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A changing development landscape: calling for a new development framework

The global development context is fast changing as a result of the recalibration of the world economy towards East and South and the emergence of new actors. The sustained growth that large emerging economies have experienced over the last decade has conferred on them a considerable positive growth differential over the OECD average. Since 2003 more than half of world growth has derived from the non-OECD area. When combined with very large populations, these growth differences are reshaping the world economy. Increasing South-South linkages have created opportunities for trade, financial flows and knowledge exchanges: while world trade expanded almost fourfold over the last two decades, South-South trade multiplied more than ten times. More than half of global Foreign Direct Investment (FDI) inflows in 2010 went to emerging markets, versus less than 20 per cent in 2000.

As a result of this global, structural transformation, new opportunities are emerging for national governments and the international community to address the challenges of sustainable and inclusive development. Buoyant external demand and improved domestic policies delivered strong growth in many low-income countries, lifting millions out of poverty and contributing to better human development indicators. The emergence of global value chains has significantly altered the global economy through greater connectivity and fragmentation, offering new ways for developing countries to integrate in international markets. At the same time, they have increased the complexity and uncertainty facing these countries.

Still, enduring large pockets of poverty, rising inequalities within countries and higher stress on natural resources are warning signs that there is no room for complacency. On the contrary, they call for urgent, more coherent and collective action. We are all in this together. Our common goal is to improve people’s well-being. We need to join hands to restart growth and make it sustainable, shared and inclusive.

The challenge: restart growth and place it on more sustainable and inclusive path

Growth is recovering in early 2013, albeit at an uneven pace. The latest OECD projections and composite leading indicators confirm that activity is picking up in several major economies, although the outlook in some parts of the eurozone remains weak or negative. Emerging economies continue to grow at much faster rate and, given their substantial share of the world economy, they will again drive growth at the global level this year.

Despite these positive signals, the impact of the crisis is still lingering on, both in developed and developing countries. Although the crisis did not originate in developing countries, their economies and labour markets have not remained unaffected. The rapid rise in global unemployment has triggered an increase in vulnerability, especially in countries without comprehensive social protection. The
International Labour Organisation (ILO) estimates that three quarters of the increase in global unemployment in 2012 has been in developing regions and projects the number of unemployed to rise by about 8 million over 2013-14. Policies must continue to support global demand, while putting in place the conditions for a sustainable recovery.

We have also looked at major trends for the global economy over the next 50 years. Our findings show that the gaps in living standards between the world’s rich and poor countries will continue to shrink between now and 2060. Still, despite strong growth, the levels of Gross Domestic Product (GDP) per capita will continue to vary a great deal across countries. In 2010, 109 countries still had per capita income lower than 25% of that of the United States. Even maintaining strong growth, only 60 developing countries will be able to double their income per capita in the next 20 years.

What our analysis shows is that many countries may face significant challenges to undergo the necessary structural transformations to sustain high-productivity growth. This is a wake-up call for all of us: structural reforms are crucial to remove obstacles and unleash opportunities for growth and development, not only in the advanced economies that are now mired by the crisis, but also for emerging-market economies and developing countries. The pay-offs could be huge. According to our recent simulations, a comprehensive, internally consistent package of reforms carried out in advanced and emerging economies alike could deliver an increase in world GDP by 2.5% at the beginning of the next decade compared to a baseline scenario of limited reforms.

The road to recovery should be exploited as an opportunity to change our growth model and make it more sustainable and inclusive. While stronger growth is necessary to reduce poverty and create opportunities for more fulfilling lives, the quality of growth also matters. Resolute action is needed to tackle rising inequalities, strengthen social cohesion and make our growth model more inclusive. While we focused on growth, inequality kept rising, both in the developed and developing countries. The gap between rich and poor has widened in most countries; and even where it has declined, it stays high. In OECD countries today, the average income of the richest 10% of the population is about nine times that of the poorest 10%. However, for some countries the ratio is much higher, going up to 27 to 1. The World Bank estimates that the global Gini index is at about 0.70, which means that 8% of the world population accounts for half of the world income. Inequality is not only a concern for the present generation. Our analysis shows that intergenerational mobility – how children fare with respect to their parents – is lower in countries where present income inequality is higher. Tackling inequality today and ensuring more equitable access to quality health, education and social services for all is paramount to improve social mobility across generations.

We must also stop our collision course with nature and green our development model. The OECD Environmental Outlook to 2050, documents the economic, social and environmental consequences of maintaining a growth model that does not preserve our natural assets. Without resolute action, world energy demand will be 80% higher in 2050, with most of this increase coming from the emerging-market economies and mostly reliant on fossil fuel-based energy. This scenario could lead to a 50% increase in greenhouse gas emissions globally and cause the global average temperature to rise by 3 to 6°C by the end of the century, with developing countries severely impacted. Natural assets represent indeed an average 26% of national wealth in developing countries – compared to 2% in advanced economies: they would be first and most affected from such a colossal degradation of their environment.

Despite the recent strong growth in developing countries and their remarkable gains in reducing poverty and improving human development indicators, progress towards achieving the Millennium Development Goals (MDGs) is mixed. The situation of fragile countries is particularly difficult, as weak institutions, persistent vulnerability and the legacy of conflict often compound each other.
Improved social protection and safety nets are part of the answer, but due attention should also be paid to addressing the structural factors that produce or reproduce inequalities in income and opportunities. The social and structural transformation agenda should go hand in hand: jobs are the best solution out of poverty and bold reforms are needed to favour the structural transformation of the economy and unleash the new sources of growth that can lead to job creation.

All the above point to one clear direction: we need a new framework for development that promotes inclusive growth, combining the sustainable development and poverty eradication goals. In this respect, we congratulate the World Bank for its Strategy Paper and for placing on the Development Committee agenda the discussion of eradicating extreme poverty and achieving shared prosperity. The choice is particularly timely as we all engage in shaping a post-2015 development agenda which is relevant to all and places a premium on the vulnerable and marginalised.

**An ambitious post-2015 agenda: global, holistic, measurable and that “makes a difference”**

We need to work together to put forth a new and more ambitious vision for a post-2015 era. In our view, this new vision needs to be: global, holistic, measurable and meaningful. It must also allow for adaptation and tailoring at national level, to take into consideration different context, priorities and starting points. The vision should be:

- “Global” because the developing and the developed divisions between North and South no longer reflect our growing interdependencies.
- “Holistic” because we must address both the sustainable development goals and the poverty and human development agenda.
- “Measurable” so that we can achieve high levels of transparency, hold ourselves accountable and focus on outcomes geared towards improving peoples’ lives.
- Last, but not least, development paths, priorities - and the strategies to address them - must be owned nationally and take into account the specific context and capacities of each country.

Fighting poverty and exclusion must remain central to the development agenda. But to be ambitious beyond 2015 and make growth more inclusive for developing countries, we need to look at poverty with new lenses: beyond absolute poverty and income poverty (multi-dimensionality and well-being) and with greater emphasis on inequality and sustainability. We also need to consider how to ensure that moving out of poverty is sustainable. OECD and World Bank analyses have shown that populations that have moved out of extreme poverty into emerging or lower middle class status are prone to slipping back into poverty. The situation of women in many developed, and developing, countries also remains unsatisfactory - addressing this issue will also deliver significant growth and jobs. Therefore, we need to look at the whole spectrum of society and social outcomes, and treat poverty and well-being as a continuum, not as separate categories.

Understanding poverty in all its dimensions tells us that improving income and material conditions is not enough. Meeting other basic needs is equally important (e.g., housing, health, education, security, a pollution-free environment, clean water and effective non-corrupt institutions). It is essential to increase peoples access to opportunities and to reduce inequalities. Poverty measures should move beyond absolute thresholds to reflect distribution, i.e. relative poverty. For these reasons, there are growing calls to put the broad notion of “well-being” at the core of the post-2015 global agenda. There is an emerging narrative on how the OECD can play a supporting role in developing the post-2015 development agenda by contributing on ways to:
• Get to zero on poverty: The world is on track to achieve the MDG target of halving the proportion of people in extreme poverty, but we are far from achieving the overarching MDG of eradicating extreme poverty. Achieving this objective will require accelerating growth, notably in Africa and South Asia, but also making that growth more inclusive. The OECD has adopted “Inclusive Growth” as one of its top priorities to tackle the global economic crisis and pave a better way forward. It is exploring a new vision for growth that balances economic growth, equality, and well-being. This includes consideration of environmental sustainability, gender equality, educational advancement, and overall well-being.

• Measure what you treasure, keeping poverty reduction at the heart of development: The DAC and OECD at large will be supporting efforts to go beyond measuring income poverty by measuring multidimensional poverty, as well as inequality. In this respect, the well-being indicators that have been developed in the framework of the OECD Better Life Initiative offer a broad view of development, which could provide a useful input to the UN process.

• Moving toward the convergence of the development and environment agendas. Indeed, taking into account their specific contexts - such as the share of natural capital in their national wealth, the rapid population growth and urbanization, the need to extend access to energy, water and food products - they need to reconcile economic growth and the preservation of their natural assets. The forthcoming OECD report “Putting Green Growth at the Heart of Development”, prepared through an in-depth dialogue with Low-income Countries, will present successful examples of greening national plans and recommendations for international development cooperation in this domain.

The role of ODA: worrying trends on volume and continued efforts to improve quality

Official Development Assistance (ODA) remains crucial to support national development strategies and catalyse other development resources, both domestic and international, in particular for fragile states and LDC’s. It is critical that ODA continues to be an effective, predictable and sustainable source of development financing, especially for the least developed countries.

Against this background, it is worrying that Official Development Assistance (ODA) fell for a second year in real terms, declining by 4% after the 2% drop of 2011. It is particularly worrying that Africa and the Least Developed Countries (LDCs) are affected by the biggest reduction in ODA flows (respectively –10 and 13% for bilateral ODA) at a time where fiscal resources and macroeconomic buffers are being exhausted. As pointed out by the International Monetary Fund (IMF) vulnerability exercise, many low-income countries (LICs) have today more limited fiscal space and larger current account deficits than prior to the crisis. The decrease in ODA raises real risks for fragile states, considering its share in the external flows received by these countries. Providers of development assistance should continue to strive to meet their ODA commitments, both in terms of volume, quality and allocations to countries most in need (priority should be given to Africa and LDC’s). They should be particularly careful in addressing the most severe funding shortcomings, tackling the phenomenon of aid-orphans, and direct ODA where it can make the biggest difference.

Signs like the shifts in ODA in the last two years also indicate that discussions must move steadily on to considering the full range of financing for development options and valuing the catalytic role that ODA can play in leveraging support and/or investments from the private sector and other actors and for domestic resource mobilisation.

OECD is widening its approach to tracking financing for development to include a broader view of external financial flows and development finance – beyond ODA – to respond to the need to integrate this financing within the global economy, following on from a mandate delivered to the Development Assistance Committee at the DAC High Level Meeting in London on 4-5 December.
“How” to develop an inclusive dialogue toward 2015: the Global Partnership on Effective Development Co-operation

A solid framework for international, multi-stakeholder co-operation will be crucial if an ambitious future development agenda is to be implemented. The Global Partnership for Effective Development Co-operation offers such a framework. At the request of developing countries, the OECD is spearheading international efforts to monitor the commitments made at the Busan High Level Forum on Aid Effectiveness. The Global Partnership will empower governments, civil society, business actors, parliamentarians and others to hold each other accountable for implementing the reforms that are needed to enhance the quality of their development co-operation. DAC members have reaffirmed their readiness to be monitored. These efforts must continue beyond 2015. Current OECD work to measure quality in development partnerships offers one starting point for the integration of appropriate monitoring and accountability mechanisms in a post-2015 global development framework.

Last month, ministerial Co-Chairs from Nigeria, Indonesia and the United Kingdom met with the Global Partnership’s 18-member steering committee and charted the way for an ambitious programme of work for the Global Partnership in 2013 and the path toward a Ministerial event end-2013. This will involve the 160 member countries of the Global Partnership, as well as a range of organisations. Ministers are eager to support developing countries achieving their own goals of better domestic resource mobilisation; to explore the international system for knowledge-sharing, including South-South co-operation, and find better ways of brokering and funding these efforts; to engage the private sector in a forward-looking dialogue on its role and contribution to development, and to promote transparent co-operation that fosters inclusive development. The OECD is well placed to respond to this call from developing countries.

Conclusion

How can we move forward in developing a new framework for development? What can be the contribution of the international community and of the OECD in particular?

We see two fundamental pre-conditions to make a new development framework successful. First, there is a need to renovate our economic thinking. Our traditional economic models have not only failed to avoid the worst financial crisis of our lifetime, in some cases they have produced it and fuelled it. This has cost millions of people their homes, their jobs, and their financial security for life. We also need to improve our understanding of the complex realities and specific circumstances of developing countries. There is no single development model or trajectory and we should be careful in not inducing developing countries to simply mimic institutional models or recipes that have been developed for other contexts.

Second, we need to foster more effective multilateral cooperation to address issues of systemic importance and that have momentous consequences on developing countries, notably the most vulnerable. The evolving nature of international trade, investment, migration and the imperative of addressing climate change require better international frameworks that offer more certainty to governments as they develop their policies and regulations and to private sector as they make their investment decisions. This is why the efforts of the G20 and of the Global Partnerships are so important, because they can promote consensus building and help reaching decisions in broader international settings on how to pursue the shared objective of development.

How can the OECD help? At OECD we believe that this crisis is a unique opportunity to rethink our models and concepts. Therefore the OECD is looking for new drivers of growth and for understanding better the synergies and trade-offs that exist between different policies to promote inclusive growth, to preserve the environment, to make our societies fairer and more cohesive. This is why we have launched
a New Approaches to Economic Challenges (NAEC) initiative, through which we are trying to revise, update and improve our economic thinking and to connect the new ideas to policy-making.

In the same vein, our Ministers endorsed a new OECD Strategy on Development in 2012 whose chief objective is to enhance the Organisation’s contribution to worldwide development by leveraging its multidisciplinary expertise and policy networks. The Strategy was developed through a consultative process that involved several non-OECD countries, including our Key Partners (Brazil, China, India, Indonesia and South Africa) and the other non-OECD member countries of the Development Centre.

The Strategy aims to integrate the diverse perspectives and realities of developing countries into OECD analysis and policy advice and to provide a more coherent approach to development by combining more effectively our cutting-edge expertise in different innovative areas – e.g. domestic resource mobilisation and the fight against illicit flows; an enhanced assessment of learning outcomes in developing countries through our “PISA for development” project; or helping the latter to make the most of global value chains.

The Strategy is also an important instrument to strengthen collaboration with other International Organisations as they are regularly involved in consultations and often in joint-implementation of many of its projects.

To conclude, the OECD stands ready to work with the World Bank and the international community to promote a new development framework that effectively promotes shared prosperity for all.

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i The Global Partnership is Co-Chaired by ministers Ngozi Okonjo-Iweala (Nigeria), Armida Alisjahbana (Indonesia) and Justine Greening (UK). They co-chaired the second steering committee meeting of the Partnership in Bali, Indonesia, on 23 and 24 March 2013. The meeting was timed to coincide with the final meeting of the UN Secretary-General’s High Level Panel of Eminent Persons on the post-2015 development agenda, in which the Global Partnership co-chairs participated, and where they addressed an open letter to the panel on the Global Partnership. Information on the 18-member Steering Committee is available here.

ii 160 countries and 45 organisations (incl. international, multilateral, non-state, non-executive, private sector organisations...) endorsed the Busan Partnership agreement and, in so doing, agreed to form the Global Partnership for Effective Development Co-operation. Full list available here.