the level of member countries and of the secretariat, including a clear allocation of roles and responsibilities;

– A coordinated mechanism for fundraising and budget planning and allocation to address demands from developing countries and facilitate joint Committee work on development issues. This should include innovative mechanisms and reviews of PWB procedures to fund effectively horizontal work on development;

– An efficient system for reviewing OECD products at the level of member countries and of the secretariat to integrate the development dimension into OECD products that can impact development in developing countries (development quality control);

– An enhanced knowledge and information management system to promote coherent messages on development and facilitate members' and non-members' access to OECD data and analysis. This would also ensure information flows on development work across OECD committees and secretariat;

– A roadmap for implementation, monitoring and evaluation, including clear targets and indicators for measuring progress, to ensure that the strategy can evolve and be flexible to adapt to the realities and needs of developing countries and to emerging global issues on development.

III. PROGRESS ON THE PILOTS

20. The DevGoals exercise responds to a Council mandate from May 25th 2009 requesting the Secretary-General to define strategic development goals for the OECD, in order to efficiently guide and enhance OECD's contribution to development (please see annex for more information). An open ended informal DevGoals Working Group was set up with member countries in late 2009 to provide guidance on the DevGoals exercise. As a first phase, the DevGoals Working Group identified pilot cases in four selected high priority topics where work was ongoing and where concrete joint actions were being taken across the OECD. These include tax and development, food security, investment in infrastructure, and green growth. Horizontal task teams were created within the secretariat in June 2010 to carry out these four pilots. Table 1 presents an overview of the partnerships and policy sharing mechanism in each pilot.

21. This section reports on the progress made on these four pilots. It also highlights key policy challenges and next steps to be taken for each of these four areas of work. These pilots have confirmed the need for an *OECD Strategy for Development* to promote a more comprehensive approach to development, mainstream development across the Organisation and enhance existing partnerships with non-OECD members. They have provided key lessons that served as a basis to develop the outline of this strategy.

TAX AND DEVELOPMENT

Key policy challenges

22. Although there are several sources of domestic financing available to developing countries, taxation provides governments with the funds needed to invest in development and to deliver public services. Over time, taxation offers an antidote to aid dependence in the poorest countries and underpins a predictable fiscal environment to promote growth. Tax system design is also closely linked to domestic and international investment decisions; perceptions of tax fairness and transparency shape the climate for foreign direct investment to a significant degree. More broadly, in addition to providing a platform for development, taxation is integral to the good governance and state-building agenda. By stimulating discussion and bargaining between states and their citizens, the taxation process is central to more effective and accountable states. Recent evidence indicates that reforms which begin in tax administration may spread to other parts of the public sector.

23. The Doha Declaration confirms the need to step up efforts to enhance tax collection, investment and other private flows, with a view to supporting pro-poor development. Yet half of sub Saharan African countries still mobilise less than 17% of their GDP in tax revenues, below the minimum level of 20% considered by the UN as necessary to achieve the MDGs. Several Latin American countries fare little better. Moreover, regressive tax structures, the result of low direct and high indirect taxes plus tax evasion, weaken the legitimacy and credibility of the tax system and the state more generally.

24. The policy challenges are enormous. Tax reforms should be viewed in the context of fiscal frameworks comprehensive enough to address socio-economic challenges including inequality. Effective taxation is enhanced by open investment policies and financial market policies to mobilise domestic savings and FDI and to increase financial sector depth.

25. The shift away from tariffs and customs duties in favour of VAT is a difficult transition for developing countries to manage. Moving towards simpler, more equitable and more transparent tax systems and a broadening of the tax base is not easy but would reap benefits over time. Perceptions of corruption and weak capacity means that progress will be incremental. The reciprocal link with public and social expenditures is critical. The vicious circle - of low tax morale and compliance, which reduces the lifeblood for funding public services, the weak performance of which damages tax morale, and so on - needs to be broken.

26. The external environment poses new challenges too. Striking the right balance between an attractive tax regime for local and foreign investment, by using tax incentives for example, and securing the necessary revenues for public spending, is a key policy dilemma. Competition between developing countries for investors can trigger a race to the bottom. Globalisation may also exacerbate these fiscal problems, as internationally mobile capital becomes more difficult to tax.

27. There are grounds for optimism. Several countries, including Rwanda, El Salvador and Tanzania, have made significant advances, often in the most challenging governance environments. Other action – transparency in the granting and operation of tax exemptions for example, plus longer term fiscal pacts, which link taxes to expenditure outcomes, - promises improvement in both governance and domestic resource mobilisation across the developing world. Most importantly, the call for action is increasingly coming from developing countries themselves. In Africa, the creation of the *African Tax Administration Forum* (ATAF), driven, managed, and (in due course) operationally funded by Africans, provides a key platform for peer learning, capacity development and dialogue on domestic and international tax issues. In the Americas, the *Centro Interamericano de Administraciones Tributarias* (CIAT) is a well established platform for regional action.

Substantive outcomes

28. The OECD has established a Tax and Development Programme, under the Committee for Fiscal Affairs (CFA) and the Development Assistance Committee (DAC), supported by an informal multi-stakeholder *Task Force on Tax and Development* that brings together representatives from the tax and aid communities from OECD and developing countries, business, international organisations and civil society including NGOs. The expected outcome of the Programme is to create an enhanced enabling environment to assist developing countries in their efforts to mobilise domestic resources through:

- **Effective use of aid to build stronger states** by increasing capacity in tax administrations, improving fiscal transparency and strengthening tax systems of developing countries;

- **Effective implementation of transfer pricing regimes** in developing countries, as these countries face challenges in designing and implementing effective transfer pricing regimes ;

- **Increased transparency in the reporting of relevant financial data**, including enabling developing country tax administrations to access information to enable them to apply legislation and collect taxes owed by multinational enterprises. This may include reporting by MNEs on a country-by-country basis, building on the efforts of the Extractive Industries Transparency Initiative (EITI) and other similar initiatives;

- **Tackling offshore non-compliance** by improving transparency and exchange of information and supporting the work of the Global Forum on Transparency and Exchange of Information in Tax Matters. This issue is being addressed as OECD countries gear up to take 'whole-of-government' action to address illicit financial flows originating from developing countries.

Progress on concrete deliverables

29. The G20 focus on domestic resource mobilisation as a driver of development helps to reverse an era of relative neglect of tax as a development priority at the international level. G20 leaders at the Seoul Summit in November 2010 endorsed the urgent need for progress in the field of tax and development commending increased collaboration with developing countries to support effective tax systems and combat offshore tax evasion.

30. The OECD (through the informal *Task Force on Tax and Development)* - together with other international organisations including the UN, IMF, WB and regional organisations such as CIAT and ATAF - have been requested to provide a Report to the G20 on the Domestic Resource Mobilisation (DRM) pillar. Work is underway and the results will be reported at the Summit in Cannes in November 2011. As part of the action in this area and under G20 political leadership, the *Global Forum on Transparency and Exchange of Information for Tax Purposes* hosted by the OECD is making significant progress in addressing offshore non-compliance.

31. The *OECD Programme on Tax and Development* has a clear interface with the G20 work on building sustainable revenue bases for inclusive growth and social equity, but is not limited to this. The *Task Force on Tax and Development* has discussed and prioritised proposals and recommendations on key areas during its plenary meeting held on 11-12 April 2011. These will be considered by the CFA and the DAC in June 2011 for approval and implementation through their joint programme. Potential activities include:

- Taxation, state building and aid:

  - Develop aid modalities study to support tax systems and better governance;

  - Track the quality and coherence of international support for capacity on taxation in least developed countries, particularly in fragile states;

  - Create benchmarking and diagnostics indicators on performance and progress of tax administrations;

  - Produce a global report on tax payers perceptions of the relationship between paying taxes *vis à vis* government funded services;

  - Develop a transparency framework for tax incentives.

- Transfer pricing:

  - Develop a diagnostic framework for developing countries to identify transfer pricing risks, regulatory and capacity needs and priorities of developing countries in the context of the overall strategic approaches to taxation;

  - Set up a panel of experts to provide real time advice on a case by case basis to developing countries as they adopt and implement transfer pricing rules;

  - Work together with ATAF and international organisations to produce an enhanced and co-ordinated programme of capacity building events and overall assistance to developing countries on joint transfer pricing audits and dispute resolution.

- Transparency in the reporting of financial and tax data:

  - Launch a multi-stakeholder appraisal of the pros and cons of increased financial and tax transparency on a country-by-country basis;

  - Work with developing countries to establish best practices with respect to the disclosure of statutory local accounts of multinational enterprises.

- Tackling offshore non-compliance:

  - Support the work of the *Global Forum on Transparency and Exchange of Information for Tax Purposes* to promote information exchange agreements with tax havens;

  - Facilitate exchange within regional information-sharing networks such as the Southern African Development Community and the East African Community;

  - Encourage and assist interested developing countries to join the self-standing Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

Next steps

32. The following actions could be developed following the MCM:

– Support for the development of benchmarks on the performance of tax administrations in developing countries to encourage the donor community to increase commitments to supporting tax programmes;

– Implementation of country level tax and development programmes supported by twinning programmes between OECD and developing countries, in line with Forum on Tax Administration best practice;

– 'Whole of government' approaches to addressing tax evasion, financial crime and other illicit financial flows and launch of a Global Dialogue on interagency cooperation on these matters;

– Launch of *OECD/StAR Asset Recovery Survey Report*, which measures for the first time the efforts made by OECD countries in tracing, freezing and recovering the proceeds of corruption originating in developing countries, held in OECD countries;

– Launch of a *Global Taxpayers Perception Monitoring Report*, covering attitudes to tax avoidance/evasion and compliance, with a focus on the link between taxes and expenditures, reporting back to the MCM in 2012;

– Launch a *Transfer Pricing Collaborative Project* to provide focused and intensive support on the adoption and effective implementation of transfer pricing rules in specific developing countries;

– Strengthen revenue data collection on non-OECD economies as a contribution to high level policy dialogue through LAC, MENA and other regional initiatives;

– Report progress on the *Tax and Development Programme* to the MCM in 2012.

Value-added of OECD contribution

33. Initial mapping of the international provision of assistance shows that the majority of international and regional assistance is directed at domestic tax policy and administration, confirming the OECD's comparative advantage in international taxation and state-building through policy dialogue and sharing practical experience. The OECD has a niche role as a neutral broker in facilitating the interaction between tax administrations and development agencies through the members of its Committee on Fiscal Affairs and the Development Assistance Committee. It is also an authoritative source of analysis and fiscal revenue statistics for countries in Latin America and Africa, for which there is increasing demand from those regions. The annual flagship publications Latin American Economic Outlook and African Economic Outlook include such data and are used by policy makers on a global basis.

34. The *OECD Tax and Development Programme* supported by the work of a multi-stakeholder *Task Force* puts the OECD in a unique position to develop coherent, credible and effective proposals for a global programme on tax and development.

35. Responding to the G20's request, collaborative work between the mandated organisations, under OECD co-ordination, has taken place to deliver one unified recommendation report under this pillar for the G20 Cannes Summit in November 2011. The Report comprises four chapters as follows:

1. Overview, with key political messages to support the development of more effective tax systems;

2. Capacity challenges faced by developing countries in their tax systems. The OECD input includes a survey on assistance modalities currently used by OECD DAC donors;

3. Knowledge management, mapping and benchmarking to support and track progress of developing countries capacity in tax policy and administration systems, as well as encourage international assistance directed towards strengthening tax systems in developing countries. The OECD's contributions are the International Tax Dialogue (ITD) on-line knowledge platform and database of international support, the OECD/DAC aid statistics, and the OECD Comparative Information Series developed by the Forum on Tax Administration;

4. Effective and efficient implementation of transfer pricing regimes in developing countries. The OECD core contribution is the *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, as well as the establishment of an inclusive *Global Forum on Transfer Pricing* for developed and developing countries to be launched in November 2011.

Policy sharing

36. Knowledge and policy sharing will be demand-driven, often working with regional organisations such as ATAF and CIAT. Several OECD instruments and standards will be shared in the areas of tax treaties, transfer pricing and exchange of information.

37. Existing knowledge-sharing platforms will provide input, in particular reflecting the different priorities and viewpoints of emerging and developing country governments, and those of non-government actors such as the private sector:

- **The Development Centre's Governing Board and its networks** (DeFiNe, EmNet, and DevCom) will provide an independent platform for policy dialogue and mutual learning on economic and social development policies between OECD member countries and emerging and developing economies;

- **The Committee on Fiscal Affairs' (CFA) Board for Cooperation with Non-OECD Economies (BNOE) and the DAC GOVNET** will serve to provide input on identification of partner countries and to channel their demands. The CFA relies on the strategic direction provided by the BNOE regarding developing countries, with advice from the *Advisory Group for Co-operation with Non-OECD Economies* which provides the platform for direct consultation with developing countries on both the Global Relations Programme in Taxation and the technical work undertaken in the CFA's working parties;

- **CTPA's Global Relations Programme**, comprising the delivery of more than 70 demand-driven events per year on international taxation issues, is designed to fulfill the wider mandate of encouraging global economic development and to facilitate a global implementation of the OECD instruments, standards and guidelines by securing the active participation of non-OECD economies; facilitating the integration of new member countries into the work of the CFA; and promoting a climate that encourages mutual assistance between member countries and non-OECD economies. Responding to the international recognition of the vital role taxation has to play in promoting sustainable development, the Programme is becoming increasingly focused on development objectives and increasingly integrated into tax capacity building initiatives recommended by the *Task Force on Tax and Development*.

38. As regards co-operation with regional and international organisations, all major international organisations (IMF, World Bank, UN) and regional bodies (ATAF, CIAT) working on tax are involved in the work of the *Task Force on Tax and Development*.

Horizontal collaboration

39. Horizontal collaboration has allowed to progress tax and development work, building on initiatives already undertaken by and expertise from CTPA, DCD and DEV. The involvement of multiple OECD Committees strengthens the legitimacy of policy recommendations. In this sense, the OECD's tax and development outputs will reflect OECD vision from a more inclusive perspective.

40. Necessary funding to support the horizontal collaboration embedded in the tax and development pilot has been one of the main challenges. Finding a balance between financial and staff resources available within Directorates involved is one of the mechanisms to overcome these.

Policy coherence for development

41. The design phase of the joint *CFA/DAC Tax and Development Programme* has facilitated more joined up government between tax, finance and development officials in OECD countries. By promoting interaction between tax and finance specialists and aid and development practitioners and involving the OECD Development Centre through its network of contacts in developing countries and research on fiscal issues, the *Tax and Development Programme* is uniquely placed to enhance policies coordination and "whole-of-government" approaches to development.

42. Through this pilot, the OECD will be better placed to generate knowledge for its members and for developing countries on issues of international taxation, tax policy and administration, and on the optimal use of ODA.

FOOD SECURITY

Key policy challenges

43. The FAO estimated there were 925 million undernourished as of late 2010 - a number that likely rose with further increases in food commodity prices and volatility since then. Most of the world's hungry cannot access food principally because they are poor. Poor people are caught in a vicious circle where poverty results in hunger and hunger then perpetuates poverty. Under-nutrition in early childhood permanently limits physical and intellectual development in ways that cannot be compensated by later improvements in nutrition.

44. Because the poor suffer more from hunger than other segments of society, food insecurity threatens social cohesion and political stability. Other distributional questions complicate the search for equitable policy solutions. To the extent they are transmitted, the same high prices that boost the incomes of poor farmers in developing countries impose higher costs on poor food consumers. Paradoxically, many hungry people are smallholder farmers that do not produce enough to meet their own food needs so that the net impacts of higher and lower prices are not always evident. Fears of future food shortage and rising prices for agricultural products have led governments and firms of some relatively rich countries to seek access to productive agricultural land in relatively poor countries. There is widespread concern over potential negative food security impacts of such 'land grabs'.

45. Income growth in the sectors and markets where poor people gain their livelihoods is a precondition for any sustainable solution to chronic food insecurity. The policies needed to foster durable improvements in food security are thus largely the same as those needed to foster durable, pro-poor economic development. The ideal combination will feature government actions that: 1) provide social protection to protect people from the immediate aftermaths of natural and economic shocks and which help deal with the risks of adopting more promising livelihood strategies, 2) promote improvements in agricultural productivity to raise production and increase the incomes of the rural poor, 3) enhance the role

of trade in balancing food supply and demand within and between countries and 4) promote economic growth and transformation.

46. Public action to increase the profitability, productivity and competitiveness of smallholders, particularly women farmers, will be an important first stage strategy in many countries. Improving rural infrastructure, agricultural services and research are key. However, for many, the long-term, i.e. inter-generational, future will lie outside farming. This means offering multiple development pathways for smallholders and other households that depend on agriculture.

47. Many food insecure developing countries have seen decades of under-investment in their agricultural sectors, leading to stagnant productivity and poor growth. The challenge is to increase agricultural investment while encouraging business conduct that mitigates potential adverse effects. This challenge can be met through: (i) promoting policy coherence for investment; (ii) encouraging responsible investment in agriculture on the part of international investors.

48. In the medium to longer term global food security will only be realised if agricultural markets are more open so that competitive suppliers around the world are able to receive and respond to global price signals. Of course not all developing countries are able to capitalise immediately on the economic potential from increased openness in the global economy – improving supply capacity on a sustainable basis is required.

Substantive outcomes

49. The DevGoals pilot on food security should result in improved understanding that efforts to achieve global food security need to be multi-faceted - covering agriculture, poverty reduction, development and related issues (climate change, population growth, etc) - and sustained over time. To achieve effective support for food security, outcomes will include more comprehensive and coherent policy messages across the organisation, deepened collaboration with other international organisations, and enhanced knowledge sharing with a wider range of countries, including emerging and developing countries.

Progress on concrete deliverables

50. The following deliverables are on track to be completed for the MCM:

- **An up-to-date profile of aid to agriculture and food security** – including a report tracking donor spending related to pledges made under the L'Aquila Food Security Initiative to fulfill OECD's mandate to track spending and to support G20 work;

- **Best practice guidelines for food and agriculture policy** that respond to the specific needs and aspirations of countries at various stages of development - with a view to further deepening and refinement in the period beyond the 2011 MCM;

- A preliminary analysis of trends of the rise in South-South agricultural trade and in cross-border land acquisitions between developing countries, and their implications for food security;

- **A Policy Framework for Investment in Agriculture** (PFIA) which includes a checklist of questions in a wide range of policy areas, to be considered by governments aiming to attract more and better investment in agriculture through policy assessment and reform;

- **A Regional Charter for food crises prevention and management in West Africa** – a code of conduct agreed between West African states and some OECD donor countries to foster effectiveness and minimise the adverse effects of food aid;

- Analytical reports and organisation of **a forum to build regional solidarity** in West Africa to address food crises;

- Work and policy reports on the impact of water management and climate change on food security, particularly in the Sahel;

- A synthesis report on the **'Economic importance of agriculture for sustainable development and poverty reduction'** supported by case studies on Ethiopia, Indonesia, Ghana and Vietnam;

- Investigation of policy options to better **mitigate and manage the risks associated with food price volatility**, as requested by the G20 and in collaboration with the FAO. The report is on the agenda of the forthcoming G20 Agricultural Ministerial.

Next steps

51. By leveraging its expertise on a wide range of policy areas, the OECD will continue to contribute to global efforts on food security through the following elements:

- **Review and monitoring of levels and effectiveness of aid to food security** – including aid for trade monitoring and evaluation, looking specifically at aid for trade in agriculture;

- **Policy guidance to donors**, such as on effective support for investment in agriculture and food security results framework;

- **Agricultural policy advice** appropriate to countries at different levels of development;

- **Analysis about the role of trade** and the better functioning of international and national markets;

- Policy options to achieve poverty reduction, pro-poor growth and development **-** as a long-lasting resolution to food security;

- Development and implementation of **policy tools and instruments for enhancing the investment climate**, including for agricultural development;

- **Measurement and analysis of support and protection to agriculture in OECD countries** (and major emerging economies), and assessment of their impacts, particularly spillover effects on third countries;

- **Analysis of the multiple factors** – macro-economic, supply, food and non-food demand, and policy **- determining production, consumption, trade and prices** of agricultural and food products in the medium term;

- **Policy advice to mitigate and manage the risks related to food price volatility**, including an analysis of the distributional implications of high food prices as a risk to social cohesion, as well as regional policy options for West Africa (such as a regional food security reserve).

Value-added of OECD contribution

52. The OECD's multi-disciplinary competence and its ability to convene donors and other stakeholders together on food security issues enable it to develop a holistic view of the global food security issue. During the 50 years of its existence, OECD has accompanied dramatic transformation in many of its member countries, expertise which combined with the recognised expertise of the development cluster, makes it unique among the international organisations. The fact that OECD does not disburse aid is a strength in this respect, as it allows the Organisation to take a wide approach not limited to any one sector or dimension of the issue. Emerging and developing countries can benefit from the OECD as a forum for open policy dialogue that brings a unique historical perspective and is distinct from discussions between donor countries or international organisations about the disbursement of aid.

53. In addition, the pilot project is providing impetus to improving collaboration with other international organisations. It is helping to map out the 'who is doing what' on food security and to identify value added roles for each of the organisations involved:

- Already well established joint work with the FAO is continuing in the context of the *medium term agricultural outlook*;

- On-going work on agricultural policy design and the collaborative work with the FAO on the MAFAP *(Monitoring African Food and Agricultural Policies)* project build on analysis and long-established monitoring processes developed by the Committee for Agriculture;

- Shared and better coordinated approaches to food security are developed with the UN HLTF - in which the OECD now participates, the Global Donor Platform on Rural Development, the FAO, IFPRI and the World Bank. For example, the Committee for Agriculture Special Session on food security on 1 December 2010 as well as the Global Forum on Agriculture in November 2010 included participation from several international organisations;

- The Policy Framework for Investment in Agriculture (PFIA) complements the FAO, World Bank Group and UNCTAD work on *"Principles for Responsible Agricultural Investment that Respect Rights, Livelihoods and Resources"*, which focuses mainly on international investors. The Chair of the Advisory Group on Investment for Development of the OECD Investment Committee has sent to these institutions a letter seeking collaboration for moving the PFIA forward.

Policy sharing

54. Consultation and policy sharing with developing countries is taking place through various channels:

- OECD participation in various initiatives such as the Committee on Food Security. the HLTF, the L'Aquila Food Security Initiative, and G8/20 preparations, including in respect of accountability work;

- The Global Forum on Agriculture (GFA) which provides an established network for sharing analysis and generating policy dialogue. The theme *of the GFA held on 29-30 November 2010 was Policies for Agricultural Development, Poverty Reduction and Food Security*. This meeting provided an opportunity to share findings of OECD analysis with a significant number of representatives of emerging and developing countries, as well as country experts and academics;

- The *Policy Framework for Investment in Agriculture (PFIA)* which has been developed jointly by the *NEPAD-OECD Africa Investment Initiative*, the Sahel and West Africa Club (SWAC) and the Office of the Special Advisor on Africa (OSAA) to the UN Secretary General. It has been applied by the government of Burkina Faso, and several governments have already expressed an interest for such a support;

- Indirectly via DAC Members' engagement at field level;

- The Regional Charter for food crises prevention and management in West Africa which contributes to aid effectiveness through regional organisations.

Horizontal collaboration

55. The pilot has given increased impetus to a horizontal initiative on global food security. All of the work mentioned was already planned, but the DevGoals pilot has improved consistency and coherence in this work and can enhance its impact by bringing it in a single synthesis report planned for 2012.

56. A whole-of-OECD approach allows to combine the expertise of various OECD policy communities - including on development co-operation, agriculture, trade, and economic growth – all needed to address effectively the challenge of food security. Achieving food security requires not only increasing the productivity and competitiveness of smallholders but also diversifying income sources as in the long term, the future of many smallholders lies outside farming. The OECD is well-placed to work on all these challenges. For example, the DAC can provide policy guidance on supporting pro-poor growth and the contribution of agriculture in line with aid delivery principles set out in the Paris Declaration on Aid Effectiveness and the Accra Action Agenda. This perspective on the role of donors can be enriched by best practice guidelines for agriculture policy in developing countries developed by TAD as well as by the work on investment in infrastructure by DEV and DAF, or on innovation by STI.

57. DAF, DCD, DEV, SWAC, and TAD are active in this pilot project. Other directorates with relevant work are being solicited, such as STI for innovation. Formal and less formal co-ordination is being developed. Participants in the pilot took part in a meeting of the DAC Network on Poverty Reduction (POVNET) group on 3 November 2010, and in a half day session of the Committee for Agriculture on 1 December 2010.

58. However more opportunities are needed for discussion on substantive issues among pilot participants, but without creating heavy and duplicative structures. Committees could allow for this more frequently by inviting participating directorates to their respective meetings and workshops, and participating directorates could review relevant outputs with all participants of the pilot.

Policy coherence for development

59. Policy coherence is critical to achieve food security. Here are two examples of the contribution to the pilot in enhancing policy coherence to foster food security:

- A regional study on projected climate change impacts in the Sahel will be published, highlighting the need for improving intra-seasonal climate forecasting, managing uncertainty and integrating climate change adaptation policies in broader development context. It aims to inform policy makers on climate change and food security scenari in the Sahel;

– Work on links between trade and food security will look at the role of trade in improving food security and at the effect of trade policies of both developing and developed countries on their own and others' food security.

INVESTMENT IN INFRASTRUCTURE DEVELOPMENT

Key policy challenges

60. Private and public investment can be a source of financing for critical infrastructure underpinning social and development objectives. Effective policy-making processes as well as an enabling policy environment are key to support investment in infrastructure.

61. Governments need to operate within effective policy-making frameworks with a coherent institutional design from the planning stages to implementation and monitoring. Institutional design should generate incentives to increase co-ordination and co-operation among institutions in charge of infrastructure policies. This would help avoid co-ordination failures at national and regional levels and increase accountability between different actors involved in the process. National policies plans need greater linkage with sub-national to avoid overlapping and avoidable spending. A clear delimitation of responsibilities between levels of government and for each stage can achieve greater effectiveness and improve territorial cohesion. Mechanisms that identify and help to address major policy bottlenecks are important if governments are to tackle inefficiencies which reduce the impact of policies and create barriers to development. To minimise conflicts of interest, governments need to set proper checks and balances, especially for the stages of execution, operation and maintenance, and service provision. In the transport sector, better technical consideration is necessary to avoid unaffordable infrastructure spending over time due to improper expenditure mix between new investment and maintenance of existing stocks.

62. Establishing a policy environment that effectively provides and maintains infrastructure and encourages private investment involves a complex mix of policies across different areas of government, from commercial laws, competition and the corporate tax system to policies supporting human resource development and knowledge creation and diffusion, strong and efficient institutions, and efficient public governance.

63. Across all of these areas non-discrimination, transparency and competition are qualities that support investment. A policy framework that is non-discriminatory and fair supports investment by reducing the level of risk perceived by investors. In addition, discrimination can reduce the development benefits of investment. Openness is another important quality. Open investment policies are a pre-requisite for receiving foreign investment and accessing international sources of capital, and open trade policies encourage investments that depend on international markets and on imported intermediate inputs. Finally, policies that encourage and support responsible business conduct are also needed to maximise the contribution of investment in infrastructure to development. This applies particularly to international investment into developing countries. International policies and instruments are used to support responsible business conduct with respect to employment and industrial relations, the environment, combating bribery, protecting consumer interests, technology transfer, competition, and taxes.

Substantive outcomes

64. This pilot aims to highlight the contribution of infrastructure to development, by analysing the role of the public sector, private investment, and development assistance in boosting infrastructure in developing countries. Key outcomes include: guidelines for policymakers on how to improve the institutional framework and policy-making process for infrastructure investment in emerging and developing economies; analysis of how aid can leverage private investment in infrastructure; and assessments of the challenges and responsibilities of both home and host countries and how to balance these with investors' responsibility and the need for a positive contribution to development and society at large. The work of this pilot should contribute to stronger domestic policy frameworks for infrastructure

investment; more effective aid for investment in infrastructure; and more efficient public and private infrastructure investment.

Progress on concrete deliverables

65. A number of outputs will be ready for the MCM:

- A mapping report on donor activities in support of the enabling environment for infrastructure development is currently being drafted. Preliminary findings will be discussed at the *NEPAD-OECD Africa Investment Initiative* Ministerial Conference;

- *The NEPAD-OECD Africa Investment Initiative* will hold its Ministerial Conference in Senegal on 26-27 April 2011 with a strong focus on infrastructure investment, including on how to address institutional, policy and regulatory bottlenecks to and innovative financing for infrastructure investment. Background materials and an outcome document addressing these issues will be issued by the conference;

- The *Initiative* has developed numerous policy materials and recommendations on ways of overcoming policy, institutional and financial impediments to investment in the water and sanitation, transportation, and energy sectors, as well as on the use of carbon finance for increasing investment in energy infrastructure;

- The Investment Committee has created a number of policy instruments aimed at helping governments to strengthen the enabling environment for infrastructure investment: the *Principles for Private Sector Participation in Infrastructure*; the *Checklist for Public Action in the Water sector*; and the *Policy Framework for Investment*. These tools have been applied in a number of developing countries - such as Mexico, Lebanon, Egypt, and Russia - and supported government efforts to make infrastructure work for development;

- The Investment Committee has revised *Guidelines for Multinational Enterprises*. This is a powerful instrument for promoting responsible business conduct by MNEs in developing countries, thus further supporting the contribution of international investment to development;

- Several papers on policy-making in infrastructure investment have been developed, including: analysis of the impact of privatisation of the fixed-line telecommunication providers on output, prices and efficiency across OECD, Latin American and African countries; estimations on the infrastructure gaps in Latin American countries according to their respective economic development and quantification of the cost of closing these gaps; guidelines for the regulatory framework in public policies in telecommunications infrastructure in Africa; analysis of the role of budgetary and political institutions in infrastructure across OECD, Africa, Latin America and Asia; and case studies highlighting sustainability issues and major bottlenecks in the policy-making process for infrastructure investment are carried out for a number of countries.1

- The *Southeast Asian Economic Outlook 2010* (SAEO 2010) is focused on the transport sector and regional integration. The Latin American Economic Outlook 2011, SAEO 2012 and Perspectives on Global Development 2012 (PGD 2012) will have preliminary results focusing on efficiency

[1] These include Latin American (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Mexico) and Africa countries (Burkina, Burundi, Egypt, Kenya, Mauritius, Morocco, Rwanda, Senegal, South Africa, Tanzania, Uganda) and Asia (Korea, India, Indonesia, Thailand, and Vietnam).

and sustainability in the different phases of transport delivery with particular attention to the institutional design and the incentives scheme.

Next steps

66. The OECD will continue working on the above-mentioned elements to refine preliminary analysis as well as its policy recommendations and tools.

67. In addition, the *Policy Framework for Investment* (PFI) - endorsed by OECD Ministers in 2006 – could be reviewed and updated. The PFI is the most comprehensive and systematic approach for improving investment conditions ever developed. It covers 10 policy areas and addresses 82 questions to governments to help them design and implement policy reform to create an attractive environment for domestic and foreign investment. As an OECD response to the Monterrey Consensus, the PFI emphasises the fundamental principles of rule of law, transparency, non-discrimination and the protection of property rights.

68. There is also a rising demand from developing and emerging countries for more work and insight on the policy-making process. Publications such as the *Latin American Outlook* and *Perspectives on Global Development* are identifying recurring bottlenecks in public sector policy frameworks through comparative analysis within and across regions. Knowledge-sharing is increasingly viewed as a tool for development, and peer learning initiatives are being used to address policy challenges through strengthened dialogue between senior policy makers working in different stages of the infrastructure cycle. Work has commenced in Latin America and should be replicated in Africa and Asia, leveraging the growing relationship with non-OECD members.

Value-added of OECD contribution

69. OECD work on infrastructure investment in developing countries represents a balanced package. It addresses not only host country policy capacity needs - for which other international organisations already provide substantial assistance - but also the responsibilities of home countries, international co-operation and investors through responsible business conduct – three areas where the OECD has a recognised unique role to play.

70. In addition, the OECD, by addressing “upstream” preparation issues that relate to the enabling environment for infrastructure investment (such as pre-feasibility studies, social and environmental impact assessments, transparency and openness of procurement processes, tariff regulations…), can usefully complement the work of other international organisations, especially of multilateral development banks. These organisations focus more on downstream project preparation, including financial and transactional aspects of infrastructure projects. More generally, OECD work raises awareness on the need to improve the institutional and policy environment for infrastructure investment.

71. Furthermore, OECD gathers several policy communities and thereby acts as a catalyst and hub for international policy dialogue and peer learning method on a range of issues, including infrastructure development. As a result, the OECD has developed a number of tools which can be adapted to African, Latin American and Asian countries’ needs.

72. Lastly, OECD offers emerging and developing countries a vehicle for policy co-operation with the world’s major investing countries without strings attached.

Policy sharing

73. The *NEPAD-OECD Africa Investment Initiative* provides a dialogue platform on investment policy issues through its ministerial conferences and expert roundtables held in African countries. The meetings bring together ministers, high-level officials from African and OECD countries, private sector representatives and experts to discuss policy options for improving the enabling environment for infrastructure investment in Africa. Moreover, the *NEPAD-OECD Initiative's Steering Group* provides strategic direction, oversees the work programme, mobilises political and financial support and assists in the dissemination of outputs of the Initiative.

74. In addition, the Development Assistance Committee (DAC) and the Investment Committee's joint project on Aid for Investment is currently being implemented under the aegis of the *NEPAD-OECD Initiative*. This collaboration maximises the OECD's ability to respond to partner countries' demands from a development assistance and an investment perspective. All these existing mechanisms can be used to consult with African partners and align OECD work to their priorities and interests.

75. Finally, the Development Centre provides an independent platform for policy dialogue and mutual learning on economic and social development policies between OECD countries and emerging and developing economies, on an equal footing. Emerging and developing countries regularly discuss infrastructure policies in the Development Centre's networks: (i) *DeFiNe*, a global network of think tanks and academic establishments; (ii) *EmNet,* the Emerging Markets Network dedicated to private sector and; (iii) *DevCom* Network which gathers directors of communication/public affairs from DAC member countries.

76. For each deliverable of the pilot, partnerships have been established with other international organisations to determine relevant areas of research, avoid duplication, and clarify OECD's comparative advantage:

- The question of how donors can best support an enabling environment for infrastructure development remains under-studied. The OECD will work with the African Development Bank on data collection for the Aid for Investment project. The results of the mapping report will contribute to the Infrastructure Consortium for Africa (ICA)'s annual report.[2] The OECD has also met with World Bank officials early in 2011 for further collaboration on this topic;

- The informal advisory board of the annual report 'Latin American Economic Outlook' is composed of regional universities and other relevant international organisations working on the region. International organisations, such as CAF (Andean Development Bank), ECLAC (United Nations Economic Commission for Latin America) and IDB (Inter-American Development Bank), are also regularly invited to discuss in the preparation of this publication;

- To ensure that the work on telecommunications infrastructure is consistent with other ongoing programmes, a steering committee has been created whose members are the OECD STI-ICCP Division, the AfDB ICT Department, the AU Telecommunications and Posts Division and the Islamic Development Bank Telecommunications Department;

- Substantial exchanges are conducted with other institutions to elaborate the guidelines for the regulatory framework in public policies in telecommunications infrastructure in Africa, including

[2] ICA was created through the G8 to support increased funding for infrastructure in Africa, gathers major bilateral and multilateral donors, and is housed at the African Development Bank.

the NEPAD, the World Bank, the International Telecommunications Union (ITU), the World Trade Organisation (WTO), Internet Society (ISOC), and the OECD STI-ICCP Division.

Horizontal collaboration

77. Horizontal collaboration has helped synergise the expertise of different parts of the OECD working on infrastructure-related issues. The regional focus on Africa has been well-complemented by that of the DAC and the Development Centre on Latin America and Asia, allowing for a more holistic picture of infrastructure investment in emerging and developing countries.

78. The cooperation has shown the interest of developing a "corporate" evaluation framework to assess and reform developing/host countries' policies for both public and private infrastructure investment. Such a framework could draw on the *OECD Principles for Private Sector Participation in Infrastructure* and include a list of policy issues that also address the needs of public investment.

Policy coherence for development

79. The pilot spotlights how different policy communities can co-operate on issues as diverse as finance, coordination of public policies, sustainability and environment which are related to infrastructure. It will also lead to guidance for OECD members on how they can strengthen their domestic policies – from development assistance, foreign policy, commerce and so on - to facilitate investment abroad and maximise its impact on sustainable development.

GREEN GROWTH

Key policy challenges

80. The OECD Green Growth Strategy is about expanding economic opportunities for a growing global population and addressing environmental pressures that, if left unaddressed, could undermine these opportunities. This requires drawing on mutually reinforcing aspects of environmental and economic policy. While this implies some general lessons for policy makers in all countries, greening growth in developing countries implies some distinctive policy challenges.

81. A core element of green growth is recognising the value of natural capital as a factor of production and a key for growth. This is of particular importance for developing countries where natural resources - especially renewable resources such as forests, fish and productive soil, and non renewable resources including biodiversity - are major productive assets and represent a considerable opportunity for pro-poor green growth. In low income countries, natural capital represents 25% of per capita wealth, as compared to 12% in middle-income countries and 2% in OECD countries. Sustainable resource management and protection of diversity are critical for long term growth. Success factors of green growth based on natural resource include: strengthening resource governance institutions to strengthen regulatory settings and allocate resources efficiently; pricing natural resources appropriately; increasing attention to the value of ecosystem services - such as fresh water and flood defences; maximising the product value of natural resources; and enabling the use of new production techniques to decouple growth from natural capital depletion and promote a more efficient use of natural resources.

82. Development strategies should be adapted to account for climate change, resulting in co-benefits which may be especially large in developing countries. An economic growth based on low greenhouse gas (GHG) emissions can provide a range of positive by-products, including access to more diversified energy sources, increased economic value of forests, and improved health through cleaner air. For example, household air pollution from the use of biomass in inefficient stoves would lead to over 1.5 million premature deaths per year in 2030. Low-GHG growth has the potential to reduce significantly this impact.

83. Low-GHG growth is increasingly recognised as an opportunity to avoid the costs associated with resource intensive and heavily polluting development paths, and foster sustainable development. A growing number of countries have developed national strategies for low-GHG growth, including major emerging economies such as China, India, Brazil and South Africa, but also low income countries such as Bangladesh and Guyana.

84. However, developing countries face a number of policy challenges to transition to a low-GHG growth path. Policy frameworks should be attractive to innovation and private investment in low-GHG technologies to foster the development of new sources of clean energy. At a global level, energy systems are the major contributors to climate change with around 60% of total current GHG emissions. Governments must consider the benefits of open markets to leverage the potential of global trade and investment flows for technology transfer and diffusion. Finally, policies should also better take into consideration the impact of forestry and agricultural policies on GHG emissions.

85. Adaptation to climate change is now widely recognised as an equally important and complementary response to GHG mitigation. A transition to climate resilient growth is urgently needed in developing countries. The negative impacts of climate change are likely to be felt most strongly in the developing world. Some of these effects, such as changes to temperatures and precipitation, are already underway and unavoidable. Families and communities dependent on climate-sensitive activities, such as agriculture and forestry, will be amongst those most affected.

86. A wide range of adaptation measures can be implemented in response to both observed and anticipated climate change. Such measures include altering farming practices and crop varieties, enhancing water use efficiency, changing building codes, and building the necessary infrastructure such as water reservoirs and sea walls. More generally, key steps to enhance climate resilience in developing countries include: an ongoing assessment of climate-related risks; the integration of climate change adaptation into national development strategies; and the allocation of adequate financial resources to climate resilience projects.

87. Common principles can be identified to meet these challenges, including:

- **Green growth needs to be pro-poor:** Economic benefits from natural resources should better reach the poor. For example, the benefits of forestry and fishery resources are often captured by elite groups whereas they can enhance significantly the livelihoods of the poorest. Taxation on fuels and natural resources are important measures for green growth, but need to be adapted to avoid harming the livelihoods of the poor.

- **The "value for money" should be maximised:** International funds and donors need to avoid fragmentation and excessive transaction cost by harmonising their procedures. Public finance should catalyse effectively flows of private finance, such as feed-in tariffs (FIT), CDM investments, and REDD and REDD+ mechanisms.

- **Hands-on capacity development programmes are needed:** Natural resource management requires a high organisational capacity for collective action. Climate resilience would require governments to have a capacity to co-ordinate ministries and agencies. Capacity is a prerequisite for green growth and for making the best use of available support, such as development co-operation, climate finance and technological transfer.

- **Development co-operation is critical but not sufficient:** Official development assistance (ODA) can help accelerate green growth via financial and technical assistance targeting areas where private sector flows are scarce, including infrastructure and human and institutional capacity building. Yet ODA is not sufficient, and the use of innovative financing mechanisms, such as securitisation, risk sharing and forward commitments, is particularly important. In addition, OECD countries should ensure that their own domestic or foreign policies foster, or at least does not harm to, green growth in developing countries.

88. It should be emphasised that OECD work on green growth complements and strengthens the ongoing work in the other three pilots. Effective tax systems and tax reform can stimulate green growth, global food security can be achieved only if developing countries mitigate the impact of increasing global temperatures on food production and can adapt to climate change, and finally investment in infrastructure can enhance climate resilience but also foster green innovations.

Substantive outcomes

89. By promoting more comprehensive and coherent policy messages across the OECD, the pilot will result ultimately in a better understanding of policies and mechanisms needed to promote green growth in developing countries. The pilot will also strengthen the existing analysis of the impact of OECD 'green' policies on developing countries. Finally, it will contribute to raising awareness on the importance of green growth for sustainable development.

Progress on concrete deliverables

- ***Tailoring the Green Growth Strategy to developing countries' context***. Analysis on developing countries, including emerging economies and least developed countries, has been mainstreamed into the Green Growth Strategy to complement the focus given to OECD countries' perspective. This analysis has drawn on the report "Green Growth: the Development Dimension", featuring natural resource management, climate resilience and low-carbon growth as three key pillars of green growth in developing countries, and focusing on the role and the challenges of aid and existing international green/climate funds. This report is based on past and recent joint OECD work.[3]

- ***Transfer of green technologies to developing countries via the Clean Development*** Mechanism (CDM). Specific dedicated work has been undertaken on the role of the CDM in supporting projects that reduce greenhouse gas emissions in developing countries. Many of these projects result in the transfer of technologies to host countries. The work analysed if the technologies transferred under the CDM are those most needed by the recipient countries, by first reviewing Technology Needs Assessments prepared by developing countries, and then by comparing the stated needs to the technologies most frequently transferred via CDM.

Next steps

90. The Green Growth Strategy report to be delivered at the MCM in May 2011 is a first step towards further collaboration with developing countries; it will serve as a basis for further work in this area. After the MCM, the following elements could be analysed to mainstream development into the Green Growth Strategy: water, infrastructure, financing and the MDGs; feasibility, progressivity and regressivity of fiscal instruments; institutions; health costs of environmental damage; international cooperation beyond domestic issues; and greening development plans. These elements focus on growth rather than climate change adaptation and mitigation, and thereby would attract interest from developing countries.

91. In particular, various channels of support will be analysed, including: the role of development co-operation (e.g. concessional loans, grants, technical assistance); technology transfer (e.g. Clean Development Mechanism, patent licensing, collaborative research); private investment and business operations (e.g. Foreign Direct Investments, multinational co-operations, microfinance); and climate mitigation and adaptation financing. As regards technology transfer, the size of technology transfers and the composition of the innovation pipeline could be analysed, focusing in particular on the CDM. While there appears to be a good match between requested technologies and those used in CDM, desired technologies - such as solar energy for remote locations, improved cooking stoves, and efficient lighting - appear "neglected" by CDM and there is little evidence of research on these technologies by developing countries although these technologies would be cost effective. Further work will seek to identify why this has been the case.

92. In addition, thematic and regional reports on green growth will guide the implementation of the recommendations of the Green Growth Strategy in developing countries.

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3 Including the following reports: Natural resources and pro-poor growth (2008); Integrating climate change adaptation into development co-operation (2009); Low-carbon growth in Asia (Feb 2010); Climate resilience and low-carbon growth in Africa (March 2010); Development perspectives for post-Copenhagen climate financing architecture (Nov 2010); Capacity development for Environmental Management in Developing Countries (forthcoming).

93. In terms of developing countries' policies, the Southeast Asian Economic Outlook (SAEO) 2011 will analyse progress made and challenges ahead in ASEAN countries to adopt green growth strategies. Three areas will be analysed: 1) Policy trends and priorities for green growth in Southeast Asia, including a study on Korea's experience in setting green growth objectives; and 2) Taxation issues related to green growth.

94. Finally, the principles of the *Innovation Strategy* could be adapted to the needs of developing and emerging countries. The *OECD Innovation Strategy* - endorsed by OECD Ministers in 2010 - promotes a whole-of-government approach to innovation. It is structured around five priorities for government action: 1) Empowering people to innovate; 2) Unleashing innovation in firms, including the role of entrepreneurship; 3) Creating and applying knowledge; 4) Applying innovation to address global and social challenges; and 5) Improving the governance of policies for innovation. The OECD is currently implementing the *Innovation Strategy*, including by the development of an Innovation Policy Handbook, which is intended to help governments design and implement innovation policies, based on good practices from around the world. It is also undertaking reviews of innovation policies at the national and regional level, including for developing economies, to ensure that policies for innovation adequately reflect the national context.

Value-added of OECD's contribution

95. OECD value-added lies in mobilising a wide range of expertise from different parts of the Organisation. As green growth requires incorporating 'green policies' into 'growth policy', combining expertise in related policy fields is essential.

96. In addition, the pilot builds on some of the key OECD policy expertise developed through close consultation with developing countries, including evidence-based analysis on aid, technology transfer and innovation, as well as IEA's models/database.

Policy sharing

97. The consultative process is primarily conducted through inviting developing country participation to workshops. These include:

- *Climate financing and aid effectiveness workshop*, October 2010, Bangkok. This event gathered representatives from 7 Asian countries, Bangladesh, Cambodia, Lao PDR, Nepal, Indonesia, Philippines and Vietnam;

- *Low-carbon growth in Asia-Pacific workshop,* October 2010, Bangkok. This workshop gathered representatives from Cambodia, Kazakhstan, Laos, Malaysia, Philippines, Thailand and Vietnam;

- *Workshop on developing country perspectives and the OECD Green Growth Strategy*, 28 October, Seoul. An opportunity for OECD to receive feedback on the Green Growth Strategy interim report from a range of developing country experts and officials from e.g. Indonesia, Vietnam, Ethiopia, Kazakhstan, and China.

- *Green Growth workshop*, January 2011, Paris. This workshop gathered more than 400 attendees, including representatives from South Africa, Indonesia and Argentina. South Africa and Indonesia served as discussants at the "Development" session in the workshop;

- OECD met *China's Task force on Green Economy* and shared OECD analysis and experience with Chinese counterparts;

- OECD co-organised a conference with the Confederation of Indian Industries and BIAC in March 2011, focused on *Green Manufacturing*, which explored the role of green growth in India;

- OECD participated in the *5th Ministerial Meeting of the NEPAD-OECD Africa Investment Initiative* in April 2011 in Dakar, Senegal. A session on Green Economy was featured;

- A conference with Egypt on *Green Growth and developing economies* is planned in October 2011;

- An expert meeting on *Green Growth in Paris* is planned in July 2011. Working relations are already well-established between the OECD and Thailand, Indonesia and Viet Nam (members of the Development Centre) as well as with Singapore, Malaysia and the Philippines;

- *Unleashing green innovation* will be a key theme of the Global Forum on the Knowledge Economy, which is planned for 12-13 September 2011 under the theme of *"Better science and innovation policies for better lives"*;

- A workshop on *Innovation and Green Growth* in developing countries is also envisioned for late 2011.

98. As other international organisations are also working on green growth, the pilot is building partnerships with the Asian Development Bank (ADB), the Japan International Co-operation Agency (JICA), and the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) for its work on low-carbon growth in Asia. It also envisions further collaboration with African Development Bank (AfDB) and the Global Green Growth Institute (GGGI).

Horizontal collaboration

99. Developing countries often argue that green growth undermines economic development as a consequence of additional requirements. An integrated approach to green growth – and horizontal collaboration across the OECD - is therefore necessary to ensure that green growth contributes to economic development and enhances employment. Promoting green growth requires a wide range of expertise, including in development, science and technology, investment, trade, or environment. A collaborative work of OECD Directorates is therefore essential to address all the inter-related challenges to promote green growth in developing countries, including effectiveness of traditional aid from donors, the development of a conducive environment for foreign direct investment, effective technology transfers and knowledge sharing.

100. DCD, DEV, ENV, IEA and STI are all contributing to the pilot, and a number of OECD Directorates are already working on green growth in developing countries and could join at a later stage. This will enhance OECD contribution to the objectives of MDG1 on poverty reduction and MDG7 on environmental sustainability, and as well as to Rio+20.

Policy coherence for development

101. Policy coherence for development is an important aspect of green growth that requires in-depth analysis. The pilot can enhance PCD through several channels:

- Global supply chains of OECD multinational companies can have considerable environmental impact in developing countries. The pilot will examine how OECD countries can reduce such risk;

– “Greening” trade in OECD countries can be achieved by (i) reducing trade in pollution intensive products or products produced from pollution intensive practices/production methods (ii) facilitating trade in environmental goods and services; or (iii) reducing the footprint of transporting goods. The negative and positive impacts of (i) will be analysed, and insights on greening trade will be provided through the SAEO 2011;

– Trade flows between OECD and developing countries may change due to green policies in OECD countries that impact on consumer demand, product regulations and commodity prices. Analysis will focus on (i) the undue discriminatory impact of policy choices, (ii) the capacity of developing countries to deal with shifts in global markets, and (iii) options to support developing countries in dealing with these shifts through ODA and innovative financing mechanisms.

Table 1. Partnerships and policy sharing in each DevGoals pilot

	Food Security	Green Growth	Investment in Infrastructure Development	Tax and Development
Directorates / Units involved	DAF / DCD / DEV / SWAC / TAD POVNET	DCD / DEV / ENV / IEA / STI	DAF / DCD / DEV / GOV	CTPA / DCD / DEV
Partnerships with regional and international organisations	- Food and Agriculture Organisation (FAO) - International Fund for Agricultural Development (IFAD) - International Food Policy Research Institute (IFPRI) - Un High-Level Task Force on Global Food Security Crisis - World Bank	- Asian Development Bank (ADB) - African Development Bank (AfDB) - Japan International Co-operation Agency (JICA) - United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) - Korea's Global Green Growth Institute (GGGI)	- African Development Bank (AfDB) - Andean Development Bank - Informal advisory board of the *'Latin American Economic Outlook'* - Inter-American Development Bank (IDB) - International Telecommunications Union (ITU) - Internet Society (ISOC) - New Partnership for Africa's Development (NEPAD) - DEV's steering committee on telecommunications infrastructure - UN Economic Commission for Latin America (UN-ECLAC) - World Bank - World Trade Organisation (WTO)	- African Tax Administration Forum (ATAF) - Inter-American Center of Tax Administrations (CIAT) - International Monetary Fund (IMF) - United Nations (UN) - World Bank
Consultation mechanisms with non-members	- Committee on Food Security - Comité Permanent InterEtats de Lutte contre la Sécheresse au Sahel (CILSS) - Economic Community of West African States (ECOWAS) - Global Forum for Agriculture - L'Aquila Food Security Initiative - Monitoring African Food and Agricultural Policies (MAFAP) project with the FAO - NEPAD-OECD Africa Investment Initiative - UN Office of the Special Advisor on Africa (OSAA) - Union Africaine et Monétaire Ouest Africaine (UEMOA)	- Development Centre's Governing Board - Workshop on climate financing and low-carbon growth (Bangkok, October 2010) - Workshop on innovation and green growth (Egypt, June 2011) - Conference with Confederation of Indian Industries on Green Manufacturing (March 2011) - Consultative workshop with African countries (Q1/Q2 in 2011)	- Development Centre's Governing Board - Existing networks: DevCom, DeFiNe, EmNet - NEPAD-OECD Africa Investment Initiative	- African Tax Administration Forum (ATAF) - Board for co-operation with non-OECD countries - CTPA Advisory Group for co-operation with non-members - Inter-American Center of Tax Administrations (CIAT) - OECD Informal Task Force on Tax and Development

IV. OTHER AREAS OF WORK

GOOD GOVERNANCE, ACCOUNTABILITY, INTEGRITY AND ANTI-CORRUPTION

What is the issue?

102. Over the past few years, the international community has increasingly recognised the centrality of good governance, accountability and integrity to poverty reduction and sustainable development. Developing countries face a wide range of governance challenges, such as strengthening key institutions, improving regulatory frameworks, fighting corruption and increasing transparency, ensuring effective checks and balances and domestic accountability, regional cohesion and respect for human rights. Trust is vital to ensure the success of reforms, but in many cases this trust needs to be built or re-built. Improving governance and demonstrating integrity in the public administration are key to strengthening public confidence in their governments. But despite considerable attention paid to the role of governance in development, the international development community faces mounting challenges in providing effective assistance and demonstrating results. The risks of poor governance are well understood, and we have general lessons to offer on the sequencing of reform, the need for strong systems of accountability, the importance of respecting administrative traditions, and so on. However, as we move beyond aid to a new paradigm for development, the ability to provide relevant, evidence-based policy advice on governance is more crucial than ever.

103. The demand for governance reform is growing in both developed and developing countries, fuelled in part by the global financial crisis. Citizens are increasingly vocal in demanding higher standards and accountability in the formulation of policy, responsible management of public finances (including local finance), better delivery of public services and civil society dialogue. There is a window of opportunity for making substantial improvement in the way governments function that the international community - also as donors - should support, particularly through capacity building.

104. OECD countries have a large and diverse governance toolkit. The issue is how to mobilise this treasury of good practice in a way that is targeted for different contexts (middle income countries, more stable lower income countries, as well as fragile, conflict-affected states) and that takes a coherent, whole of government approach.

105. Whole of government approaches are also crucial to address illicit financial flows that systematically undermine the quality of governance institutions in developing countries. Illicit financial flows strip resources from developing countries that could finance development and are linked to organised crime, illicit goods, such as drugs and illegal arms - all of which fuel violent conflict and state fragility and undermine democratic governance.

What policies are needed?

106. The ultimate goal of policy is to foster balanced markets and sustainable growth by increasing the effectiveness and predictability of public decision-making. An essential first step is to support institution-building and strengthen the capacity of public officials, without which essential structural reforms will be impossible. Well-functioning institutions, including a consolidated legal framework, and a culture of openness and transparency, fostered by a strong civil society, are especially important at the public/private

interface in order to build and maintain trust. The ability to implement policy and provide quality services across the whole country through effective multi-level governance mechanisms is also important in many countries.

107. Supporting governance reform through development aid depends on building partnerships between developing countries and donors. Commitments by countries to jointly strengthen their accountability institutions and donors to support developing country ownership, accountability, and alignment with country systems (e.g., the Paris declaration (2005) and Accra Agenda for Action (2008) all aim in part to improve the impact of aid on governance. Progress towards agreed targets will be assessed at the High Level Forum on Aid Effectiveness in Busan, Korea, with the expectation that a new aid quality framework can be agreed. Consultations underway in a number of regions in advance of HLF-4 highlight the importance of underpinning this framework with agreements to build strong and sustainable state institutions for development.

108. Bribery and corruption undermine development and represent one of the key governance challenges for developing countries. An international effort is underway through the G20 to combat corruption by addressing issues such as illicit financial flows, money laundering and terrorist financing, tax havens and protect whistle-blowers. At the OECD, 38 countries — the 34 OECD Members plus Argentina, Brazil, Bulgaria and South Africa — have also committed to stopping the flow of bribes in international business, including in business dealings with foreign public officials in developing and emerging economies. Both public and private sector actors are vulnerable to corruption and efforts to reduce corruption need to include measures focusing on both, and particularly the public private interface (public procurement, lobbying, conflict of interest, post public employment, and bribery in international business).

109. Identifying appropriate policy levers for different contexts is a crucial issue. Whereas resilient states in the developing world may be able to adapt to shocks with policies similar to those used in OECD countries, fragile states (roughly half of today’s 79 LDCs) often require a different approach. In place of ambitious targets for state construction and transfer of (western) institutions, international assistance must search for ways to nurture and reinforce the emergence of stronger links between social groups and the state.

110. Finally, it is important that policy approaches are flexible enough to take emerging issues into account and react quickly to shocks, whether economic, social or provoked by natural disasters. The MENA initiative, for example, will need to adapt to support new or more urgent needs as a result of recent events.

How can the OECD contribute?

111. OECD’s contribution comes in a number of different forms. OECD provides advice that is both independent and detached from conditions associated with lending and funding programmes. OECD needs to respond increasingly to demands from developing countries and donors to help improve the quality and comparability of data and indicators on which to base policy-making. The scope of *Government at a Glance* (see annex) and *Regions at a Glance* could be extended to cover developing countries where feasible. More actionable and less perception-based governance-related indicators - related to processes over which countries themselves have some measure of influence - and country-specific analysis could be developed.

112. OECD is able to mobilise practitioners for policy dialogue using both thematic and region-specific networks:

- The *OECD Development Assistance Committee Network on Governance* (GOVNET) provides bilateral and multilateral aid practitioners and experts from partner countries with a policy forum to exchange experiences and thereby improve aid effectiveness;

- The *OECD Network of Senior Budget Officials* (SBO) and the *OECD Working Group on Bribery* share their expertise and experience with governments via regional networks in Asia, Africa, Latin America and other regions;

- The *MENA-OECD Responsible Business Conduct Network* - which seeks to contribute to sustainable economic and social development by supporting conduct codes and compliance programmes within companies - and the *MENA Working Group on Human Resources and Integrity* are two examples of region-specific policy networks;

- *The International Dialogue on peace-building and state-building*, for which the OECD provides the Secretariat, facilitates discussion between fragile and conflict-affected states and their development partners to develop responsive state institutions and core government capacity.

113. OECD has a range of policy tools that can be mobilised to support developing countries' efforts at reform. These cover most areas of public governance – regulatory policy, integrity and corruption prevention, public procurement, budget management, regional policy, public accountability and e-government – and represent an important conduit for adapting good practice from OECD countries based on a needs assessment. These reviews can form the basis for an international process of monitoring and co-ordinated support for reform – the G20 Anti-corruption Action Plan aims at developing such mechanism, and OECD peer reviews could provide a model. Moreover specific commitments to strengthen economic and political governance institutions for development (aid and accountability, public procurement, public financial management, oversight institutions, etc) could be included in the new Aid Quality framework agreed at Busan. SIGMA has also accumulated a wealth of practical policy advice on designing institutions and developing governance-related policies.

114. Lastly, OECD has a range of policy instruments that can strengthen government capacity in developing countries:

- Binding commitments such as the *Anti-Bribery Convention* signed by 38 Parties and considering a bribe to foreign public officials to obtain international business advantages - including government procurement contracts funded by Development Assistance - as a crime;

- A *Good Practice Guidance on Internal Controls, Ethics and Compliance* ('Good Practice Guidance') adopted recently by the OECD and helping companies and business organisations to prevent and detect corruption in their business dealings;

- Non-binding instruments in key areas of risk for both private and public sector actors, notably the OECD Principles for Enhancing Integrity in Public Procurement (2008), the OECD Guidelines for Managing Conflict of Interest in the Public Service (2003) and the OECD Principles for Transparency and Integrity in Lobbying (2010).

Next steps at the OECD might include:

- Create an Observatory of Integrity to support governments in designing, implementing and coordinating corruption prevention measures. This initiative would provide momentum for reviews of integrity frameworks and public procurement practices in a wide range of countries, which could be used by the G20. It would also offer a platform for deepening policy dialogue with civil society organisations (e.g. Transparency International) on public sector reform.

– Launch an initiative for selected fragile and conflict-affected states to help implement and monitor the recommendations of the *OECD-DAC Policy Guidelines on International Support to Statebuilding in Situations of Conflict and Fragility*.

– Establish an inter-agency task force to ensure that information on the implementation of the *Anti-Bribery Convention* is effectively shared with other agencies and international organisations involved in reviewing countries' laws and institutional frameworks to combat transnational corruption.

– A plan to promote the *Good Practice Guidance on Internal Controls, Ethics and Compliance* to companies of all sizes doing business in developing countries.

– Launch an *OECD-UNDP Report on 'Progress in Public Governance in the Arab Region'*, that would crystallise the work done by the *MENA-OECD Initiative*, including reviews, indicators and a regional action package.

– Prepare a comparative report of institutional, regulatory and legal arrangements in place in OECD countries to address illicit financial flows originating from developing countries.

HUMAN RESOURCE DEVELOPMENT, SKILLS AND SOCIAL INCLUSION FOR DEVELOPMENT

What is the issue?

115. Promoting simultaneously strong growth, productive employment and better living standards for all is a key challenge for developing economies. Skills development policies have a fundamental role to play in achieving these objectives. Skills contribute to economic growth both directly through increased productivity, and indirectly by enhancing capacity to adopt new technologies and spur innovation. Skills are also critical to improve life chances of individuals. Higher levels of educational attainment are associated with lower rates of unemployment and higher earnings, as well as with better health and greater civic engagement and trust.

116. In developing countries, many adults have low literacy levels, many youth lack access to basic education, and the poor quality of schooling hinders skill improvement. Skills mismatches are another challenge in many developing countries facing shortages of skilled workers in high growth areas of the economy co-existing with high unemployment among graduates.

What policies are needed?

117. **Get the basics right:** Skills beget skills. There is considerable evidence that access to good quality education early on has considerable payoffs later on for individuals and society. Without a mastery of the foundation skills of literacy and numeracy, young people will find it difficult to undertake successfully further education and to participate effectively in economies which are increasingly information based. It is vital that such skills are developed during schooling. The *Programme for International Student Assessment* (PISA) provides considerable insight into the factors that lead to better outcomes from schooling, such as the autonomy to design curriculum and assessment practices and a focus on the quality of teachers and teaching.

118. **Provide good quality vocational training:** Vocational education and training (VET), particularly when combined with work-based learning as in apprenticeship-type arrangements, can provide an effective pathway into employment for many young people. Unfortunately there is often a policy focus on general academic education, which is often seen as of high status by students and the general public. Ways in which countries can improve the relevance and impact of VET are to increase the options to undertake vocational training while in school, develop the use of workplace training in initial VET, encourage participation by both employers and students, and ensure that training is of good quality.

119. **Ensure that there is good information:** Good information which is effectively disseminated is essential in order for the main players in the skills formation system and labour market - governments, funding and regulatory authorities, providers, employers and individuals - to make informed decisions about what matters such as the provision of training and guidance on courses to study. The functioning and adaptiveness of skills formation systems can be improved by developing the data available about the demand for and supply of skills, increasing the awareness of young people and job seekers about labour market trends through effective guidance services, and encouraging links between employers and education and training providers.

How can the OECD contribute?

120. The OECD PISA already provides internationally comparable measures of the competences of 15-year-olds in the domains of reading, mathematics and science. The new Programme for the *International Assessment of Adult Competencies* (PIAAC) will provide comparable measures of the proficiency of adults in the core skills necessary for participation in the knowledge economy: literacy,

numeracy and problem-solving in technology-rich environments. Information will also be collected on the use of important generic skills at work. These data will add significantly to our understanding of the human capital stock in participating countries, how skills are acquired and lost over a lifetime, and how the acquisition of skills affects individuals and society. A feasibility study and extensive field trials have been successfully completed and PIAAC is now being implemented in 25 countries. A second group of middle-income countries is currently preparing to join the assessment in a second wave.

121. The OECD has also undertaken an extensive analysis on policies for investing in youth. It has recently completed two large-scale policy reviews of the transition from school to work (*Jobs for Youth*) and work on secondary vocational education and training (*Learning for Jobs*). These reviews provide relevant policy lessons for developing and emerging economies.

122. In the context of the G20, the OECD is working with the World Bank, ILO and UNESCO to develop a framework and a set of indicators to assist low income countries to better match training opportunities and current and future labour market needs and identify gaps in the education system regarding basic level skills for employment.

123. The OECD is also developing a *Skills Strategy* and has produced relevant outputs through the reviews *Jobs for Youths* and *Learning for Jobs*. A guiding objective of the strategy is to develop practical tools to assist countries design and implement appropriate and effective policies regarding the supply, improvement and utilisation of skills. To this end, the Strategy will offer a framework identifying the components and action points for skills policy, a set of principles to guide the development and review of policies concerning the supply, development and utilisation of skills at national and regional level as well as provide examples of good practice in the design, implementation and evaluation of skills policy.

Next steps at the OECD might include:

- Elaboration of a short paper on skills mismatch in LICs identifying policy measures which can be taken to reduce its incidence and effects, and providing some background data on the support of DAC donors to skills development.

- Analysis of issues of relevance to low and middle income countries as well as the provision of appropriate policy guidance. This can be reflected in the progress report on the Skills Strategy to be prepared for the MCM of 2012.

GENDER

What is the issue?

124. Despite numerous improvements in women's educational and employment outcomes, no country has successfully achieved gender equality. Gender inequality in the economy is detrimental not only to women, but also to the society as a whole. Greater economic opportunities for women can lead to stronger, more inclusive and sustainable growth by raising the overall level of human capital and labour productivity, and thus promote growth and innovation. More women in the labour force will also reduce poverty among families and help address the challenge of population ageing.

125. While gender parity in educational attainment has been achieved in most OECD countries, further action is needed in many developing countries to improve enrolment and retention of girls in post-primary education. Greater female participation in quality secondary schooling has positive effects on household welfare and future generations, through better health outcomes for girls, who postpone first childbirth and have less children, and better social outcomes via lower infant mortality rates, and better nutrition and education of future generations.

126. Increased educational attainment has been one of the main drivers of increased female labour participation, yet the labour market status of women lags behind that of men in many dimensions. Mothers rather than fathers provide personal care to young children and the elderly. Women are less likely to work for pay, tend to work less hours and have lower hourly wages, are concentrated in less well-paid sectors and are less likely to reach decision-making positions in either public or private sectors. Across the globe, women are severely under-represented in key, growth-enhancing fields of education such as science, technology, engineering and mathematics (STEM), with negative effects on individual earnings prospects and, more generally, on overall competitiveness and innovation.

127. Women are also much less likely than men to become entrepreneurs in the formal sector. What is more, women-owned enterprises are generally concentrated in low-performance industries and systematically lag behind those owned by men in terms of size and capitalisation. In OECD countries, many of these differences are believed to stem from differences in education, differences in paid and unpaid work patterns, as well as from differences in access to capital and financial skills.

128. In many countries, women are also disadvantaged in terms of legal entitlements and access to the legal system and justice. Women's lack of access to and control over resources, such as land but also to financial assets, infrastructure and technology, is a particular challenge in developing countries, and can have a negative effect on household food security, increase their vulnerability to poverty or violence, and can limit women's decision-making power in the household. Discriminatory practices and societal norms drive gender inequalities in outcomes cutting across education, employment and entrepreneurship.

What policies are needed?

129. ***Improving gender equality in educational outcomes and career choice:*** Gender gaps in educational outcomes differ between advanced economies and developing countries. In the former girls perform better than boys, whereas they lag behind in the latter. In advanced economies, coming from a disadvantaged socio-economic background has a larger negative effect for male students while in developing countries the negative effect is larger for girls.

130. Educational systems in OECD countries have successfully moderated overall performance and attainment differences but gender gaps in choice of educational area remain. Student choices are largely driven by subject-related attitudes and career expectations. Teachers need to be encouraged to consider the expectations that they have of students and to adopt strategies and materials that raise self-confidence and

motivation of boys in reading and girls in science and mathematics. Early interventions work best, because gendered differences in preferences are already well-established by age 15 – and, to be effective, action in this area should rest on the co-ordinated efforts of educators, teachers and parents.

131. Wider actions need to be taken to combat gender stereotyping in social, cultural and economic factors. Campaigns to interest young women to enter traditionally masculine fields of employment should be matched by campaigns to encourage young men to enter "feminised" professions. There should not be any gender restrictions in occupational choice. Relatively lower levels of financial knowledge on the part of girls and young women should also be better addressed.

132. Female participation in post-primary education needs to be increased in developing countries. A number of interventions appear to be successful in raising female enrolment and completion rates in education in developing countries: reducing user fees, the provision of school meals and school uniforms. Addressing concerns about the physical safety of girls attending school (including safe travel) is also crucial, as is providing proper restroom facilities and training teachers to respond to violence against girls. Conditional cash transfers can also be used as a mechanism to improve retention rates of girls in primary and secondary schools, contributing to improve health outcomes for girls and target and transform discriminatory social institutions such as early marriage.

133. Quality of education is important to materialise individual educational and employment aspirations; improvements will require above all greater efficiency in the management of existing resources since higher spending per pupil does not automatically improve educational outcomes.

134. ***Improving gender equality in labour market participation:*** Persistent gender employment and wage gaps remain with women often working under less favourable employment conditions than men. Policy measures to address these gaps could include:

– A continuum of supports to reconcile work and family commitments. Female labour force participation has increased markedly over the past 50 years. To facilitate full-time participation of fathers and mothers in employment, Nordic countries provide a universally accessible continuum of public supports of paid and job-protected parental leave, subsidised early care and education supports, and Out-of-School Hours care (OSH-care) until children enter secondary school.

– Flexible workplace measures need to be embedded in regular employment and career patterns. Opportunities for flexible starting and working hours, tele-working, leave-saving, but in particular part-time employment opportunities have helped to increase female labour force participation in a substantial number of OECD countries, most notably in the Netherlands. Working limited hours can add to job satisfaction but often has negative consequences for career progression. Regular employment patterns need to encompass flexible workplace opportunities limiting such negative effects. Relating pay more to performance rather than seniority will also help women to pursue labour market careers as well as boost labour productivity.

– Men need to take on more domestic responsibilities to help women realise their labour market potential. Across OECD countries women still devote more than 2 hours per days extra to unpaid work than men do. Even non-working fathers devote less time to caring than working mothers across the OECD. Female employment participation will only increase if men take on a greater share of responsibilities at home. Some progress has been made, and fathers have been given the exclusive right to part of the paid parental leave entitlement in many OECD countries. More fathers now take parental leave, but it is unclear whether this has led to a more equal sharing of responsibilities in the household and whether these changes are durable.

– Investing in physical and social infrastructure will help reduce time spent on unpaid work and thus help women access labour markets. Policies to improve women's access to and control over assets and new technologies are also important for gender equality in labour market outcomes. Public sector employment programmes can also strengthen female employment outcomes.

– Increase access to decent work for women. Women often end up in poorly paid jobs and in the informal sector without social protection. Employment conditions and job quality need to improve so that women can maximise their productivity, earn a decent wage, and have access to maternity leave, sick pay and other forms of social protection. Policies to support women to organise in unions and protect their rights would also be an important step to better working conditions, particularly those working in the informal sector.

135. ***Developing the database on entrepreneurship issues:*** Comprehensive and internationally comparable data - which to date is not collected systematically - is required to analyse the causes and consequences of gender differences in entrepreneurship and to develop effective policies to address gender inequality in this area.

How can the OECD contribute?

136. The OECD has launched a *Gender Initiative* to reduce barriers to gender equality in education, employment and entrepreneurship and enhance equity by:

1. Developing more detailed knowledge on why these barriers persist and on the importance of gender equality for a stronger and fairer economy;

2. Establishing standard indicators to measure progress;

3. Drawing conclusions for policy-makers which contribute to designing better evidence-based policies, and promoting an exchange of best practices and policy transferability between OECD countries, emerging economies and selected developing countries; and

4. Developing a database framework and comparable data on entrepreneurship for a set of countries.

137. An Interim Report will be presented at the MCM. This Interim Report will present summary indicators to illustrate the relative standing (i.e. lower than average, average, higher than average) of OECD and selected non-OECD countries on selected dimensions of gender inequality in education (including Financial Education) and employment. It will also include initial results of joint work with the World Bank on i) linkages between choices in the field of study and gender differences in employment outcomes; and ii) reasons and consequences of prevalence of women in public employment. The Interim Report will also present an extension of the *OECD Entrepreneurship Indicator Programme* (EIP), conceptualising a framework to capture gender aspects of determinants, performance, and effects of entrepreneurship.

138. **Possible outcomes** could include a decision to:

– Extend the benchmarking exercise on the relevant dimensions of gender inequality using appropriate indicators to provide policy-makers with an instrument to assess their country's situation and monitor progress over time;

– Develop lessons and good practices on policy transferability to enhance gender equality in the areas of education, employment and entrepreneurship;

- Further investigate the causes of persisting differences in education outcomes, as for example women's under-representation in STEM fields;

- Identify the main issues relative to gender gaps in financial knowledge and literacy;

- Deepen the knowledge base on factors determining difference in employment outcomes, as for example gender pay gaps (eg. discrimination, occupational segregation by sector, and career progression);

- Develop data in line with the extended *OECD-Eurostat Entrepreneurship Indicator Programme* (EIP) to include and capture gender aspects of entrepreneurship;

- Launch a one-stop data portal for indicators on gender equality in education, employment and entrepreneurship.

ANNEX: THE DEVGOALS EXERCISE

Why strategic development goals for the OECD?

1. Over the last decades, the OECD has built extensive working relations with many developing countries in Africa, Asia, Latin America and the Middle East. Today there is no aspect of OECD work which is not, in some way, relevant to promote development and growth in those regions and countries. In fact, there is a growing demand from developing countries for OECD expertise, practices, and experiences in a wide range of policies beyond aid and development co-operation. The OECD contact points with developing countries have been expanded beyond the Development Cluster and thematic directorates have been increasingly dealing with development issues. This underlined the need to set strategic development priorities for the OECD in order to better articulate, implement and communicate the OECD mechanisms, tools and instruments relevant for development. This has been one of the key objectives of the DevGoals exercise.

The mandate

2. The DevGoals exercise responds to a Council mandate from May 25th 2009. The Council requested the Secretary-General to launch a process to define strategic development goals for the OECD, in order to efficiently guide and enhance OECD's contribution to development, as proposed in [C(2009)66]. The Council also noted that while preparing the development goals there was a need to review how the OECD as a whole could most effectively serve its members on development issues.

Box 1. Responding to a Council mandate

As stated in the annual report on policy coherence for development [C(2009)66], the Organisation has been working to achieve this mandate through the following actions:

1. Set and prioritise objectives through the OECD Ministerial and Council, including through:
   - Setting strategic goals on development for the OECD;
   - Developing guidance, in the form of a Council Recommendation, on institutional good practice in promoting policy coherence for development;
   - Strengthening links with key partner countries and institutions in developing regions;
2. Improving organisational issues through co-ordination and mainstreaming, analysis and implementation, including through:
   - Joint meetings at Ministerial and at committee level, as appropriate,
   - Enhancing intra-secretariat co-ordination at director level to ensure comprehensive and complementary approaches;
   - Improved PWB planning;
3. Improving monitoring, evaluation and reporting, including through:
   - Holding a "Development Council" each January, starting in 2010 which would be devoted to development issues, to consolidate work and take better advantage of Council's involvement.

4. Delivering effectively key messages, including through:

   - Publishing the annual progress report on development and policy coherence as a flagship publication to disseminate and discuss OECD development work.

3. An open ended Informal Working Group, co-chaired by Ambassador Harald Neple (Norway) and Deputy Secretary-General Mario Amano, was set up to prepare Strategic Development Goals for the OECD with member countries (DevGoals IWG).

4. The DevGoals exercise built on the agreed outcomes of the MCM 2010 on development and the background paper Progress Report on *Setting Strategic Development Goals for the OECD* [C/MIN(2010)11]. At their meeting in May 2010, OECD Ministers stated their "support to a broad and coherent approach to address development that ….is ultimately made sustainable through promoting a more inclusive process of growth for the world economy". It also responded to the priorities set by the Heads of Delegations in its informal convergence paper, which identified development as a priority issue and called for the OECD to improve policy coherence for development and promote and share good practice and policies. The DevGoals exercise has also been fully consistent with the *2010 Strategic Orientations of the Secretary-General* for the MCM, in which development was highlighted as one of the six specific areas of priority for future work where the OECD has a comparative advantage and where its expertise and working methods can prove instrumental to global efforts.

The process

5. The DevGoals exercise recognised that various bodies and units composing the OECD Development Cluster have been playing a central role in development issues and identified innovative policy solutions to reduce barriers to development. It highlighted the need to build on these experiences while improving system-wide collaboration, based on a review of internal co-ordination and collaboration among different OECD bodies to identify methods that work best (lessons learned).

6. The DevGoals IWG started its work in late 2009. As part of the preparations, the exercise begun with a thorough stocktaking of development-related work through a series of consultations (informal hearings) between the Co-chairs, representatives of the Secretariat, and the Bureau of 14 Committees or Working Parties. The purpose of these hearings was to engage key committees in the preparations and to take full advantage of their expertise. These hearings were instrumental to map out and assess the scope and depth of ongoing development-related work across the Organisation and to foster further mainstreaming of development in OECD work beyond the development cluster. The main issues and outcomes of these hearings were reported to the DevGoals IWG and integrated into the proposals prepared for discussions, specifically in setting out options for launching a pilot phase. The work of the DAC reflection exercise, particularly from the task team 1 (TT1) on Global Public Goods, was also an important input for the DevGoals exercise.

7. The DevGoals IWG identified a number of priority areas to broaden and deepen OECD's work on development, such as: innovative and sustainable sources of growth; mobilisation of resources for development; Governance for development; and measuring progress for development. The criteria for identifying these priority areas considered the interests and needs of OECD countries and non-members in the short, medium and long term perspectives. It was also recognised that the OECD is not alone in providing support to developing countries and emerging economies and that coordination and partnerships with other international organisations were important. The DevGoals IWG agreed to give high priority to the following main areas:

The pilot phase

8. The DevGoals IWG identified pilot cases form the broad priority areas in four selected topics that linked up to ongoing work and where concrete joint actions could be, or were being taken across the OECD: food security, green growth, investment in infrastructure, and tax and development. Three of the four topics selected for being pilots in the DevGoals exercise are also pillars of the G20 Multi-year Action Plan for development, which underlines the relevance of the OECD new approach. Horizontal task teams within the secretariat were created to carry out the four pilots. Proposals for each of the four pilots were based on work underway and considering a set of criteria defined by the Informal Working Group.

9. The pilots aimed to identify the particular value-added for the OECD's work in their respective areas and possible ways to improve the efficiency and flexibility of work and better communicate it externally. Policy coherence for development was also a key component of the pilots. Substantive deliverables for each pilot in the short, medium and long-term, were presented through their respective Committees. Lessons learned from the pilots guided the development of the strategy for development.

10. The pilot phase was developed with the guidance of Member countries through the Informal Working Group. In parallel, extensive consultations took place with almost all Permanent Delegations to the OECD through informal individual and/or collective meetings; with thematic Directorates and the DevCluster through the DevHeads meetings and ad hoc meetings; and with Committees by participating in meetings to raise awareness on the purpose of the DevGoals exercise.

11. An interim progress report on the DevGoals pilot phase *Towards a whole-of-OECD Strategy for Development* [C(2011)10] was presented at the January meeting of the members of the Council devoted to development. The report provided some preliminary findings on the pilot phase. Participants confirmed the relevance of the DevGoals exercise to promote a more comprehensive and inclusive approach to development, mainstream development across the Organisation and enhance its existing partnerships.

12. It was agreed that strong political support will be necessary over the long term to move forward and launch a process to design and implement a corporate OECD strategy for development.

Box 2. Devgoals main outputs (until spring 2011)

The key outputs planned for the MCM, coinciding with the 50th anniversary of the OECD, are the following:

- A report on the DevGoals exercise to consolidate the outputs and lessons learned from the pilots to provide recommendations to design an OECD framework and Strategy for Development.
- Flagship publication on Policy Coherence for Development.
- The brochure OECD Active in Development - as stocktaking of OECD's wide ranging work on development –published in January 2011 –.
- Strategic framework to mainstream development across all directorates to enhance OECD's contribution to global development and to prepare the OECD strategy for Development.
- Policy analysis, guidance and toolkits in the pilot areas that can be used to strengthen knowledge sharing processes with non-member countries and a better basis from which to enhance OECD's strategy for development

Enhancing partnerships with major emerging economies

13. The DevGoals IWG considered crucial the participation of Brazil, China, India, Indonesia and South Africa for the purpose of the exercise. It was underlined that these countries could make an important contribution to the process in light of their own experience with economic growth and poverty reduction, as well as with policy and knowledge sharing through South-South cooperation. The five partner countries have attended the meetings of the DevGoals IWG since September 2010. This facilitated and created momentum to promote an active and frank dialogue on key development issues with them at the Meeting of the members of the Council devoted to development. In that occasion they presented themes that should be discussed more in depth with the OECD as a part of a shared agenda for development.

14. The active participation of our five partners in the preparatory exercise for our future strategy for development is critical to its success. In working with them through this exercise, the OECD would expect more specifically, to:

- Develop an active dialogue with them for a better understanding on their specific development priorities and needs. This will contribute to integrate their perspectives into OECD development related work, with a view to make OECD policy advice, instruments, and tools more relevant, accessible and adapted for their particular institutional context and benefit.

- Work in partnership with them for the benefit of countries at different stages of development, particularly the least developed, drawing on their comparative experiences and approaches including south-south and triangular cooperation.

- Provide an informal interface for preparing inputs for other global processes, such as the MDGs and G20.

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