

# 2016 REPORT TO THE MEMBERS OF THE GLOBAL PARLIAMENTARY NETWORK ON THE ACTIVITIES OF THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT





## FOREWORD

*Despite nearly a decade of international policy efforts, the legacies of the crisis are still very much present: weak growth, persistently high unemployment in many countries, faltering trade and investment and a profound loss of public confidence and trust.*

*The lingering crisis has made more acute two long-term trends that are impeding our economies and tearing at our social fabric: first, a decline in productivity growth, and second, a long-standing rise of inequalities in wealth, incomes, well-being and opportunities. It is therefore time to develop new concepts and approaches, based on a broader understanding of productivity. Crucially, we need to analyse the complex inter-relations between productivity and inequality: what we call the “nexus”.*

*Governments in OECD Member countries are fully aware of these challenges. OECD’s Ministerial Council Meeting in June 2016 concluded on the urgent need to foster policies that enhance productivity growth and decrease inequalities of income and opportunities.*

*Productivity and inclusiveness have many common roots. The key challenge for policy makers is to identify win-win policies that can deliver both and create a virtuous circle of improved inclusiveness and productivity growth. Social and environmental sustainability are also key in this new equation; any effort to raise productivity cannot ignore the imperative of safeguarding our planet, or our duty to strive towards better functioning and more equitable societies to enhance social cohesion. In fact, sustainability is itself opening up a new frontier that can help boost productivity and inclusiveness.*

*In this context, major international agreements were struck in 2015: on financing for development in Addis Ababa in July, on the Sustainable Development Goals at the UN in New York in September, the Paris Agreement on climate at COP21 in December, and on multilateral trade in Nairobi in December. The OECD, with the G20, presented the Base Erosion and Profit Shifting package, designed to boost global financial transparency and tackle international tax avoidance. Our future welfare relies on honouring these commitments, and the next years must be the time of implementation and seizing these historic opportunities. We must double our efforts to restore trust and social cohesion, and heal the domestic and global divisions that threaten our future.*

*This makes international collaboration ever more vital. Inclusiveness is about countries as well as people: no one and no place should be left behind. Implementing agreements and advancing together towards a stronger, cleaner and safer world: that is what the world’s citizens expect and what policy makers can and must deliver. Together, we must be more productive and inclusive in helping to build better policies for better lives.*

*Members of Parliament fulfil an essential role in ensuring global priorities and key policy issues on the national agendas are addressed. The cornerstone of our dialogue with parliamentarians is the OECD Global Parliamentary Network, which aims to provide legislators and parliamentary officials with a forum to discuss reforms in their countries, share experiences, learn from each other and from OECD experts. I am pleased to present this report on the OECD's activities, which will allow us to share with you how we are helping our member and partner countries to improve the lives of their citizens. The report is based on the annual report on OECD activities discussed in the Parliamentary Assembly of the Council of Europe.*



*Angel Gurría  
OECD Secretary-General*

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## INTRODUCTION

The following report aims to inform the members of the OECD Global Parliamentary Network on the activities of the OECD since September 2015. The report was originally written for The Parliamentary Assembly of the Council of Europe (PACE) and presented at the annual Strasbourg debate on 11 October 2016. The report is not exhaustive of all OECD activities, but highlights some of the major initiatives that are being undertaken by the Organisation to achieve a fairer, more equitable and sustainable world economy.

## UPDATE ON THE OECD GLOBAL PARLIAMENTARY NETWORK

Created in 2011, the OECD Global Parliamentary Network aims to strengthen the Organisation's engagement with legislators. The Network connects legislators from OECD and partner countries, giving them access to the latest OECD analysis and providing a forum to compare policies and best practices and learn from each other and OECD experts.

Since 30 September 2015, three meetings of the Global Parliamentary Network took place. A meeting on 1 October 2015, as always immediately following the PACE Strasbourg debate, brought together 43 MPs and 21 parliamentary officials from 22 countries. The 4<sup>th</sup> OECD Parliamentary Days took place on 3-5 February 2016 with 102 MPs and 34 parliamentary officials from 31 countries attending. This included a meeting of the Network, held jointly with the NATO Parliamentary Assembly and with the participation of the Women in Parliaments Global Forum; the launch of the OECD report *Financing Democracy*; and 32 bilateral

meetings with OECD experts. The meeting “on the road” in Tokyo - the first Network meeting in Asia - took place on 12-13 April 2016, co-organised with and hosted by the National Diet of Japan. 66 MPs and 11 parliamentary officials attended with 22 countries represented from Asia, Europe and Latin America. The OECD Parliamentary Group on Tax (a sub-group of the Network) met twice to discuss the progress in the implementation of the OECD/G20 BEPS Project, also covering the latest developments in tax transparency and exchange of information in the context of the Panama Papers.

In December, the Secretary-General participated in two major legislative meetings linked to COP21: the Inter-Parliamentary Union Meeting and the COP21 GLOBE Legislators Summit.

The strategic partnership with the European Parliament (EP) makes up another key cornerstone of OECD's legislative work. The OECD participated in a public hearing on Virtual Currencies at the Committee on Economic and Monetary Affairs in January and in the Interparliamentary Conference on Stability, Economic Coordination and Governance in the EU in February, jointly organised by the Dutch Presidency of the EU Council and the EP. A partnership with the European Parliamentary Research Service continued with policy discussions on the OECD Better Life Index in September 2015, on recent migration trends and the refugee crisis in December 2015, and on the funding of political parties and election campaigns in September 2016. These sessions bring together members of the broader legislative community in Brussels as well as European Commission's officials, journalists and think tanks.

## I. GLOBAL OUTLOOK, SOCIAL AND FINANCIAL SITUATION

### 1.1 The Economic Outlook

Global economic prospects remain muted, and the pace of growth in OECD countries is subdued and uneven according to the *September 2016 Interim Economic Outlook*. In the United States, a moderate recovery is expected to take shape as the effects of declining energy sector investment and a prolonged inventory correction fade. In the euro area, growth is projected to remain subdued, with the positive effects from the recent monetary policy easing on credit growth and additional fiscal spending countered by the negative impact associated with weak UK demand growth and heightened uncertainty related to the timing and possible outcome of the eventual Brexit negotiations. The recovery in Japan remains erratic with the tightening labour market having only a limited impact on nominal wage growth and the appreciation of the yen putting downward pressure on growth,

though the latest fiscal measures announced in early August should help.

Non-OECD GDP growth should edge up as the sharp downturns in many commodity producers gradually ease, provided that commodity prices stabilise at their current level. However, emerging market economies are likely to experience mixed outcomes, reflecting differences in available policy support, the impact of low commodity prices, progress in enacting structural reforms and the extent of financial vulnerabilities.

Estimates of potential output per capita growth in the major OECD economies have been revised down repeatedly in the aftermath of the crisis. Weak capital stock growth accounts for about one-half of the slowdown. The rest of the decline is largely accounted for by declining total factor productivity growth.

**OECD Interim Economic Outlook Forecasts**

Real GDP growth (%)<sup>1</sup>

	2015	2016		2017	
		September 2016 Projections	difference from June EO <sup>2</sup>	September 2016 Projections	difference from June EO <sup>2</sup>
World	3.1	2.9	-0.1	3.2	-0.1
United States	2.6	1.4	-0.4	2.1	-0.1
Euro area	1.9	1.5	-0.1	1.4	-0.3
Germany	1.5	1.8	0.2	1.5	-0.2
France	1.2	1.3	-0.1	1.3	-0.2
Italy	0.6	0.8	-0.2	0.8	-0.6
Japan	0.5	0.6	-0.1	0.7	0.3
Canada	1.1	1.2	-0.5	2.1	-0.1
United Kingdom	2.2	1.8	0.1	1.0	-1.0
China	6.9	6.5	0.0	6.2	0.0
India <sup>3</sup>	7.6	7.4	0.0	7.5	0.0
Brazil	-3.9	-3.3	1.0	-0.3	1.4
Rest of the World	2.0	2.3	-0.1	2.8	-0.2

1. Year-on-year. GDP at market prices adjusted for working days.

2. Difference in percentage points based on rounded figures for both the current and June 2016 Economic Outlook forecasts.

3. Fiscal years starting in April.

Global trade growth still remains subdued. Projected trade outcomes are markedly weaker than in the two decades prior to the financial crisis. The weak post-crisis recovery in investment, with global capital goods imports largely stagnating from 2011, is a persisting cyclical factor while the fading effects from global value chain integration in the pre-2007 period, and increased on-shoring of intermediate production in China, are having a longer-term structural impact. Lack of progress in opening global markets to trade, along with the barriers introduced since the crisis, are adding to the slowdown. If sustained, the trade slowdown will undermine already weak productivity growth and, in turn, hurt prospects for living standards.

A collective implementation of expansionary fiscal policies and structural reforms is needed to boost global growth, and to compliment the significantly expansionary, yet overburdened, monetary policy settings across many economies.

Governments should use fiscal and structural policies more actively to stimulate demand and improve employment and productivity utilising the available fiscal space afforded to them by exceptionally low interest rates. Investment spending has a high multiplier effect, and good quality infrastructure projects – including additional spending on clean energy projects, education, skills and telecommunication – would help to support future growth and deliver higher living standards. The impact of additional fiscal stimulus would be enhanced if many countries undertook these measures at the same time, and by collective commitment to implement structural reforms to raise productivity and improve resource allocation. Given the weak global economy, structural reforms to promote long-term improvements in employment and productivity growth should also focus on possible short-term demand benefits.

Monetary policy should remain accommodative, although additional easing will be

less effective than in the past and, in some instances, may be counterproductive. Very low or negative interest rates sustained for a prolonged period have created a number of distortions and risks in financial markets and pose challenges to the business models of financial institutions, including banks, asset managers and pension funds. Low interest rates have led to widespread and substantial increases in asset prices, both internationally and across asset classes, despite reduced long-term growth expectations. Continued monetary policy support is nevertheless needed, but any decision to increase the size or expand the scope of unconventional policies should weigh the benefits, costs and risks very carefully.

The Brexit referendum and its aftermath have adversely affected growth prospects and created uncertainty that could further harm the recovery. While a strong initial response from the Bank of England has helped to calm financial markets, UK output growth has already begun to slow, uncertainty remains high and the risks are clearly on the downside. In the longer term, the future UK trading arrangements with the EU and other partners will be critical to its economic prospects. Potential longer-term costs arise through a number of channels including possible disruptions to trade, lower inward foreign direct investment and reduced immigration. Some of these effects could be offset by reductions in UK regulatory burdens, but the scope for this is limited.

## **1.2 Employment, labour and social policy issues**

Labour market conditions continue to improve, and the OECD average employment rate is projected to return to its pre-crisis level in 2017. For the OECD area as a whole, the share of the population aged 15 to 74 years in employment stood at 60.2% in the fourth quarter of 2015, 0.6 percentage points below its pre-crisis rate. Still, the recovery remains very uneven. Around two-thirds of the 34

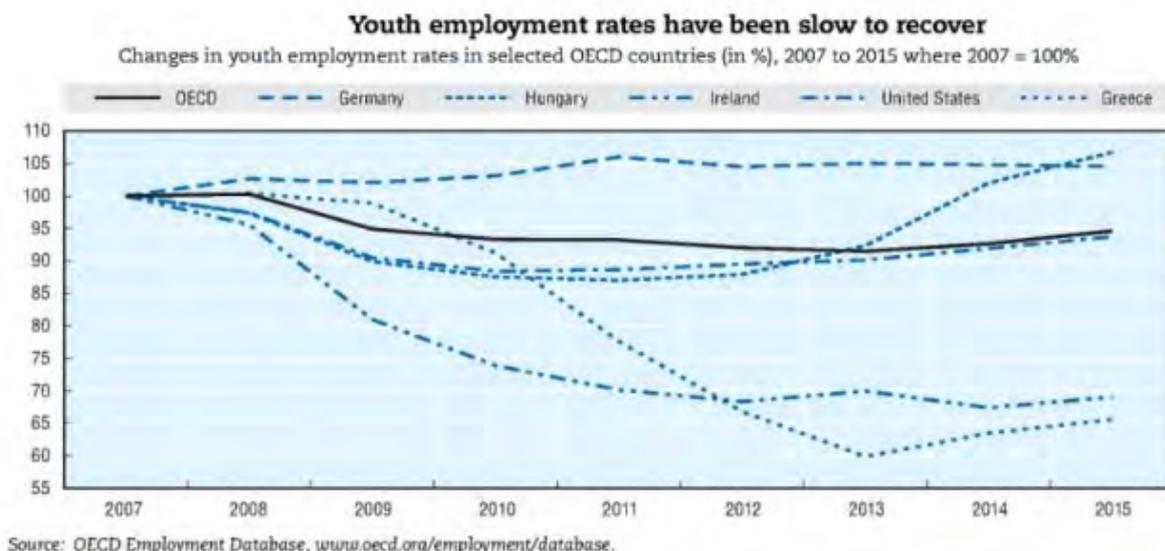
OECD countries have yet to regain their pre-crisis employment rates and the jobs gap remains large in certain European countries, notably Greece, Ireland and Spain. And youth unemployment remains above the pre-crisis level in 26 of the 34 OECD countries, despite the fact that the youth labour market has been very responsive to the economic recovery.

Real wage growth has also been relatively slow since 2007, raising concerns about a prolonged period of wage stagnation. Comparing real wage growth during 2000-07 with that during 2008-15 suggests a sharp deceleration in some countries, including the Czech Republic, Estonia, Latvia and the United Kingdom. By 2015, real hourly wages in these countries were more than 25% below where they would have been if wage growth had continued at the rate observed during 2000-07, and this wage gap exceeded 20% in Greece, Hungary and Ireland.

The digital revolution, ageing populations and globalisation are profoundly changing the types of jobs available and the way we work. At the 2016 OECD Policy Forum on the Future of Work, the OECD launched a major new initiative to examine this change and the implications for labour market and social policy. Research is underway to assess the potential impact of digitalisation on displacing workers and new forms of work. However,

fears that digitalisation may lead to large-scale worker displacement appear overblown. The *OECD Survey of Adult Skills* data suggest that 6-12% of jobs in OECD countries have a high risk of being automated. At the same time, job displacement and changes to the occupational structure will take place. Technological change has already brought a polarisation of labour demand between high-skilled non-routine jobs, such as those involving interpersonal skills or creativity, and low-skilled non-routine jobs, such as food services and security. Routine jobs, which are often middle-skilled, are the type that is most easily automated. Digitalisation is also allowing new ways of organising work, leading to the development of the so-called "platform economy", largely based on non-standard work arrangements. This can provide workers with more flexibility but also raises concerns about job quality. Countries will need to invest in the right skills, promote job quality, and adapt labour market institutions and social protection to this new world of work.

At the 2016 OECD Labour and Employment Ministerial Meeting and the 2016 Ministerial Council Meeting (MCM), Ministers called on the OECD to renew its Jobs Strategy to fully reflect the lessons learned from the global economic crisis and to address key policy challenges, including the increase trend in inequalities, rapid demographic change, and



the impact of ongoing technological changes on labour demand, work organisation, social security and employment protection.

In October 2015 the OECD launched its Centre for Opportunity and Equality- a platform for conducting and promoting policy-oriented research on inequalities and a forum to discuss how policies can best address them. The May 2015 publication *In It Together: Why Less Inequality Benefits All* showed that the ongoing long-run increase in income inequality not only raises social and political concerns, but also tends to drag down GDP growth. To further promote policy action helping under-represented and vulnerable groups, member countries also adopted *OECD Recommendations on Ageing and Employment Policies and on Integrated Mental Health, Skills and Work*. The OECD also launched the Preventing Ageing Unequally project to examine to the extent to which health improvements and rising life expectancy are associated with rising health inequalities within countries. The project will also look at possible interactions between ageing and inequality beyond health, such as for labour market and social policies, skills and migration.

The OECD's work on gender equality continued in 2015 with the annual update of the Gender Data Portal and analytical work on gender-related policy issues. The Gender Initiative is being successfully mainstreamed across the organisation, with chapters on gender equality in the Economic Surveys and a new *Recommendation on Gender Equality in Public Life*, launched in March 2016.

### 1.3 Financial sector issues

Considerable efforts have been made since the financial crisis to establish a more resilient and transparent financial system, capable of meeting the needs of consumers and businesses and fostering growth. But challenges remain. Factors such as technology,

global competition and consolidation have been driving changes and shifts in the structure and operation of markets and trading activity, which is affecting institutional behaviour. These developments may also impact the operation of broader governmental policies and activities, including monetary and fiscal policy and public debt management. These are issues the OECD has been looking at and will analyse further in 2017-2018.

The OECD has also continued its work on long-term investment, a crucial element for growth, job creation and stability. Such investment can also help with “greening” our economies, with infrastructure as the key component for transitioning to a climate resilient economy. . In this context, OECD work has covered bank and capital market financing of small and medium-sized enterprises. Developing capital market finance is especially relevant for European economies, still predominantly bank- financed. The OECD is thus very supportive of the EU Capital Market Union initiative.

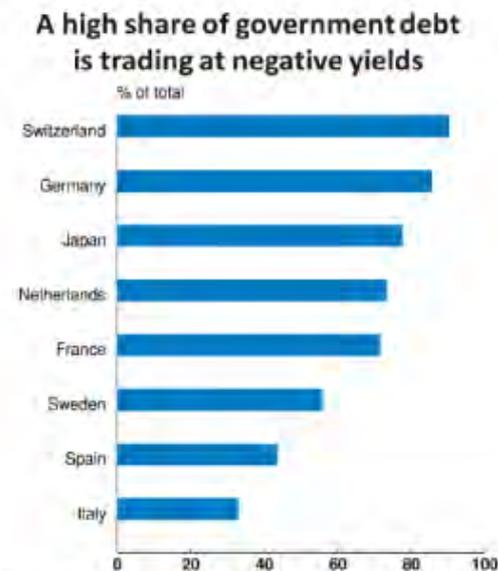
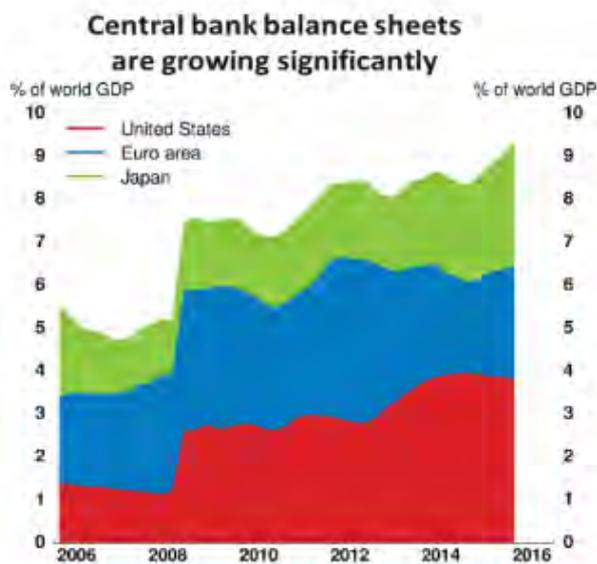
There is also the question of the size of the financial sector needed to finance inclusive, sustainable growth. OECD research indicates that at today's level of financial development, further expansion of bank credit to the private sector may slow growth in most OECD countries. However, greater levels of stock market financing are still seen to boost growth. Whereas financial expansion can help low-income individuals fund their projects and home ownership, it tends to drive inequality. Policymakers should implement measures to reduce explicit and implicit subsidies to too-big-to-fail financial institutions. Such guarantees are not only likely to raise financial sector pay but also to result in more and cheaper, ‘subsidised’ bank lending from which well-off households tend to benefit relatively more. Likewise, reducing the tax bias against equity would help make financing more equitable.

To make the financial sector more inclusive and work for people, companies need to invest in the real economy and not to accumulate cash pools that sit idle. Data analysis of 11,000 of the world's largest companies has shown that there is a combination of over-investment, inefficiencies and excessive borrowing in some parts of the global value chain while others invest less, undermining productivity growth and long-term value creation and building up risk related to company debt in emerging markets.

OECD analysis has looked at how the current low-interest, low-growth environment makes it more difficult for pension funds and life insurers to keep their promises of providing adequate retirement incomes. These institutional investors are driven to pursue higher-risk investment strategies that could ultimately undermine their solvency. This poses financial sector risks and potentially

jeopardises the retirement of citizens. As institutional investors allocate more capital to alternative assets and increasingly interact with the shadow banking system, regulators and policy makers will need to remain vigilant.

New OECD analysis also shows a fragmentation of productivity, with a majority of companies facing low productivity levels and moderate growth. Fragmentation is also present in other areas, as the *2016 OECD Business and Finance Outlook* illustrates. Governments can help reduce productivity fragmentation by pursuing policies that support research and development and innovation diffusion, remove preferential tax treatment of debt, promote competitive cross-border mergers and acquisitions and open markets for corporate controls. Some of the more entrenched problems call for deeper structural reforms and an overhaul of inefficient growth models.



Source: OECD Business and Finance Outlook 2016; Thomson Reuters; Bloomberg; US Federal Reserve; Bank of Japan; UK Debt Management Office; ECB; and OECD calculations.

## II. REDEFINING THE GROWTH NARRATIVE

### 2.1 New Approaches to Economic Challenges

The New Approaches to Economic Challenges (NAEC) initiative is currently being mainstreamed and has had an impact on OECD analytical work, data collection and publications by helping change the Organisation's focus, outlining research directions and enhancing collaboration across the different sectoral work streams. NAEC has fostered a culture of experimentation and investigation into new relationships, deepening the analysis of trade-offs and complementarities across policies. It has helped strengthen quantitative integrated analysis and led to the adoption of new policy tools and approaches.

NAEC has also been instrumental in redefining the growth narrative with well-being increasingly being used to assess policy performance. Economic Surveys are starting to incorporate this, as well as other analytical developments, such as the Job Quality framework. New measures are enabling the mainstreaming of inequality and environmental concerns in different policy areas. Policy advice has been adapted to take account of equity considerations. Finance and financial linkages are also better integrated, and complexity and systems thinking is increasingly addressed, with greater consideration given to resilience. NAEC has facilitated discussions on the policy applications of complexity science. Complexity can enhance understanding of economic issues such as preventing financial crises, managing systemic risk and understanding processes of economic growth, innovation, and sustainability. Country-specific institutional frameworks are also being investigated, facilitating the better targeting of policy guidance.

The use of new indicators, micro-data and data based on global databases is on the rise. The measurement and application of stock data is improving. Micro data, big data and "smart" data are being used more extensively, enabling a better understanding of economic actors' behaviour at a granular level, e.g. firm-level data is yielding fresh insights on firm dynamics, productivity and employment. Modelling and quantification tools are being upgraded and a greater variety of methods are progressively being integrated to grasp complex interactions. The Costs of Inaction and Resource Scarcity: Consequences for Long-Term Economic Growth (CIRCLE) project, for example, examines how feedback from poor environmental quality, climatic change and resource scarcity affect economic growth, and how policies may alter this.

NAEC is also striving to mainstream new ways of working, reinforcing cross-sectoral work and cross-committee collaboration. It is also supporting inter-disciplinary perspectives by expanding engagement with other disciplines including history, psychology, philosophy and the sciences. NAEC helps the OECD reach out to external researchers, but progress is still needed to consolidate the "NAEC approach" that is essential for the new growth narrative based on coherent policies.

By upgrading its Strategic Foresight capacities, the OECD is preparing its policy communities for an uncertain future by exploring long-term scenarios in a range of policy areas, as in the recent report on *Alternative Futures for Global Food and Agriculture*. The Foresight and NAEC agendas will be re-enforced and synergies exploited to better address emerging threats, future risks and policy spill-overs. This will help ensure the OECD stays at the cutting edge in response to changing circumstances and continues to address complex, multi-faceted and long-run policy challenges.

## 2.2 Productivity-Inclusiveness Nexus

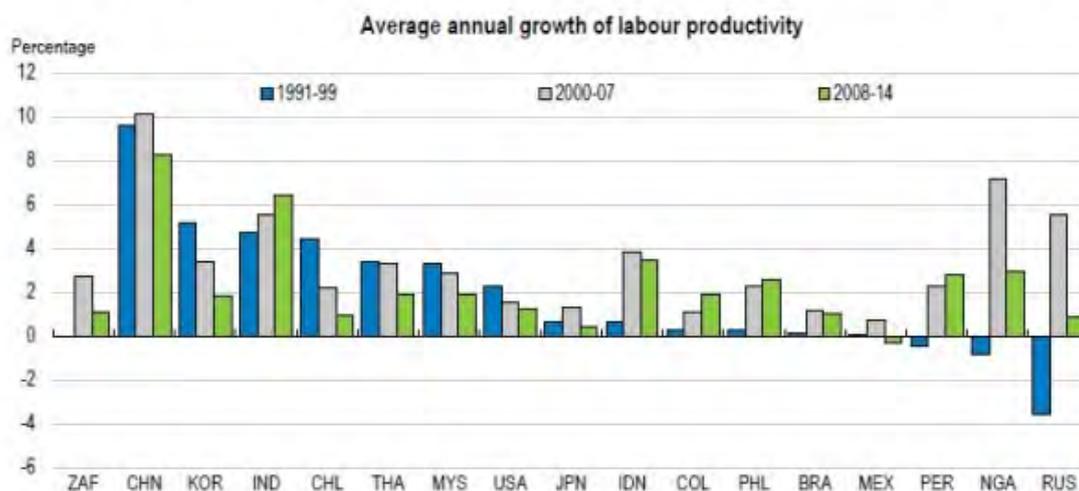
Enhancing productivity for inclusive growth was the main theme of the 2016 MCM. Ministers discussed the problems of slow productivity growth and rising inequality as well as the interlinkages between them, based on the OECD report *Productivity-Inclusiveness Nexus*. The outcomes of this discussion are outlined in the ministers' *Declaration on Enhancing Productivity for Inclusive Growth*.

While the weakness of the global economy is partly cyclical, it also results from a worrying slowdown in productivity growth predating the crisis. Since 2000, 90% of OECD countries experienced a decline in labour productivity growth. Hourly labour productivity growth slid from 2% in 1990-2000 to 0.9% in 2007-14. This slowdown is particularly troubling as it follows several decades of rapid and continuous technological advancement, usually associated with strong productivity growth. The slowdown reflects both cyclical and structural factors, which have – thus far – prevented technological change from propelling aggregate productivity growth. There has been a growing dispersion of productivity performance within countries

between firms and regions: OECD analysis shows that while leading firms have continued to register strong productivity gains, their non-frontier counterparts have fallen behind. These gains have not diffused throughout the rest of the economy. Furthermore, frontier firms may have been able to accumulate rents, and are better placed to attract appropriately skilled workers. Meanwhile more poorly-performing firms have remained in the market rather than closing down, trapping valuable resources in unproductive activities. Structural settings limiting competition, firm exit and upgrading, and skills mismatch may have contributed to these phenomena.

The last three decades have also seen widespread increases in income inequality in OECD countries, with the richest 10% of the population now earning on average ten times more than the poorest 10%, up from just seven times in the mid-1980s. The growth in income inequality witnessed in the OECD over the last three decades reflects both a surge in income at the top, especially the top 1%, and much slower income growth around the median or stagnation at the bottom. In terms of wealth, the situation is markedly worse, with the top 10% controlling almost half of household assets in 2012. Beyond the impact of the crisis, which hit hardest the incomes of those at the

Labour productivity growth has slowed in many emerging market economies since the crisis



Source: OECD calculations based on World Bank and ILO KILM data.

bottom, longer-term structural adjustments engendered by technological change and alterations to labour market institutions have contributed to increased dispersion in labour earnings and rising inequality. Yet inequality is not only a matter of income and wealth; there is also great divergence in outcomes across a broad range of well-being dimensions in OECD countries.

Inequalities of income, education, training opportunities, health, and access to quality jobs or new technologies tend to feed each other, limiting people's ability to fulfil their potential and improve their lives, and may also reduce aggregate productivity and growth. Recent OECD evidence indicates that rising inequality has limited the ability of the bottom 40% to invest in knowledge and skill-building, undermining potential productivity and worsening inequality even further.

OECD analysis suggests that the obstacles standing in the way of broader productivity gains can also contribute to wider inequality. There is some evidence to suggest that growing productivity dispersion across firms has contributed to a widening wage distribution over the past two or three decades. Other evidence suggests that possible rent capture by frontier firms and sub-optimal resource allocation may have limited productivity gains while entrenching income inequalities. Divergent productivity growth rates may also have contributed to rising income inequality between workers, as large increases in the "sorting" of workers across firms has led to the most productive workers increasingly working together and for the most productive firms.

The various policy settings that have led to such dynamics will need to be explored further. However, in many instances it is

already clear how policies can be aligned to promote both inclusiveness and improved productivity growth. Making the Productivity-Inclusiveness Nexus work for all will require a comprehensive and coherent policy framework to account for and address the multiple interactions between inequalities and productivity, and how these interactions play out across countries, regions, firms and individuals. This will call upon governments to break down policy silos to focus on the range of win-win solutions, such as education and skills policies, that can reduce inequalities and support productivity growth simultaneously. It will also mean that policy levers are, ex-ante, coherently aligned to harness self-reinforcing synergies between policies, whilst providing a clear indication, ex-poste, of how compensatory measures can best be enacted when trade-offs occur.

## 2.3 Education and skills

The impact of skills goes far beyond earnings and employment. Skills enhance the wellbeing of both individuals and society as a whole. Data from the *OECD Survey of Adult Skills* shows that individuals with higher proficiency in literacy are more likely than those with lower literacy skills to report good health, to believe that they have an impact on political processes, and to participate in associative or volunteer activities. Both the OECD Programme for International Student Assessment (PISA) and the Survey of Adult Skills provide valuable means of measuring well-being. The OECD's first report on the well-being of students, focused on the social and emotional qualities of youth and drawing on new PISA metrics, will be published in 2017. A report on educational policies and practices to moderate social inequalities is also planned.

While knowledge of how children’s skills develop and their impact is growing, not enough is yet known to intervene effectively with confidence, and at scale. What is clear is that strong early learning matters for all children. The forthcoming *OECD Longitudinal Study of Social and Emotional Skills in Cities* will generate ground-breaking measures of the social, emotional and cognitive outcomes for children at school. A second study, will examine child well-being and early learning at around the age of five. Together, they will generate a significant body of work to make these dimensions of child well-being and learning both visible and actionable for policy makers. The work will also feed a broader initiative on children well-being.

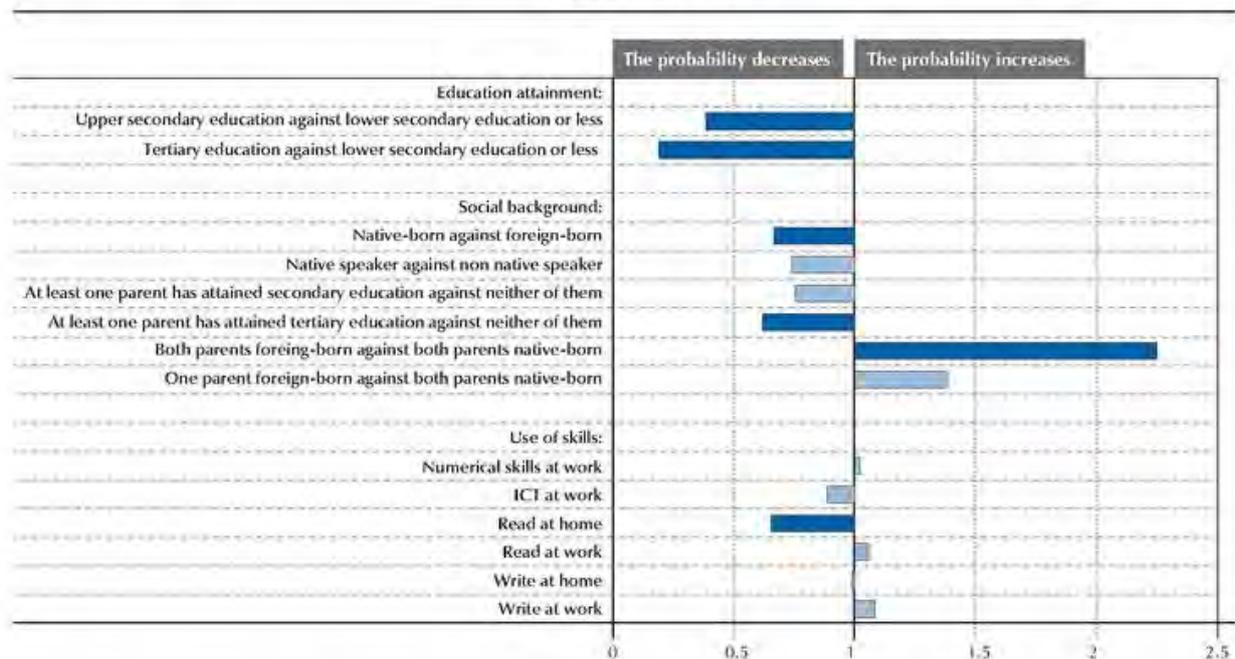
Despite significant progress in equipping young people with solid foundation skills much remains to be done to reduce skills gaps. OECD contributions include the 2015 *Skills*

*Outlook*, which addressed youth skills and employability, the 2016 OECD Skills Summit, which brought together ministers from a range of relevant portfolios to share best practices on building effective skills strategies, and the 2017 *Skills Outlook*, which will cover skills and global value chains. An updated OECD Skills Strategy will then be presented at the 2017 MCM.

Ensuring that all social groups have equal access to education promotes their participation in the labour market. The 2015 OECD publication, *The ABC of Gender Equality in Education*, highlights that teachers and schools in most countries need to better encourage girls to see science and mathematics as essential to their career and life opportunities.

The 2013 *OECD Recommendation on gender equality in education, employment and entrepreneurship* was timely given that

**The relationship between the probability of having low literacy skills, educational attainment, socio-economic background and use of skills**  
16-29 year-olds, 2012



**Notes:** Youth with low literacy skills are those who score below 226 points in the Survey of Adult Skills (PIAAC). The figure shows the results of a logit regression on all countries accounting for gender, occupation, use of social and emotional skills, number of books at home, health status and country fixed effects. Statistically significant values are shown in darker tones.

**Source:** OECD calculations based on the *Survey of Adult Skills (PIAAC) (2012)* (database).

women remain severely under-represented in studying and working in the science, technology, engineering and mathematics (STEM) fields.

As ever, the crucial actors in developing these skills are the teachers. Now in its sixth year, the 2016 Ministerial Summit on the Teaching Profession brought together 36 ministers and vice ministers from 23 countries with their union leaders. Ministers and union leaders engaged on difficult issues around policy development and implementation, which they often cannot resolve or even discuss at national levels.

## 2.4 Digitalisation of Economies and Societies

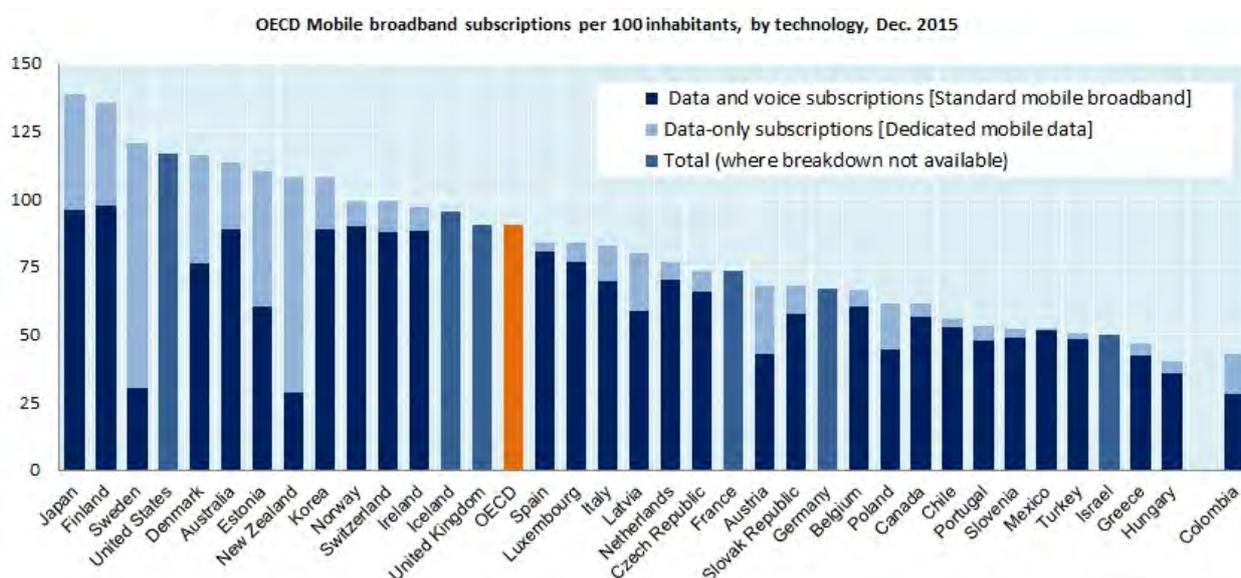
The OECD’s work on the trends and impacts of science, technology and innovation has grown over 2015-16, in line with the broad recognition that innovation is critical to increased productivity and employment.

Work on the Next Production Revolution (NPR) took centre stage at the OECD’s 2016 MCM, with the interim report highlighting that a number of key technologies, from ICTs and robots to new materials, have more to contribute to productivity than they currently do. Even in larger firms, many potential

applications are underused. Well-designed policies that allow resources to flow to promising firms could help to realise the opportunities for productivity growth and broaden the productive base. Nevertheless, while new technologies will create jobs through many channels, and productivity-raising technologies will benefit firms and the economy overall, the associated adjustments could be significant. The OECD’s aim is to help policy makers prepare for, rather than react to, the risks. A final report will be released in early 2017, following a wrap-up conference in Sweden in November 2016.

The work on NPR reinforces the importance of data and digital technologies in today’s economies, with production being transformed through the use of “big data”, cloud computing and the Internet of Things. Complementary work on data-driven innovation explored how the exponential growth in data generated and collected, accompanied by the increased power of data analytics and the emergence of machine learning and automated decision making, is allowing entrepreneurs to use data to generate innovation across many markets.

At the same time, data and digitalisation pose new policy challenges, related to *inter alia* digital infrastructure, skills and jobs, new digital divides, regulatory incumbency, and digital security and privacy. The effects across



countries, firms and individuals are far from uniform, with surprisingly varied levels of access and use of digital technologies.

To meet the need for a coherent and comprehensive policy approach, the OECD is launching a multi-disciplinary, cross-cutting project on the *Digitalisation of Economies and Societies*. It will break new ground by exploring the underlying features of digitalisation and how these affect policy development. This is essential, because the combination of scope, scale and speed delivered by digitalisation confronts policy makers with system-wide transformations and the need to respond to rapid and frequent changes. The project will analyse the effects of digitalisation on different sectors and policy areas, ranging from tax, finance and e-government, to science, environment and transport, or skills, productivity and competition. The project should provide a comprehensive and coherent strategy to stake out new sources of growth arising from digital opportunities, and to proactively reshape policies to deal better with the changing environment.

The project will officially start with a kick-off conference in early 2017 and will complement other relevant OECD analysis, including the new project on the *Future of Work*. Relevant analysis is already underway, particularly in the context of the OECD's Ministerial Meeting on the Digital Economy, held in Mexico in June 2016. The ministers adopted a Ministerial Declaration promoting a holistic and whole-of-society approaches that encompass coherent evidence-based policies to stimulate investment in higher speed broadband connectivity, reduce barriers to use of digital technologies, foster research, innovation and new business opportunities, strengthen trust, promote job quality and address skill needs. In this context, the Ministers invited the OECD to further develop its work related to the digital economy, including the OECD Skills Strategy and the update of the OECD Jobs Strategy.

## 2.5 Migration and the refugee crisis

Migration is increasingly becoming a structural feature of OECD societies. Across the OECD, about one in five persons is either foreign-born or native-born with at least one foreign-born parent. Over the past year, the unprecedented number of asylum seekers and refugees arriving in OECD countries has quickly moved migration to the top of the international agenda.

The OECD is a leading provider of data and policy analysis on international migration trends, particularly through the annual flagship publication *International Migration Outlook*. The September 2016 edition examines how migration policies respond to environmental and geopolitical shocks and analyses the local impact of migration. Through the Migration Insights blog and Migration Policy Debates briefs, the OECD monitors developments in migration movements and policies in OECD countries. The OECD is also starting new work on ensuring the effective integration of vulnerable migrant groups and will offer countries a forum to share good practices for dealing with the humanitarian migration crisis.

OECD work on migration also focuses on the integration of immigrants and their children. Well-managed migration can play a positive role in the economy, contributing to innovation and economic growth. But for this to happen, it is essential that immigrants find their place in the labour market, education system and society at large. The 2015 publication *Settling In: Indicators of Immigrant Integration* provided information on key dimensions of integration – employment, education, income, housing, health, civic engagement and social cohesion – and showed that labour market outcomes for recent arrivals are well below those of the native-born, even in countries that are

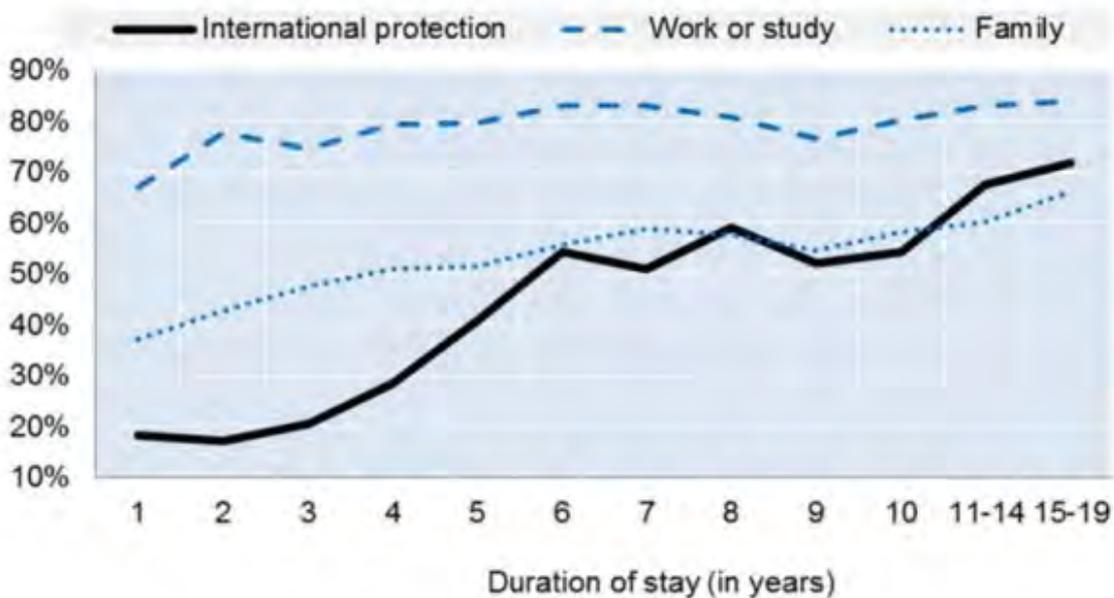
generally perceived as successful in integrating immigrants.

Despite overall improvements, major gaps also remained in educational outcomes. The January 2016 booklet *Making Integration Work: Refugees and others in need of international protection* highlighted key challenges in integrating refugees and compared practices and policies in place across OECD countries. It was released in co-operation with UNHCR, as part of the OECD's efforts to help countries respond to the refugee crisis. To the same end, the OECD proposed to member countries a fast-track assessment of possible actions to better

integrate refugees and to conduct a new review of skills and labour market integration of immigrants and their children.

In the context of 2030 Agenda for Sustainable Development, the OECD supports developing countries in maximising the benefits and minimising the costs of migration. The work of the Development Centre provides empirical evidence on the positive links between migration and development, both in origin and destination countries, and highlights the role of public policies in enhancing such contribution.

**Employment rate by immigrant category and duration of stay in European OECD countries, 2008**



Source: European Union Labour Force Survey Ad Hoc Module on the Labour Market Situation of Migrants and their Immediate Descendants, 2008.

## III. THE OECD TRUST AGENDA

### 3.1 Anti-corruption

Corruption is a severe impediment to sustainable economic and social progress. It has contributed to the sharp rise in income and wealth inequality and record-low levels of trust. Fighting corruption is therefore a necessary component to bring about more inclusive growth after the crisis and help restore citizens' confidence in institutions and markets alike. Combating corruption and promoting integrity in the public and private sectors require multi-disciplinary approaches for which governments are seeking holistic solutions. 2016 saw a renewed drive at the international level to fight corruption, with the organisation of major events such as the March OECD Anti-Bribery Ministerial, the April OECD Integrity Forum, the May London Anti-Corruption Summit, and the June International Anti-Corruption Practitioners Conference that took place at the OECD. The OECD made contributions to these events, based on its expertise in many fields such as tax evasion, international bribery, corporate governance, public integrity and governance, and illicit financial flows, as well as its wide array of instruments for the prevention, detection and enforcement of corruption. The London Summit Communiqué tasked the OECD with establishing an anti-corruption and integrity platform. This initiative will help the Organisation further develop synergies between its various fields of expertise and maximise its impact.

The March 2016 Anti-Bribery Ministerial brought together ministers and key partners from around the world to reaffirm their commitment to tackle corruption, and to discuss measures to strengthen the Anti-Bribery Convention's implementation. As well as formally launching Phase 4 of the monitoring process of the Convention and

providing support and vision for future activities, the meeting also provided an opportunity to recognise the many accomplishments of the first three phases and to encourage key non-signatory countries to adhere to the Convention. The event also saw the launch of a major report on whistle-blower protection, a critical element for safeguarding the public interest, promoting a culture of accountability and integrity in both public and private institutions, and encouraging the reporting of misconduct, fraud and corruption.

The April 2016 OECD Integrity Forum provided a platform to present new evidence and insights to advance anti-corruption policies and programmes and to strengthen commitments and partnerships. As part of the Forum, the OECD co-hosted with Transparency International the Preparatory Symposium for the London Anti-Corruption Summit.

In March 2015, the Secretary-General convened a High Level Advisory Group on Anti-Corruption and Integrity composed of independent experts from academia, civil society, business and the public sector in various OECD countries. This Advisory Group was asked to provide recommendations on how the OECD could best address emerging anti-corruption issues and increase the impact of its work. The Advisory Group submitted its preliminary recommendations to the Secretary-General in May 2016 and expects to complete its full report by October 2016.

The OECD is updating its instruments and developing a new *Recommendation on Public Integrity* that replaces the 1998 *Recommendation on Improving Ethical Conduct in the Public Service*. This new instrument guides policy makers in building a culture of integrity through a co-ordinated and

comprehensive integrity system, risk-based internal control, a whole-of-society approach and effective accountability.

The OECD supports countries implementing integrity measures in high-risk areas and high-impact projects. The OECD’s expertise in integrity and public procurement, a government activity highly vulnerable to corruption, has already proved valuable for highly visible infrastructure projects and events such as the Expo Milano 2015 and the new airport of Mexico.

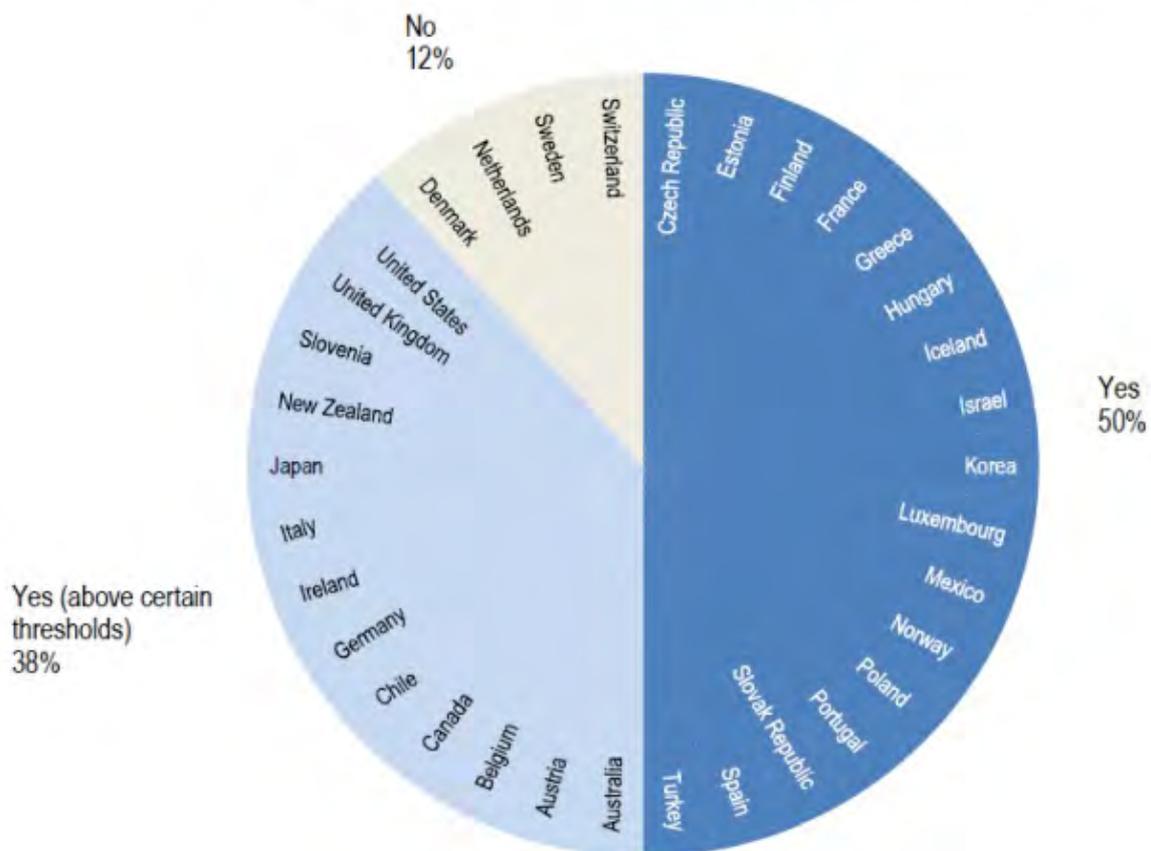
### 3.2 Financing Democracy

Money is a necessary component of the democratic processes, enabling the expression of political support as well as competition in

elections. Yet, the increasing concentration of economic resources in the hands of fewer people presents a significant threat to political and economic systems. If the financing of political parties and election campaigns is not adequately regulated, money may allow powerful narrow interests to exercise undue influence and “capture” the policy process.

The OECD publication *Financing Democracy: Funding of Political Parties and Election Campaigns and the Risk of Policy Capture* was launched at the OECD Parliamentary Days in February 2016. It highlights the varying degree of political finance regulations across countries and examines the regulatory loopholes that could be exploited by powerful private interests. The report includes evidence on how loans, membership fees and third-party

**Ban on anonymous donations to political parties in OECD countries**



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

*Source:* Adapted from IDEA (n.d.), *Political Finance Database*. [www.idea.int/political-finance/](http://www.idea.int/political-finance/) (accessed on 27 October 2015).

funding can be used to circumvent existing regulations such as spending limits. Furthermore, globalisation complicates the regulation of private funding. Many foreign companies and wealthy individuals are deeply integrated with domestic business interests, blurring national boundaries. Where limits and bans on foreign and corporate funding exist in many countries, disclosure of donor identity has become important, serving as a deterrent to undue influence, and the information disclosed needs to be organised in an intelligible and user-friendly way to facilitate effective public scrutiny.

Available data also suggests that institutions responsible for enforcing political finance regulations should have a clear mandate, legal power and capacity to conduct effective oversight and impose sanctions, although there is no one-size-fits-all model. Political finance regulations are likely to be ineffective if they exist in isolation. They need to be part of an overall integrity framework that includes the management of conflicts of interest and transparent lobbying.

At the launch of the report, the participants of the OECD Parliamentary Days indicated interest in creating a thematic parliamentary working group on transparency issues. The OECD is currently exploring how best to support legislators in implementing this project.

The OECD is committed to further expanding comparative data and developing benchmarks relative to financing democracy and averting policy capture. Addressing concerns related to the funding of political parties and election campaigns is a key lever for restoring trust in governments.

### 3.3 Greater tax transparency to tackle tax evasion and tax avoidance

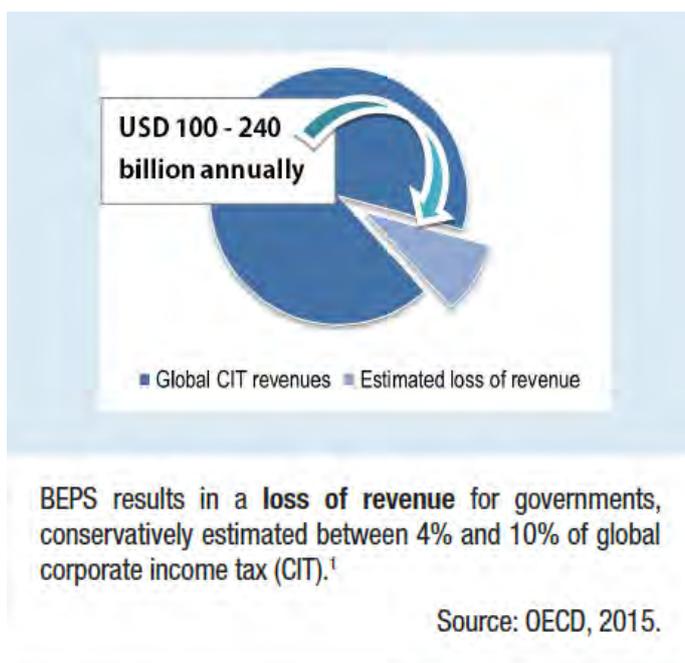
In 2009, the G20 declared that bank secrecy was over, reinvigorating the fight against tax evasion and leading to the OECD establishing the restructured Global Forum on Transparency and Exchange of Information for Tax Purposes. Responsible for monitoring the tax transparency standards, first on exchange of information ‘on request’ (EOIR) and now for the automatic exchange of financial account information (AEOI); today more than 130 jurisdictions have joined the Forum. They participate on an equal footing in the Forum’s in-depth peer-review process, which considers the legal and regulatory framework and a jurisdiction’s practices and procedures. With the first round of peer reviews almost completed and overall compliance ratings assigned, in the second half of 2016 the Forum has begun the second round of reviews based on a strengthened EOIR standard, including requirements to ensure availability of beneficial ownership information, a jurisdiction’s ability to process group (i.e. bulk) requests, and the quality of information exchanges.

Global tax transparency was further enhanced in 2014, when the OECD developed the global Common Reporting Standard (CRS) for AEOI. This standard is quickly becoming a reality, with 101 jurisdictions committed to begin the first exchanges by 2017 and 2018. The Global Forum’s review of the standard will follow a staged approach: consisting initially of preliminary assessments covering, *inter alia*, reviews of legislation implementation and relevant exchange partners, and will ultimately lead to comprehensive reviews similar to the process for the EOIR standard. To ensure this ambitious timetable is met, committed jurisdictions are also intensively working with the Global Forum and the OECD on ensuring that the necessary legal, technical and

procedural framework is in place. The OECD/Council of Europe multilateral Convention on Mutual Administrative Assistance in Tax Matters remains the most powerful legal framework for countries seeking to rapidly expand cross-border cooperation on tax matters, with 104 jurisdictions now participating in that Convention.

Following a request from the G20 Leaders, the OECD/G20 Project to address Base Erosion and Profit Shifting (BEPS) was launched in 2013 to shut down the unintended loopholes in the international tax system that allow corporate profits to be shifted away from the location of economic activity and value creation. After two years of strenuous work, a comprehensive package of measures to counter BEPS was agreed by all OECD and G20 members. One key finding of this work was that the stakes are very high, with a conservative estimate of the global corporate income tax revenue losses from BEPS at almost a quarter of a trillion US dollars annually.

The BEPS Project is now entering its implementation phase and significant work lies ahead to support and monitor the implementation of its measures. OECD and G20 countries have agreed to take forward this work through a new inclusive framework permitting the direct involvement, on an equal footing, of interested countries and jurisdictions that are committed to the BEPS package. The June 2016 inaugural meeting of this framework was attended by over 100 countries and jurisdictions, of which 85 have already committed to the BEPS package of measures and become members of the new Inclusive Framework on BEPS. Work going forward will focus on supporting and monitoring implementation of the BEPS Package and its impact over time, with some technical follow-up work to complete or update the BEPS measures.



## IV. BOOSTING TRADE AND INVESTMENT

### 4.1 International trade

Over the past years, OECD's work on Trade in Value Added-Global Value Chains (TiVA-GVC) has changed our understanding of global trade, investment and production patterns, leading to better measurement of the gains from trade and the costs of protectionism. TiVA-GVC analysis shows that reducing global trade costs by 1% would increase world-wide income by more than USD 40 billion, 65% of which would accrue to developing countries.

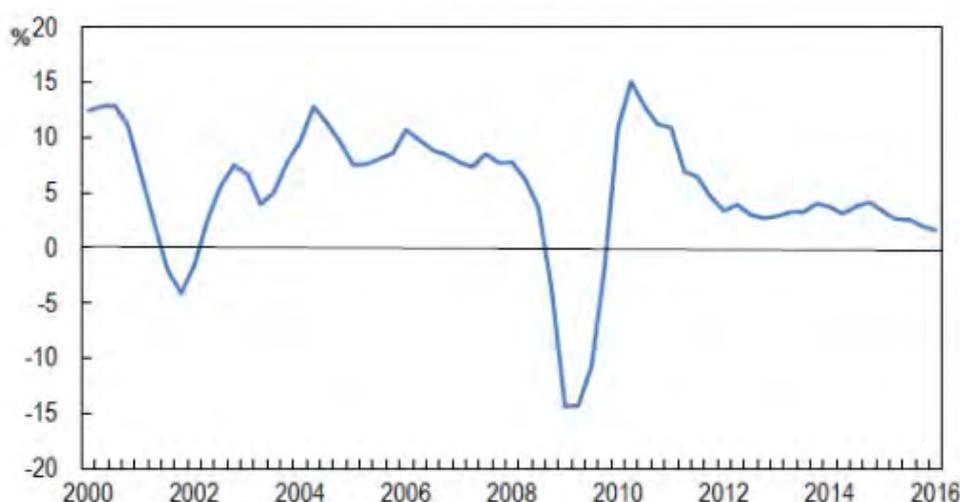
The third release of the TiVA database, launched in October 2015, presents indicators for 61 economies broken down by 34 industries, and covers an additional two years up to 2011. The results reveal the importance of imports as factors of competitiveness. The share of foreign content embodied in exports is significant in all countries, and the share of intermediate imports used in producing

exports (as a percentage of total imported intermediates) is generally even higher in all countries. Success in international markets today depends as much on the capacity to import world class inputs as on the capacity to export.

The results from this dataset also reveal the significant importance of services. In OECD countries, about 55% of total value-added exports reflect services (with significant shares of services embodied in exports of goods). In this context, the *OECD Services Trade Restrictiveness Index* (STRI), launched by the OECD in 2014, is a unique, evidence-based diagnostic tool that demonstrates the level of services restrictiveness at the national level for 42 countries across 19 major services sectors. The STRI allows individual countries to benchmark their service market regulation relative to global best practice, and to identify outlier restrictions, potential bottlenecks and reform options.

**World trade volume growth remains weak**

Percentage change, year on year



Note: Measured at market exchange rates in constant 2010 US dollars.

Source: OECD (2016) Economic Outlook 99 Database.

More recently, analytical efforts have focused on using the STRI to better understand the relationship between services trade restrictions, cross-border trade in services and trade in downstream manufactured goods. The OECD report *Impact of Services Trade Restrictiveness on Trade Flows: First Estimates* shows that more restrictive countries clearly import fewer services, and that the impact of such restrictions is twice as large on exports as it is for imports. The largest impact of restrictions on services trade is found for commercial banking: for example, a modest reform bringing down the STRI index by five basis points is associated with about 5% higher imports and 9% more exports.

In addition, seeking appropriate tools for estimating the costs of inefficiency at the border, the OECD developed indicators (TFIs) to assess the economic and trade impact of trade facilitation measures. The 2015 TFIs release covered more than 160 countries and provides an online set of interactive tools that allow countries to simulate policy reforms and compare their performance. The OECD estimates that implementation of the World Trade Organization Trade Facilitation Agreement could cut trade costs from between 10% to over 17%, depending on a country's level of development – with the greatest gains accruing to poorer countries.

The OECD also continues to work for a supportive policy and regulatory environment that is conducive to investment, trade in services, and to the new business models emerging from the digital economy. International regulatory co-operation is particularly important: new conversations are needed to identify approaches that protect both consumer privacy and security and reap the benefits of more open trade.

## 4.2 Investment

Global foreign direct investment (FDI) flows stagnated following the global financial crisis

and, despite a pickup in 2015, still remain about one tenth below their pre-crisis peak. Part of the increase in 2015 was due to corporate and financial restructuring, rather than to new investments. The sluggish recovery of global FDI flows is largely due to persistent weak growth in the EU, and to a much lesser extent the US, following the financial crisis. In contrast, FDI flows into China are higher than before the crisis.

The contribution of international investment to productivity, innovation, and technology transfers increasingly depends on open, transparent, and rules-based investment policies. When investment frameworks have these qualities, firms can locate their productive activities in such countries, fine-slicing their value chains and locating specific functions where these can be carried out most efficiently. Conversely, policies that distort markets can lead to increased costs of inputs, suboptimal levels of international investment and lower productivity across the value chains.

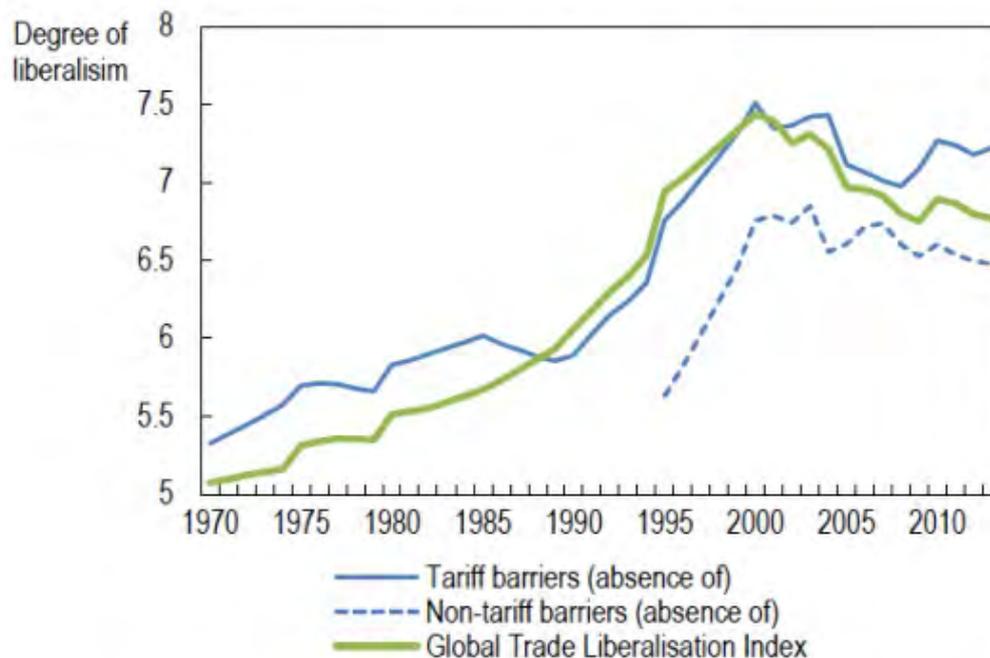
Investment policies can support job quality and inclusiveness by clearly communicating expectations concerning the behaviour of firms. In the context of international investment in GVCs, investment policies can also help firms to promote a culture of responsible business conduct (RBC) that transcends borders. The OECD's Guidelines for Multinational Enterprises, created 40 years ago and most recently updated in 2011, continue to provide the most comprehensive global standard on RBC. The OECD's sectoral work on due diligence is helping businesses operationalise best practices to ensure that supply-chain management supports transparency and inclusivity. It also helps promote labour market formalisation. Building on the path-breaking work in the extractive and agriculture sectors, these efforts on due diligence are being extended to the financial and clothing sectors, and work has begun on an over-arching, cross-sectoral framework

Possible trade-offs between productivity and other social objectives have been at the heart of the recent debate on investment treaties. Reflecting this, the OECD has stepped up its analytical work and its multi-stakeholder dialogue through the Freedom of Investment (FOI) Roundtable. Analytical work has focused on issues such as the costs and benefits of investment treaties and the optimal balance between investor protection and governments' right to regulate. This work informed the first two annual Conferences on Investment Treaties, held in March 2015 and 2016, which brought together representatives from business, civil society, law, academia and international organisations. In addition, a *new Dialogue on Investment Treaties* was established through the FOI Roundtable as a platform for treaty negotiators to exchange experiences and best practices.

The OECD Code of Liberalisation of Capital Movements plays a role in fostering an open rules-based framework for capital movements. The Code, the only binding multilateral agreement on cross-border capital flows, is adhered to by all OECD countries, and was amended in 2012 to allow for adherence by non-member countries. Work on the review of the Code has started; one aim being to increase engagement with non-members. Key areas of work will include examination of the treatment of capital flow management measures used with a declared prudential intent, and consideration of improvements in the governance of the instrument.

### The pace of trade liberalisation has slowed

Global indices of trade liberalisation



Note: Variables 4A and 4B of the Economic Freedom of the World Index measuring tariff and non-tariff barriers. A global measure is constructed for the purposes of this paper from the individual country series using GDP weights. The index ranges from 0 to 10 and a higher value indicates a more liberal policy.

Source: Fraser Institute for Economic Freedom and OECD calculations.

## V. OECD CONTRIBUTION TO THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

### 5.1 OECD strategic response to the Sustainable Development Goals

The adoption of the 2030 Agenda and its 17 Sustainable Development Goals (SDGs) provides the global community with an ambitious, comprehensive and universal roadmap for sustainable development. The SDG framework incorporates all dimensions of sustainable development in an integrated and balanced way. By the multidisciplinary nature of its work, the OECD is well placed to contribute to the advancement of the 2030 Agenda as outlined in its Action Plan on the Sustainable Development Goals. The Organisation is already generating evidence, identifying good practices, developing standards, and helping design and implement innovative policies in all areas covered by the SDGs. In June 2016, the MCM recognised the Organisation's role in supporting member countries and the international community for SDG implementation. Over the next 15 years, this support will include a wide range of activities:

The OECD is integrating the SDG framework into its Economic Surveys and thematic reviews covering a vast array of relevant issues such as agriculture, market, and competition policies; labour markets; social policy; open government reforms; gender equality; education; environmental performance; health; and development co-operation. In particular, it will further refine existing approaches such as its Multi-Dimensional Country Reviews to help countries adapt their current policies to achieving SDGs targets and it will further support countries in developing or adapting their national sustainable development strategies in line with the SDGs.

The multidimensionality of the SDGs requires integrated and inclusive approaches to implementation, spanning all of government and even all of society. Policy coherence for sustainable development (PCSD) is crucial to ensure policies balance the three dimensions of sustainable development and work in mutually supportive ways, while avoiding negative transboundary and intergenerational impacts. The OECD is therefore updating its PCSD tools and instruments to align with SDG needs.

To deliver on these ambitious goals, financing must scale up from billions to trillions. The global community needs to move well beyond the estimated USD 132 billion provided as official development assistance (ODA) in 2015. The OECD is strengthening support to governments as they mobilise a broad range of financial resources – aid, taxes, both foreign and domestic investments, remittances, and philanthropy. This includes continued efforts to incentivise additional and better quality resources for developing countries, especially those most in need. The way in which finance is measured can provide incentives for its mobilisation. In recent years, the OECD has modernised its system for measuring development finance to match the realities of the SDGs, including on the reporting of concessional loans, private sector instruments, and peace and security efforts. The new measure of Total Official Support for Sustainable Development – complementing, not replacing ODA – will increase the transparency of public efforts to support sustainable development.

But finance is not sufficient if it is not delivered effectively. The Global Partnership for Effective Development Co-operation – jointly managed by the OECD and UNDP – monitors the effectiveness of development co-operation in an inclusive and open forum. The

OECD also helps build impactful multi-stakeholder partnerships to implement the new global development agenda between the philanthropic sector and governments, through the Development Centre’s Network of Foundations Working for Development.

The OECD holds vast amounts of data that can contribute to SDG follow-up efforts. It is contributing to the global indicator framework developed by the United Nations (UN), as well as to numerous other SDG-related initiatives. In addition to tracking OECD members’ own SDG progress, it is continuously expanding its help to members in SDG follow-up. Through the OECD-hosted Partnership in Statistics for Development in the 21<sup>st</sup> Century, the OECD is helping developing countries strengthen their statistical capacities and leverage opportunities arising from “the data revolution” including big data and public-private partnerships.

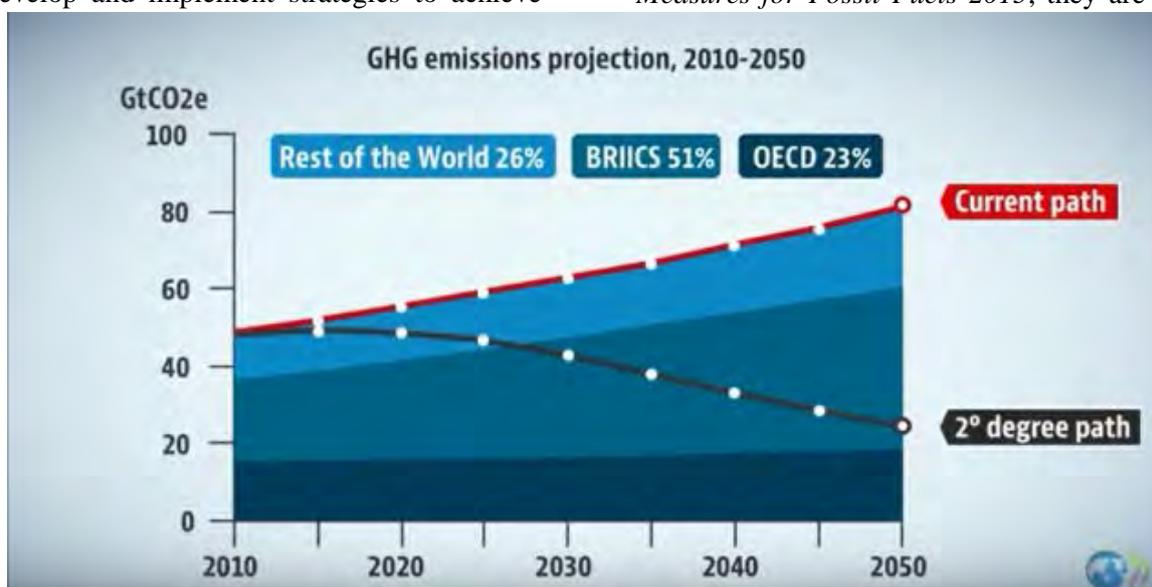
The OECD will engage on the SDG agenda with its partner countries, non-members, other international organisations and non-state actors. The Organisation is currently conducting a pilot project with Slovenia to support countries in developing or up-dating their national development strategies in line with the SDGs. OECD regional programmes in particular may provide an appropriate vehicle for supporting countries as they develop and implement strategies to achieve

the goals. The OECD will also continue to engage with the UN family as it contributes to the implementation of the 2030 Agenda to maximise synergies and avoid duplication of effort. The installation of an OECD Representative in New York should contribute to a further strengthening of this relationship.

## 5.2 COP21 Climate Agreement and the challenges of its implementation

The OECD report *Climate Change Mitigation: Policies and Progress in 2015* has shown that government policies do not yet measure up to the ambition of the Paris Agreement. Action on both mitigation and adaptation is required: significant reductions in greenhouse gas emissions need to be complemented with actions to prepare for the impacts of a changing climate. The brief on *The OECD Supporting Action on Climate Change* sets out related ongoing and future OECD work.

The OECD has been advocating for clear, strong, credible and predictable prices on carbon as the cornerstone of cost-effective emissions reductions since introducing the polluter-pays principle in the early 1970s. While carbon pricing and removal of fossil fuel subsidies are necessary, as *Effective Carbon Rates – OECD & Selected Partner Economies* and *OECD Inventory of Support Measures for Fossil Fuels 2015*, they are not



effective if climate and non-climate policies are misaligned. Where policies and regulations have not caught up with the pace of technological development, this can hinder innovation, particularly with respect to resource efficiency as highlighted by the OECD Policy Guidance on Resource Efficiency.

Structural change will be required to overcome the carbon-dependence of economies, systems and behaviours; an urgent and wide-ranging challenge. Since the launch of its *Green Growth Strategy* in 2011, the OECD has been advising governments on how to align sector-specific policies with environmental objectives across different agencies and ministries. Following on *Aligning Policies for a Low-carbon Economy*, the OECD is helping countries to align policies as they begin establishing the long-term low greenhouse gas emissions development strategies called for in the Paris Agreement. As highlighted by the 2014 OECD Green Growth and Sustainable Development Forum, effectively addressing the social implications of the low-carbon transition is also essential, while taking into account potential labour market, household and industry impacts. Well-chosen indicators, such as the *OECD Green Growth Indicators 2014*, can support policies, the monitoring of progress made, and the information available to citizens.

Improving the transparency framework is a key ingredient of climate action, and the OECD is providing support to governments and business in implementing responsible business conduct and improving reporting on climate change-related risks and strategies to address them. Transparency and capacity building are among the immediate priorities of the Climate Change Expert Group that will continue to support COP negotiators through informal expert dialogue and policy advice to increase understanding of and support for the modalities, procedures and guidelines required

by the Paris Agreement. The OECD Climate Policy Initiative report on *Climate Finance in 2013-14 and the USD 100 billion Goal* is an example of the OECD's rigorous and transparent analysis supporting progress on one of the most sensitive issues in the COP21 negotiations. The OECD continues to support international efforts in improving transparency on climate finance, drawing on the Development Assistance Committee's statistical database for development finance, and the OECD-led Research Collaborative on Tracking Private Climate Finance.

The OECD is also working with countries to help them monitor and evaluate adaptation needs, improve knowledge about climate risks through national assessments, plan accordingly for a range of possible outcomes, and prepare the response and recovery systems to cope with the remaining risks. These are of direct relevance to the SDGs – as summarised by the OECD Policy Highlight on *Adapting to the Impacts of Climate Change*. The *Toolkit to Enhance Access to Adaptation Finance* outlines a range of measures that could help countries to navigate the evolving architecture of climate finance and seize opportunities to access finance for adaptation. Effective implementation of the Paris Agreement will also require innovative action to adapt water policies, management practices and infrastructure to a changing climate, as pointed out by the OECD report on *Securing Water, Sustaining Growth*.

As governments need to transform billions of public sector finance into trillions to meet the Paris Agreement's climate goals, the OECD is helping them to effectively leverage private sector finance. The OECD Centre on Green Finance and Investment will engage in a range of projects, drawing on expertise across the OECD and examining key green finance, investment and policy issues for developing, emerging and developed economies linked to SDGs and Nationally Determined Contributions set at COP21.

## VI. OECD GLOBAL OUTREACH

The OECD's global reach has been at the forefront of the Organisation's strategic agenda. The Organisation adopted a forward-looking approach by developing a wide array of tools and mechanisms to reach non-member countries and regions, including for some, the possibility of membership. In 2016, the OECD's membership expanded to include a new member country- Latvia. Formal accession process advanced substantially with three candidate countries: Colombia, Lithuania and Costa Rica. Various countries, such as Argentina, Bulgaria, Croatia, Peru and Romania, have also expressed their interest in starting an accession process.

### 6.1 Closer co-operation and engagement with non-Members

The OECD offers many options for engaging with non-Member countries. Regional Programmes and Country Programmes are an established model of co-operation. There are currently three country programmes with Peru, Morocco and Kazakhstan and several regional initiatives, including the Southeast Asia regional programme launched in 2014. The OECD has also recently launched its Latin America and the Caribbean regional programme during the 2016 MCM. The programme aims at supporting the region in advancing its reform agenda along three priorities: increasing productivity, advancing social inclusion and strengthening institutions and governance. Other regional initiatives allow the OECD to continue its dynamic collaboration with the Middle East and Northern Africa region, the Eurasia region and Southeast Europe as well as engagement with Sub-Saharan Africa.

The Organisation also pursues its strong co-operation with five Key Partners, which include the largest non-OECD economies,

Brazil, China, Indonesia, India and South Africa. Engagement with the OECD informs their policy making, helping them to draw lessons from the experience of other countries which faced similar challenges. The OECD has concluded joint work programmes with Brazil, China and Indonesia, in areas where co-operation serves a mutual interest and which aim to secure the Key Partners' commitment to OECD's standards. The 2015 visit to the OECD by Li Keqiang, Premier of the State Council of the People's Republic of China, attest of the high-level profile of these work programmes.

Non-Members can also engage with the Organisation through participation in selected committees for which their experience and policy perspectives could be of particular relevance. As of September 2016, 29 non-Members participated in one or more committees on a permanent basis.

Participation in OECD activities can be also enhanced by membership in the Development Centre. In October 2015, two countries joined the Centre: Ghana as the 9th African member country and Uruguay as the 10th country from the Latin America and the Caribbean region. This brings the non-OECD membership of the Centre up to 24 countries.

### 6.2 OECD as the global standard setter

The OECD has a long history of standard-setting and is uniquely positioned for this purpose. The OECD's specific strength is that its standards are developed through a bottom up approach and may be reinforced by peer review mechanisms. The OECD developed 265 instruments since its creation ranging from legally binding Decisions and international agreements to non-legally binding

Recommendations. All instruments are open to adherence by countries beyond the Membership of the OECD and non-Member adherence has dramatically increased in recent years. As of 1 May 2016, 132 non-Members have adhered to one or more OECD legal instruments.

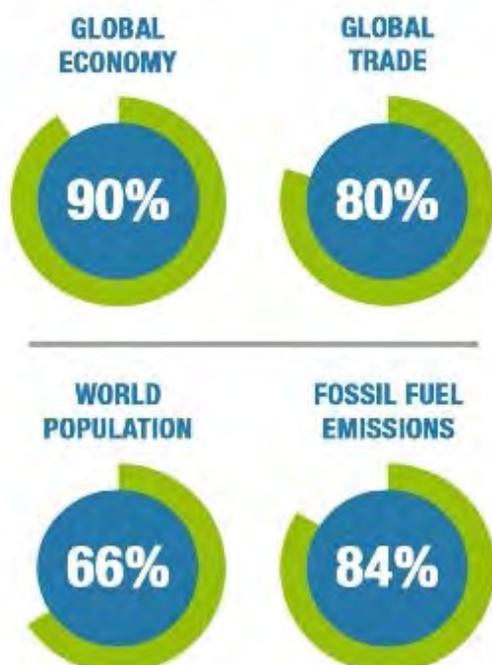
To strengthen and maximise the impact of OECD legal instruments and identify areas in which new ones need to be developed, the Secretariat, working with substantive committees, is co-ordinating a review of OECD legal instruments. The objective of the

review is to ensure that the instruments continue to respond in a timely manner to the new challenges that governments are facing, thereby strengthening the impact of these standards and their relevance for Members and beyond. The OECD continues to support countries in the further implementation of OECD standards and leverages strategic relations with other multilateral institutions in order to expand the standards' global outreach and bolster the efficiency of global governance.

## VII. OECD CONTRIBUTION TO THE G20 AND G7

The OECD is an active partner with the G20 and the G7, combining the efforts to strengthen the global economy. The OECD works to provide end-to-end support to successive G7 and G20 Presidencies, from the development of their priorities through to post-Summit follow-up. Working with the G20 and G7 strengthens the global reach of OECD's standards, ensuring their maximum relevance and impact and encouraging wider adherence. A recent example is the active participation on equal footing with Members of all non-OECD G20 countries and accession candidate countries as Associates in the G20/OECD Base Erosion and Profit Shifting (BEPS) Project and their commitment to the resulting measures.

### THE G20 REPRESENTS



### 7.1 OECD's contribution to G20

The OECD is proud to support successive G20 presidencies and working closely with the current president country, China, to build an “Innovative, Invigorated, Interconnected and Inclusive World Economy”. The OECD has contributed to China's Presidency strategic objectives, which include new sources of innovative growth, more effective global economic and financial governance, promoting robust international trade and investment and fostering inclusive and interconnected development. Over the course of the Chinese Presidency of the G20, the OECD has:

- played a critical role in documenting and substantiating the *Blueprint for Innovative Growth*, as well as the G20 Action plans on **innovation, digital economy and the new industrial revolution**. The OECD defined the concept of innovation, submitted comprehensive reports on innovation performance in all G20 countries and created a platform to foster exchange and peer learning on innovation policies and practices.
- actively supported the **enhanced structural reform** agenda by guiding the identification and implementation of structural reforms and the identification of indicators for assessing the reform efforts.
- continued to play a key role in the four pillars of the G20 tax agenda: implementation of the BEPS project with its new Inclusive Framework, tax transparency including the AEOI initiative to end bank secrecy, initiatives to support developing countries in strengthening their tax systems, as well as supporting the new G20 focus on **tax** policies.

- chaired the fossil fuels subsidies' reviews of China and the US, and will continue to do so for Mexico and Germany next year, and is contributing, through the investment angle, to the work under the clean **energy** and the Energy Efficiency Finance streams.
- been involved as a lead contributor to the new **Green Finance** Study Group's green bonds and green investment work streams, building on its expertise on existing and upcoming work on investment channels, green bond markets and institutional investment governance.
- supported the finalisation of the *Anti-corruption Action Plan*, conducted a study on good practices in customs integrity, and drafted two reports, one on best practices in budget transparency and another on open data (with Mexico). The OECD also co-organised a workshop and a seminar on anti-corruption.
- supported the crafting of the *G20 Guiding Principles for Global Investment Policymaking* and the *G20 Strategy for Global Trade Growth*. In the investment track, the OECD Policy Framework for Investment provided the basis for the Guiding Principles. For the Trade Growth Strategy, the OECD drew on analysis of services, trade facilitation, reducing trade costs, e-commerce, and the trade-investment nexus.
- supported the G20's work on global infrastructure connectivity by leading the work on diversified financing approaches and fostering private financing for **long-term infrastructure investment**.
- led the preparation of the *G20 Action Plan on development* to define how work across G20 tracks can support the 2030 Agenda on Sustainable Development, and is leading IOs' contributions to the elaboration of the *Comprehensive Accountability Report on G20 Development Commitments*.
- been monitoring progress towards the commitments made by G20 countries to reduce the **gender** participation gap in the labour market by 25% by 2025 and to reduce the number of youth at risk of being left behind in the labour market by 15% by 2025. The OECD is also contributing to the G20 **employment** agenda by delivering analysis on enhancing employability, generating adequate job opportunities, and promoting decent work.
- acting as a co-facilitator in the Development Working Group (together with the FAO) to ensure that the development issues are well taken into account in the **food security** agenda. The OECD will continue the development of its analytical framework for improving agricultural productivity and to make proposals on how to improve agricultural ICT exchange and cooperation.

The 2016 G20 Leaders' Summit in Hangzhou proved a success for the OECD. G20 leaders endorsed OECD's inputs to the process and have set clear mandates in the following areas: measuring the digital economy, opportunities and challenges of the New Industrial Revolution, the G20 Task Force on Innovative Growth, and a Global Forum on steel excess capacity.

The OECD continues to support successive G20 Presidencies by working in tandem with the upcoming German Presidency to identify and substantiate priorities and providing ample expertise and analysis, where required. Work is already underway in the areas of green finance, climate and the digital economy.

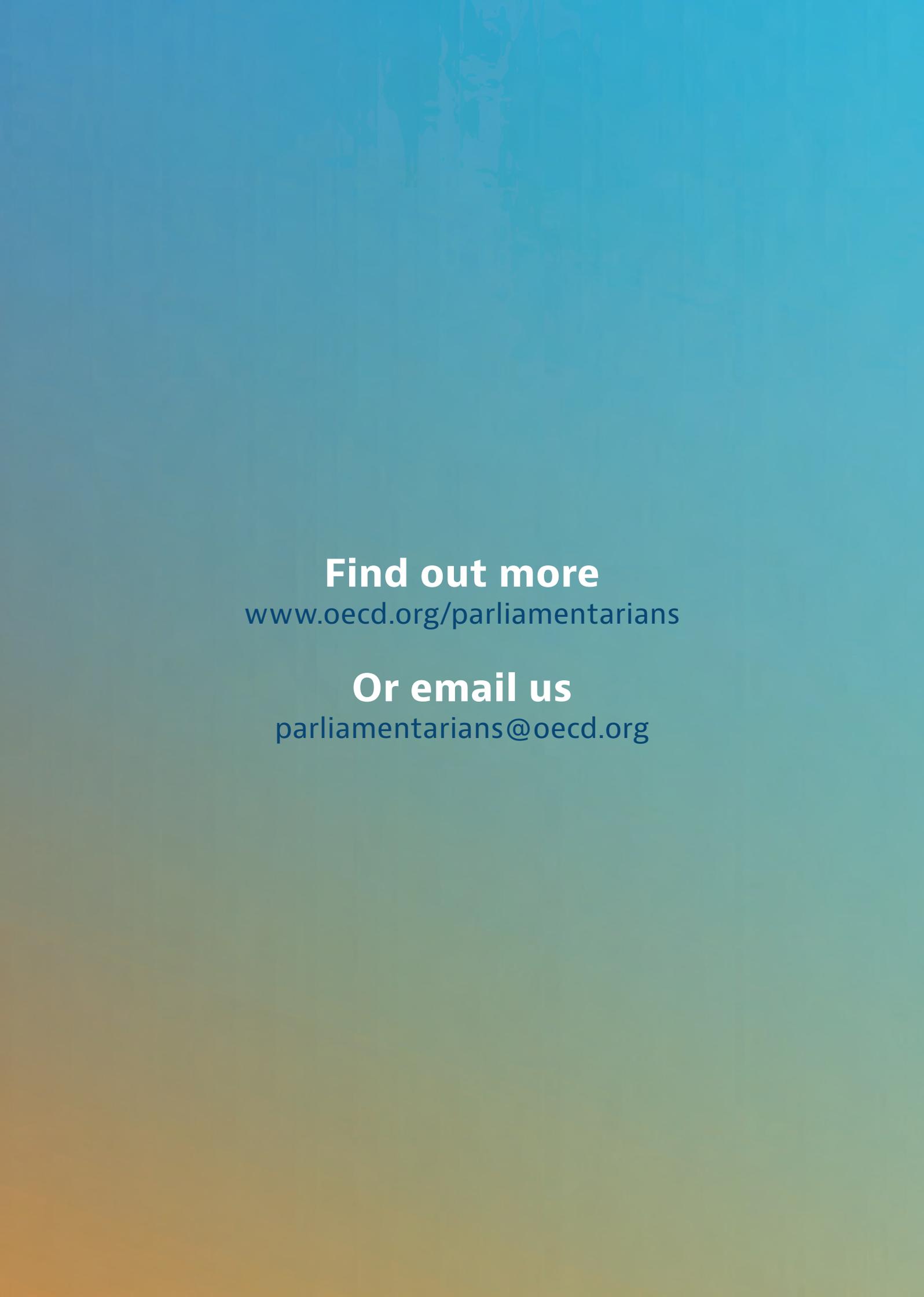
## 7.2 OECD's contribution to G7

The OECD participates in G7 meetings - at Leader and Minister levels - by contributing to virtually all of the Group's strands of work with data, analytical reports and policy recommendations.

This year, the OECD has been working actively with the Japanese Presidency to help shape the G7 agenda, with substantive contributions aimed at: boosting inclusive growth, making trade and investment policies more effective to revive global trade and international investment, promoting gender equality by raising the issue of gender gaps in STEM, as well as improving health care provision and progressing on the international tax agenda, by reinforcing the efforts to implement the CRS and the G20/OECD BEPS package. At the 2016 G7 Ise-Shima Leaders' Summit, the OECD shared with Japan's Prime Minister, Shinzo Abe, its reports to G7 leaders delivering on the mandates received at the 2016 Schloss Elmau Summit, namely on Responsible Business Conduct, Women and Entrepreneurship, and Resource Efficiency. The OECD has initiated collaboration with the upcoming Italian Presidency to develop impactful priorities and deliverables.

The OECD further supports the G7 as an implementation agency of the Deauville Partnership by developing and executing projects on investment, taxation, employment, and governance in key transition countries in the Middle East and Northern Africa region. Three new OECD projects under the MENA Transition Fund were approved at the latest meeting of the Fund's Steering Committee held in Rabat in May 2016.





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