BETTER POLICIES FOR BETTER LIVES
OECD 50th Anniversary Forum / Paris, 24-25 May 2011

FORUM BACKGROUND NOTE

NEW PARADIGMS FOR DEVELOPMENT

General Introduction for Session

The international commitment to achieve the Millennium Development Goals (MDGs) and halve poverty by 2015 has shown uneven results. Notable progress has been achieved in some areas, but without a major push in the next five years, the commitments to the world's poorest will not be met.

The situation is particularly worrisome in countries in situations of conflict and fragility, which are furthest away from achieving the MDGs. While other developing countries are making progress, these fragile nations are falling behind. The gap with other developing countries has been widening since the 1970s. Indeed, no conflict-affected or fragile state has achieved a single MDG and these countries account for three-quarters of the total MDG deficit.

While development aid remains important, we must not lose sight of its fundamental purpose – to lift nations out of poverty and create a future where no country will have to be dependent on development assistance to survive.

Developing countries can help themselves by mobilising their own resources, improving governance, and putting in place infrastructure and public services that work. This means improving the efficiency of domestic taxation systems– without a functioning system to calculate and collect taxes, governments miss out on income and corporate tax to finance public services and development – strengthening domestic accountability mechanisms to fight bribery and corruption, and enhancing international co-operation to fight tax evasion and illicit capital flows.

Efficient taxation and fiscal policies are needed to promote more equitable access to basic services and tackle high inequality. High inequality undermines the pace and pattern of growth and its effectiveness in reducing poverty. Enhancing access to services is key to improving poor people's ability to cope with shocks and promote their participation in the growth process. People need to be freed from the fear that a small increase in the price of rice or reduction in working hours will switch them from food security to hunger overnight.

International co-operation alone cannot deliver development. Without a sound, domestically-rooted development policy in developing countries, external financing, in the form of ODA (Official Development Assistance) or other instruments, will not deliver economic and social transformation and poverty reduction. At the same time, while policies must be locally owned, there is broad scope for exchange of experiences and lessons internationally – China's development success is a good illustration of the effective combination of strong local ownership and a willingness to learn from others. The OECD brings to the table experience as a pioneer on best practices and standard-setting, as well as 50 years of development aid co-operation.

Countries that are now fast-growing emerging economies can help developing countries who have yet to make the transition, both by sharing their experience of what worked for them, by trading with developing countries and through aid. Non-OECD economies now give over 100 times more aid to developing countries than they did in 1990, the equivalent of about 15% of the flows of OECD-DAC donors. Developing countries themselves can work together, boost trade and investment among themselves as well as with the emerging and developed world.

If countries are to be lifted permanently out of poverty, and we are to avoid a repeat of the global economic and financial crisis, we need a new type of greener, lasting growth. The world's poor who have no access to electricity cannot be left in the dark; cleaner, safe, renewable energy has to be available and affordable for everyone.

An estimated 70% increase in global food production will be needed by 2050 to meet the needs of a growing world population. Increased population will put pressure on other natural resources – minerals, water -- and global solutions will be needed to ensure that the benefits of growth and innovation are shared, and that we create a stronger, cleaner, fairer world that can deliver better lives for everyone.

■ PANEL 1: SUSTAINING DEVELOPMENT

Economic growth is the key to poverty reduction and development, but for development to be sustainable it must be innovative, greener growth that creates jobs and gives people the education and skills to perform them. This cannot happen in a vacuum. Government needs to provide the framework within which sustainable development can take place – strong public institutions underpinned by good governance. Transparent and functioning markets are the other side of this equation. In particular, access to finance remains a major constraint for too many people in the developing world – curbing entrepreneurship and innovation. Microfinance can help lift people onto the first rung of the ladder out of poverty, but they need to be able to keep climbing. Hence, promoting financial inclusion, through more effective and innovative financial services and better financial education, is key.

Food security is critical, but we already know that the Millennium Development Goals target of halving the proportion of people living in hunger by 2015 will not be met and a 42% increase in global food production would be needed by 2030 to match the expected rise in world population.

World energy demand is projected to increase by a third by 2035 -- with countries outside the OECD accounting for 93% of the rise. If developing countries are to achieve sustainable progress, that increased energy demand will need to be met by cleaner, more renewable and affordable energy sources.

Climate change and natural disasters hit the world's poor hardest – floods or drought can destroy entire communities already struggling to survive and improving agricultural productivity is impossible if there is no more water. And development and poverty reduction are impossible during conflict or civil war. Sustainable development will require a system to manage scarce resources in an equitable way and to ensure that developing countries reap the benefit of their own resources.

Trade and investment contribute to creating jobs and delivering growth in the developing world, not just by exporting to developed countries, but increasingly so through domestic demand and through 'South-South' linkages.

And governance is at the heart of any sustainable rise out of poverty for the world's poorest countries. Bribery and corruption can divert aid and public finances, tax evasion and inefficient tax systems drain public coffers.

Questions for discussion

1. *How can developed and developing countries work better together to liberalise trade further and promote higher and responsible international investment?*
2. *What can be done to increase agricultural productivity and production in developing countries, as part of the broader set of actions needed to promote global food security (such as higher incomes, safety nets, etc)? What can be done to limit the impact of excessive price volatility on the poor?*
3. *How can developing countries achieve affordable greener growth and what is the role of the international community in making it happen?*

PANEL 2: MOBILISING DOMESTIC RESOURCES AND EMERGING PARTNERSHIPS

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 statebuilding 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.

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.

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 external environment poses new challenges too. Competition between developing countries for investors can trigger a race to the bottom. Developing countries face challenges in designing and implementing effective transfer pricing and information exchange regimes and more generally in improving transparency. Donors spend a tiny fraction of ODA on supporting tax systems.

There are grounds for optimism. Several countries have made significant advances, often in the most challenging governance environments. The call for action is increasingly coming from developing countries themselves. In Africa, the creation of the African Tax Administration Forum, driven, managed, and in due course to be operationally funded by Africans, can provide 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.

Action is also required to strengthen developing countries' capacity to counter financial crime. The OECD has launched the "Oslo Dialogue", a whole of government approach to combating illicit flows such as tax crimes and other financial crimes. These activities all thrive in a climate of secrecy, inadequate legal frameworks, lax regulation, poor enforcement, and weak inter-agency co-operation and require an integrated approach within countries and global cooperation. Issues of financial crime and illicit flows are of concern to all countries, but particularly to developing countries as illicit financial flows resulting from financial crimes strip resources from developing countries that could finance their long-term development. The recent freezing of USD billions worth of assets owned by deposed North African autocrats and their families illustrates the point. Moreover, illicit financial flows are linked to organized crime, illicit goods, such as drugs and illegal arms, all of which impact the quality of governance, violent conflict and state fragility in the developing world.

Questions for discussion

1. *How can governments convince citizens that paying their taxes leads to better public services?*
2. *What can be done to attract investment and ensure it contributes to sustainable growth?*
3. *What specific challenges do developing countries face in fighting tax crimes and other financial crimes and how can developed countries help them respond? How can a whole of government approach help?*
4. *Building on the work of the OECD Task Force on Tax and Development and other partners, what more can the international development community do to help?*