OVERVIEW

THE ROLE OF OECD IN FINANCING SUSTAINABLE DEVELOPMENT

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The Addis Ababa Action Agenda clearly reaffirms the need to mobilise all available funding – public and private – to achieve the ambitious 2030 Agenda for Sustainable Development. The scale of required financing to realise the Sustainable Development Goals (SDGs) is unprecedented. In developing countries alone, the frequently cited estimate by UNCTAD puts the shortfall, or investment gap, at around USD 2.5 trillion per year.

What would it take to get to the trillions needed for financing the SDGs? No single financing instrument will deliver the SDGs. Official development assistance (ODA), private finance, as well as domestic fiscal revenues all play important roles. At USD 146.6 billion in 2017, according to the latest OECD Development Assistance Committee (DAC) figures, ODA forms a significant, yet small part of an ever-growing pie.

Official development finance

The OECD is exploring ways to better understand today's increasingly diverse and complex international financial architecture. To do this, new statistical methodologies and measures to better capture financing trends are being established, providing analysis to increase the transparency of finance available to developing countries. A new measure has been proposed and is provisionally entitled: Total official support for sustainable development (TOSSD). Going forward, the OECD will do its part to support international collaboration to shape and operationalise the TOSSD measurement framework.

The OECD is cooperating with the United Arab Emirates (UAE)[1] on broadening development finance. The UAE has significantly stepped up its development co-operation efforts in recent years. Its ODA, measured as a share of gross national income, reached 1.34 percent in 2013 and 1.17 percent in 2014 – well above the UN target of 0.7 percent and higher than that of all members of the OECD DAC. Many other policies beyond the scope of ODA but with an impact on development are carried out by the UAE. To get a better overview of all its official support for development, the UAE has completed a pilot exercise with the OECD, which identified three main areas of official support for development beyond ODA: (i) global public goods, (ii) financial instruments and (iii) private finance mobilised by official sector interventions. This pilot will also contribute to the current discussion of what a broader measure of international development finance should look like. Such a measure should incentivise public financing in support of the SDGs and mobilise private resources for that purpose.

Mobilising private finance

Mobilising the private sector in the SDG agenda is crucial for addressing developing countries' annual USD 2.5 trillion investment gap, and also for bringing the innovation needed to address social, economic and environmental challenges. The OECD has developed a range of policy tools to help governments mobilise private finance in support of their development objectives and the SDGs. Based upon the experience gained through the application of these tools in countries at all levels of development, three general lessons stand out.

First, the obstacles facing private investors need to be removed by putting in place sound policy frameworks that support this type of investment. It might seem obvious, but in many cases the easiest way to promote private investment in the SDGs is to remove policy impediments that are not serving some other important social or development objectives.

Second, thinking horizontally across a government is key in order to promote policy coherence. All too often policy objectives are undermined when the actions of different ministries run at cross-purposes. Trade policies, investment policies, tax policies, competition policies, development policies – they all need to be aligned in support of promoting investment for sustainable development. This will also mean moving away from business as usual to harness integrated responses to economic, social and environmental issues.

Third, even while considering scaling up the volume of finance from billions to trillions, utmost attention needs to be paid to the quality of the investment generated. This is why governments have such an important role to play in establishing good labour, social, and environmental policies, and in promoting responsible business conduct and helping multinationals keep their international value chains clean. This would also ensure that programmes and projects are implemented more efficiently and with greater transparency and accountability.

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Blended finance: Leveraging ODA to attract private finance

The strategic use of official development finance for the mobilisation of additional private finance towards sustainable development in developing countries – i.e. blended finance – is an emerging frontier and growing priority for development finance stakeholders as well as philanthropic actors.

The collaborative approach between development and commercial actors will require a culture change, especially among development finance providers. Established roles and mandates differ among development and commercial actors, as do working modalities.

To ensure that blended finance is deployed to mobilise additional capital effectively and to deliver inclusive development outcomes and impact, DAC members have endorsed the OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals. Moreover, the G7 ministers recently agreed to broaden awareness of these Principles in an effort to help advance the use of innovative financing to increase the flow of capital into emerging markets.

Domestic tax revenues

In addition to ODA and private finance, much of the financing to reach the SDGs will have to be generated domestically, based on effective taxation and good financial management. The OECD has developed a range of tools that enable countries to better track, manage and reform their systems to eliminate inefficiencies and generate more resources.

For example, the OECD Revenue Statistics have been expanded to over 80 countries, providing high-quality, internationally comparable statistics; the joint OECD-UNDP Tax Inspectors Without Borders has already realized USD 328 million in revenues to-date.

In addition, the OECD work to prevent base erosion and profit shifting (BEPS)[2] and the Automatic Exchange of Tax Information standards have helped countries raise 85 billion euros in unplanned additional revenues. The joint OECD, IMF, UN, and World Bank Platform for Collaboration on Tax goes further by supporting developing countries' implementation of BEPS measures and by increasing capacity support.

The OECD's Global Outlook on Financing for Development addresses these and other financing instruments that contribute to achieving SDGS. It captures and presents data on ODA, tax revenue statistics, foreign direct investment, remittances and philanthropy.

Green Finance and Investment

Given the long lifespan of infrastructure, the investment decisions made now will determine the likelihood of meeting the SDGs and the goals of the Paris Agreement. As the OECD report Investing in Climate, Investing in Growth shows, around USD 6.3 trillion a year of investment in infrastructure is required between 2016 and 2030 to meet development needs globally. The good news is that making these investments climate compatible would amount to less than 10 percent additional investment costs per year.

Governments have a pivotal role in mobilising green finance and investment, in particular by: i) strengthening the enabling conditions for investment by aligning policy action across the economy; ii) providing investors with a pipeline of bankable and sustainable projects; iii) unlocking the supply of finance through innovative domestic institutions (e.g. green banks) and financing instruments (e.g. green bonds); and (iv) encouraging fuller disclosure and reporting of climate impacts and risks. The recommendations of the Task Force on Climate-related Financial Disclosures are providing impetus in this direction. National and international development banks and development finance institutions also have a key role to play, for instance by de-risking private sector investments.

The OECD Action Plan on SDGs

However, mobilising more finance is only a means to an end. We need impactful and targeted policies that can help deliver the world we want in 2030. To bring together its contributions on policy, measurement and mobilisation of financing, the OECD adopted in 2016 an Action Plan on the SDGs. It recognises our collective responsibility, and the important role of the OECD in supporting our member and partner countries and the international community more broadly as we all work on the implementation of the SDGs.

NOTES

1. The UAE became the first non-member country participant in the OECD Development Assistance Committee in 2014. In 2015, the UAE provided its bilateral co-operation mostly to Egypt, Yemen, Jordan, Iraq, Morocco, Sudan and Pakistan. The main sectors of the UAE's bilateral disbursements were programme assistance, economic infrastructure (energy and transport) and humanitarian aid. The UAE provides its bilateral programme mostly in the form of grants.
2. 2. As of July 2018, from the Middle East and North Africa region, Egypt and the UAE are signatories of to the Multilateral Convention to Implement Tax Treaty Related to Prevent Base Erosion and Profit Shifting (BEPS).

implementation of the proposed overall strategy, and related action plans and programs, suggest corrective or remedial actions as may be required, and ensure adequate communication between the government, the general public, the private sector and civil society.

F. Follow-up, Monitoring and Implementation

Though most Arab countries do not lack development plans, the main flaw lies in the lack of the sustainability element. In many instances this is in addition to lack of implementation, follow up, and an assessment mechanism as an integral part of the plan. In many countries of the region proposed strategies, plans and programs are mainly associated with a specific cabinet or minister which are not necessarily subject to being seen through by subsequent cabinets and ministries. This practice has led to a waste in the use of resources, and the disruption and delay in achieving the set government objectives. This practice should be discontinued, with successive cabinets and ministers building on previous set strategies, plans, and programs and introducing necessary corrective actions as appropriate to address changing circumstances and emerging issues. Adopting such an approach will save scarce resources, ensures continuity and consistency of strategies, plans, and programs, and will promote building and capitalizing on success stories and learning from mistakes.

An important requirement for sound decision-making, follow-up, monitoring and implementation is the availability of high-quality reliable qualitative and quantitative data. This should be supported by adequate national capacities for data gathering, analysis and interpretation. Though the role of data gathering and dissemination is normally assigned to national statistical systems, close collaboration should be maintained between them and other