



BUSINESSatOECD

Business at OECD (BIAC) Development Strategy paper: **A roadmap to broadening development efforts**

Development has always been an integral part of the OECD and its mission of ‘promoting better policies for better lives’ within and beyond OECD countries. Moreover, the prosperity and stability of OECD members can only be ensured if inequalities worldwide are tackled and developing and emerging countries are supported in their efforts to develop and scale up their economies, fight poverty and promote inclusiveness.

The adoption of the 2030 Agenda for Sustainable Development in 2015 added new impetus to the work on development. The Sustainable Development Goals (SDGs) contained in the agenda aim to eradicate poverty and promote social and environmental development with the ambition to “leave no one behind”.

In order to achieve the SDGs, however, considerable amounts of additional financing are needed. The UN estimates the gap in financing at \$2.5- \$3 trillion per year - just in developing countries. This funding cannot stem from governments alone but underlines the need to enhance private sector financing and engagement for development. **In short: Development needs business.**

At the same time, business plays a key role in development. Beyond the provision of financing, companies can positively impact development through their engagement in and with developing countries, supporting local economic and societal development and promoting innovative approaches and technologies, as well as by providing expertise and informing policy makers about the challenges they encounter on the ground.

INTRODUCTION

The purpose of this document is twofold:

- 1) Serve as a reference and present an overview of topics that are both relevant to economic development and, at the same time, of interest to the business community;
- 2) Underline that companies can play an important role in advancing development and fostering efforts to achieve the Sustainable Development Goals (SDGs).

Many of the issues listed below are of a cross-cutting nature. They touch upon the work of various OECD Directorates and Divisions and often go beyond the traditional competencies of the OECD Development Cluster. Development is a horizontal issue and should be treated as such. This is why the *Business at OECD* Development (BIAC) Committee aims to engage in development-related work streams across Directorates and Committees.

At the same time, the *Business at OECD* Development Committee is coordinating across relevant *Business at OECD* Committees in order to streamline development topics into their work and outline the interlinkages between different policy areas. This paper was developed in collaboration with the *Business at OECD* Trade, Investment, Environment and Energy, Food and Agriculture, Anti-Corruption and Taxation Committees as well as the Anti-Illicit Trade and the Export Credits Expert Groups.

Note: This document is going to be updated on a regular basis to reflect new developments and challenges in the field of development.

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I. DEVELOPMENT IN TIMES OF COVID-19

The developing world is by far less well-prepared to deal with the economic and societal ramifications of the current pandemic – or any other future crisis. OECD Guidance and capacity building measures will thus be critically important to assist developing countries and boost their resilience going forward.

From a health point of view, the spread of disease – such as COVID-19 – may be more difficult to prevent in developing countries. This is mainly due to adverse sanitary conditions, ranging from poor urban planning, overcrowding and a traditionally more communal lifestyle to shortages in clean water in the poorest parts of the world.¹ A lack of awareness or trust in authorities' communications can further hinder efforts to contain the spread of disease. In addition, health systems tend to be more fragile due to often poorly-equipped, under-resourced hospitals and the absence of universal access to health care, and are hence likely to be overwhelmed by health emergencies like the current one.

Developing countries are further highly vulnerable to economic disruptions, including those caused by pandemics, as they often depend heavily on agriculture and/or other commodities, rendering them dependent on global market prices, which are likely to plummet during global economic crises. Since the onset of the crisis, developing countries have experienced drops in exports, capital and remittances inflows, as well as lower revenue from declining tourism.² At the same time, developing countries have fewer buffers, i.e. fewer fiscal capacities and less room for monetary policy support, to mitigate the effects of a crisis on the local economy. This is paired with low degrees of social protection resulting from a high prevalence of informal work. While strong monetary support in the early phase of the crisis has helped to smooth some of the economic effects of the pandemic, the situation remains fragile in developing countries, many of which have already been in debt distress or at risk of debt distress pre-COVID-19.³

COVID-19 has also lead to unanticipated demand surges paired with severe supply chain disruptions for certain goods and services in countries all around the world. Such situations may increase the risk of corruption and other illicit activities. Many developing countries are already struggling with corruption. Here it will be critically important to prevent an intensification of such activities, which could impede economic recovery as well as sustainable development efforts going forward.

Globally **three billion people do not have access to even basic hand washing facilities** at home.

[UN, March 2020](#)

The COVID-19 pandemic could tip **over 130 million more people into chronic hunger** by the end of 2020.

[The State of Food Security and Nutrition in the World Report 2020](#)

¹ According to the UNICEF/ WHO Joint Monitoring Programme report on [Progress on drinking water, sanitation and hygiene: 2000-2017](#) 2.2 billion people around the world do not have safely managed drinking water services, 4.2 billion people do not have safely managed sanitation services, and 3 billion lack basic handwashing facilities.

² [IMF Blog COVID-19: Without Help, Low-Income Developing Countries Risk a Lost Decade, August 2020](#)

³ [ODI Private lending and debt risks of low-income developing countries report, June 2020](#)

In case of emergency, most recently the COVID-19 pandemic, it is important to ensure immediate support, i.e. by providing relief, medical supplies and aid. While the World Bank and other international financial organisations play an important role in providing aid packages, the OECD can support this process by encouraging governments not to reduce their development budgets and to reach the 0.7% target.⁴ Where cultural or political perceptions lead to poor considerations of the risks of disease, the OECD can, as an independent voice (potentially also in cooperation with other organisations such as the WHO)s communicate on the need to protect people's health and safety and provide information on how spread and contagion can be limited.

Moreover, the OECD can assist policy makers on the ground with research and analysis as well as with guidance and advice about effective policy action. In the case of COVID-19, this amounts to identifying policy priorities for addressing the economic and societal impacts of the pandemic. The OECD can also provide an important platform for peer learning, i.e. the exchange of experiences and best practices between policy makers, and the coordination of national policy responses in specific regions of the world.

Supporting developing countries in times of crisis is not only essential from a humanitarian and ethical perspective, it is also necessary to defeat the pandemic and eventually overcome the COVID-19 crisis on a global scale as emerging markets are playing a key role in many supply chains as producers and providers of essential inputs and services. In the longer term, it is also important to recognize that a lack of support for developing and emerging market economies will only result in further widening of global inequalities, thereby impeding efforts to achieve Agenda 2030.

Meanwhile, restrictive trade measures and discussions on the reshoring and nationalization of production in the advanced world are exerting pressure on developing country economies. In underlining that a sound approach to more resilient supply chains needs to be based on a diversification of the supplier base– both at the national and the international level – the OECD can help safeguard an open trade and investment environment, which can act as a key driver of both growth and development.

Going forward, it will further be important to strengthen developing countries' resilience and 'pandemic preparedness', enabling them to better cope with future crises. The OECD could support this process by streamlining development aid and development cooperation projects to support investments in critical infrastructure (i.e. transportation, health and digital) and the development of effective crisis management tools as well as sound governance structures, which should also address potential corruption loopholes. Beyond this, the development of regional emergency resources hubs might help to enable more coordinated and efficient crisis responses in the future.

⁴ ODA should amount to 0.7% of national income

Lastly, as countries are designing large stimulus and recovery packages to address the COVID-19 crisis, it will become crucial to ensure that this money is well spent with a view on meeting long-term needs and objectives in order to ensure effective ‘building back better’ – both in developed and in developing countries. The example of the COVID-19 pandemic has demonstrated how quickly structural deficiencies can leapfrog and has exposed the challenge of dealing with difficulties that are growing in an exponential manner. Hence, in addition to better ‘preparedness’ for future potential health crisis, it will be important to consider sustainable and inclusive approaches as well as strategic investments to tackle critical challenges, including rising inequality, increasing debt, a growing digital divide and the increasing urgency to address and mitigate the impacts of climate change.

Business at OECD recommendations for OECD

- Raise awareness of the need to support the developing world.
- Use expertise about regions and countries to support developing country policy makers with tailored policy recommendations on how to deal with crisis.
- Provide a forum for exchange of best practices and experiences in addressing the crisis in specific regions of the developing world.
- Support investments in longer-term preparedness and resilience with a view on future crisis as well as addressing critical future challenges.

II. A BUSINESS PERSPECTIVE ON DEVELOPMENT

A private sector case for development

Many companies are involved with and engaged in developing countries, for instance through the provision of infrastructure, sectoral engagements or via global value chains. Business is hence often, directly or indirectly, intertwined with development issues.

Business can also play a key proactive development role by generating formal jobs, income and economic growth in developing countries. Moreover, business can inform policy makers about what is needed on the ground in order to render development policies more effective. Business can also share experiences and champion and promote successful approaches to development. Last but not least, business can help achieve the ambitious goals of the 2030 Agenda in a number of areas across the board, as will be outlined in the following sections.

At the same time, advancements in developing countries can support business engagement, opening new markets for production and sales. In fact, a certain level of development is often a crucial prerequisite for business engagement in a given country. Only if basic investment needs are met, i.e. if there is a sound regulatory framework in place, if infrastructure, transport and

educational systems are sufficiently developed and if transparency and non-discrimination in regulation are ensured, will business consider establishing operations abroad. Such achievements, in turn, may again depend on openness and the opportunity for business in developing countries to engage in trade with and learn from interactions with business in the developed world. There may hence be a virtuous cycle of market opening for developing countries.

1. THE SUSTAINABLE DEVELOPMENT AGENDA (THE 2030 AGENDA AND THE SDGs)

In September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development with the aim to eradicate poverty, enforce human rights and promote social and environmental developments. The Agenda is universal and calls on all countries at all levels of development to promote the 17 Sustainable Development Goals (SDGs).

To date, less than a decade remains to achieve these ambitious goals. While there has been progress on the path towards achieving more sustainability, the process is far from being complete, especially in developing countries. As the UN's Sustainable Development Goals Report 2019 reveals that, even before the COVID-19 crisis, global hunger was on the rise, and at least half the world's population was lacking essential health services. At the same time, the natural environment is deteriorating at an alarming rate, with severe consequences for countries all around the world.⁵ Developing countries also lag in digitalisation, which as the COVID-19 crisis has demonstrated, will become all the more important in the future. Developing countries also face gaps in skills development, which is essential to attract economic activity and foster employment.

Business can contribute to the achievement of the 2030 Agenda by creating jobs for the millions of young people entering the workforce every year, providing tangible investments and supporting the integration of local producers into the global market, making technologies available, supporting mobilization of financing and engaging in innovative public-private partnerships (PPPs).

The SDGs have already become a business case and an integral component of corporate strategies in many instances. Companies are aware that sustainability matters for business with a view on long-term viability and competitiveness. The SDGs provide guidance to companies on how to keep pace with recent policy developments, strengthen their stakeholder relations, identify future business opportunities and stabilize societies and markets. Companies are rethinking and redesigning processes and value chains, integrating sustainability considerations into their ethical codes and disclosing non-financial aspects of business performance in their annual reports. Given the potential of these recent developments, the OECD should consider exploring how companies can be encouraged to further incorporate the SDGs into their business models. Well-designed

⁵ [United Nations The Sustainable Development Goals Report 2019](#)

sustainable finance definitions and inclusive taxonomies may further support this process, helping to foster transparency, long-term planning and strengthen sustainable growth.⁶

The B20 as the official voice of the global business community to the G20, too, have aligned their most recent policy recommendations closely with the SDGs. The B20 are also calling to initiate a multilateral dialogue to discuss ways to align countries' economic and industrial policies with the SDGs by 2021⁷, recognizing that conducive frameworks will be needed to support progress towards the SDGs.

2. THE ROLE OF TRADE AND PRIVATE INVESTMENT FOR DEVELOPMENT

Globalization and market liberalization are widely recognised as major drivers of development. Over the course of the past decades, countries have continuously eliminated barriers to foreign capital flows, trade and investment. This process of opening up and embracing global markets has been accompanied by a number of development success stories.

Making trade work for development

Lower tariffs and quotas foster trade and allow people and businesses in developing countries to not only access greater amounts of goods and services at lower prices, but also to benefit from wider ranges of goods and services. Furthermore, open markets imply that people and businesses in developing countries can access opportunities in foreign markets, while economies can build up their capacities by exporting abroad. The inclusion of domestic enterprises in global value chains (GVCs) can further help to reduce informal work, thereby preventing tax revenue losses, and promoting 'more and better jobs' that offer better pay as well as higher standards of job safety.

Thus, open trade can eventually induce socio-economic change, familiarizing consumers and workers in developing countries with new, innovative practices and approaches. While environmental, social and governance (ESG) standards might also encourage higher social and environmental standards, it is important to recognize the need to conclude trade agreements in a timely manner.

The share of the world's **population living on less than PPP USD 1.90 per day fell from around 35% in 1990 to less than 10% in 2015.**
[OECD 'why open markets matter'](#)

Between 1980 and 2014, **the price of a roughly comparable TV set fell by 73%**, in part as the result of ambitious trade liberalization efforts.
[OECD 'why open markets matter'](#)

⁶ [Business at OECD Environment and Energy and Finance Committees - Key Messages on Efforts to develop sustainable finance definitions and taxonomies](#), March 2019

⁷ [B20 Saudi Arabia Realizing Opportunities of the 21st Century For All – Transforming for Inclusive Growth](#)

To reap the benefits of open trade, however, certain preconditions must be met. Countries that wish to open up must have a sound physical and digital infrastructure in place. Effective customs systems, transparency in trade regulation, predictable dispute resolution mechanisms and rule of law more broadly are also key factors. Poor connectivity, low electrification levels, fragmented transport networks, underdeveloped financial markets and anticompetitive market structures, by contrast, hamper the success of market opening.

Against this backdrop policy makers have developed the concept of ‘aid for trade’, a special form of Official Development Assistance (ODA) targeted at developing countries, which supports the formation of necessary capabilities and infrastructure in order to proceed with market opening. Multilateral finance institutions can also help to provide finance, assistance and technical solutions, including through development cooperation projects, while business in developed countries can support the process by engaging with business in developing countries, thereby exporting the ‘expertise’ needed to build up capacity for international trade.

Moreover, one needs to take into account that the large inflows of cheaper goods that typically follow a market opening can also increase the degree of competition in developing markets. On one hand, this drives more efficient use of resources and fosters innovation. On the other hand, reinforced competition may also drive local businesses or even entire industries out of the market. As a consequence, countries may resort to protecting local industries with tariffs and other barriers in the interest of the development and ‘maturation’ of their own industries before they can compete effectively against established companies abroad. This, however, bears the risk that, shielded from competition, protected industries and companies grow to be inefficient, with high chances of failure once restrictions are lifted. In addition, such ‘infant industry protection’ hurts consumers and may even trigger retaliation by other countries.

One way to address the above mentioned challenges of market opening is the introduction of flanking measures and/or restructuring plans. Governments can for instance reconsider their educational systems in order to leverage different skills, and reform their labor markets so as to foster greater flexibility. International multidisciplinary organizations such as the OECD can play a crucial role in this regard, by advising and supporting governments in the identification of areas of education and skills as well as labor market structures that are worth developing further.

On restructuring, it is crucial to ensure that trade and investment liberalization go hand in hand, such that the capital, which is needed to modernize local production, diversify, and unlock countries’ competitive advantages, is sufficiently available in developing countries. A key instrument for capital flow management and liberalization in this context is the [OECD Codes on Capital Liberalization of Capital Movements and of Current Invisible Operations](#) (frequently referred to as ‘the Codes’). Countries adhering to the Codes have agreed to progressively remove barriers to the movement of capital, while the Codes also allow for flexibility to cope with situations of economic and financial instability.

The qualities and qualifiers of private foreign direct investment⁸

One important form of capital inflows is foreign direct investment (FDI). FDI by large multinational enterprises (MNEs) can contribute to the creation of jobs, the development of formal economies, the provision of technology and the establishment of linkages with local firms, further supporting domestic business in developing countries in accessing new markets and getting integrated into global value chains (GVCs).

FDI can also play a key role in fostering a diversification of the host economy. Such diversification, e.g. the move towards a more diverse production and trade structure, is critical to economic development, as it supports the creation of more complex production structures ('upgrading') and decreases the vulnerability to external shocks (for a concrete example outlining the importance of diversification see the MENA box below).

In addition, foreign company engagement can contribute to the enhancement of the host countries' skills base (through learning-by-doing as well as knowledge and technology transfer) and foster a culture of education, research and development, which may eventually generate spill overs and speed up progress also in other sectors (e.g. modernization of the production in the primary sector).

FDI can also help to promote environmental, social and governance goals, for instance by introducing new employment practices, exporting innovative and sustainable technologies and spreading socially responsible corporate policies.

MNEs employ 82 million people, and are responsible for most of the world R&D spending.

[OECD Drivers of divestment decisions of multinational enterprises - A cross-country firm-level perspective, January 2020](#)

"... There is evidence that *foreign-owned firms pay higher average wages* - (...) Foreign investment may (also) *induce wage increases in domestic firms* by shifting up the labour demand curve, thereby increasing equilibrium wages ..."

[World Bank Beyond Capital: Monitoring Development Outcomes of Multinational Enterprises \(MNEs\), December 2018](#)

For FDI to unfold its potential for development, businesses require – first and foremost - transparency and certainty as well as a guarantee of rule of law, market access and non-discrimination in the host country. Put differently, it is important from business' perspective that the respective country has a sound regulatory framework in place and that there is a level playing field for domestic and foreign as well as private and state-owned enterprises. In addition, businesses that are establishing their operations abroad require a certain level and quality of 'inputs', i.e. skills and location characteristics.

⁸ Targeted public investment is equally relevant for development and can in some instances help leverage private sector investment/create multiplier effects.

To attract FDI governments may thus consider how to support infrastructure development as well as investments in education. [The OECD Policy Framework for Investment](#) offers policy makers a broad-based checklist of policy recommendations for improving their environment for investment. Enabling free flows of data for the digital economy may also support foreign investments.

Nevertheless, businesses still face various obstacles to investing abroad. Depending on the respective target region, obstacles may range from regulatory deficiencies, high costs and delays associated with bureaucracy and red tape, insufficient or outdated infrastructure and low levels of skills among domestic workers, to problems in finding suitable business partners. As a key impediment to investing in Africa, for example, companies frequently mention the absence of a sound regulatory framework as well as a lack of education and development of labour markets, while in the Middle Eastern and North Africa region, restrictions on foreign ownership as well as restrictive screening and approval procedures have long impeded FDI inflows (for more information, see again the box below). Another threat for investors may be political risks associated to FDI in the absence of available covers through insurances or guarantees.

The OECD is working on projects, which aim to improve the investment climate in potential host economies. It maintains, for example, the [MENA-OECD Competitiveness Programme](#), which aims to mobilize investment and foster entrepreneurship in the MENA region. Such projects are useful, practical and should be continued, ideally with a focus on promoting key instruments (i.e. OECD MNE Guidelines, OECD Policy Framework for Investment) also in non-member countries.

Yet, given the deteriorating global economic and political climate, exacerbated by the COVID-19 crisis, triggering lockdowns and border closures, global trade and investment flows are in retreat. In 2019, the IMF estimated that the US-China trade tensions alone would reduce the level of global GDP by 0.8% in 2020, not yet accounting for the impact of COVID-19.⁹ Meanwhile, the multilateral trading system and the WTO remain largely paralyzed.

The picture is equally grim in the field of investment where rising geopolitical tensions and uncertainty have been affecting investment, hampering companies' appetite for investment abroad. FDI flows have thus exhibited a continuously decreasing trend, with the levels of FDI in 2018 and 2019 being lower than at any time since 2010, when flows dropped in the wake of the 2008 global financial crisis.¹⁰ According to recent estimates, FDI flows can further be expected (even under the most optimistic scenario) to fall by 30%-40% in 2020 as companies' revenues are plummeting as a result of the COVID-19 crisis.¹¹ Private investment is further hampered by reshoring considerations and the introduction of new screening mechanisms motivated by national security concerns. These development should be given increased attention in the policy debate, for instance in the context of the OECD Freedom of Investment Roundtable.

⁹ [Reuters, September 2019](#)

¹⁰ [OECD FDI in Figures, April 2020](#)

¹¹ [OECD Foreign direct investment flows in the time of COVID-19, May 2020](#)

Addressing these trends is of critical importance given that trade and investment may play an essential role for addressing the challenges of recovering from the crisis, diversifying risk and strengthening resilience going forward. Aside monitoring efforts, the OECD should therefore also communicate strongly on the benefits of open investment and trade regimes. The inclusion of sustainability considerations into trade, finance and investment agendas can thereby also facilitate reactivation and support for ‘building back better’ by alleviating some of the root issues of trade disputes and supporting the development of a more balanced and inclusive global trade system.

[The FDI Qualities project](#) is a good example of how the OECD can demonstrate the value of an open investment climate and help strengthen the understanding of how the benefits of FDI go beyond the supply of capital. The project consists of two parts, the development of dedicated FDI Qualities Indicators and the design of a practical toolkit, which is intended to support policy makers in maximizing FDI’s contribution to sustainable development, taking into account respective host country conditions. Business supports the initiative with the understanding that FDI should be assessed by considering its contribution to the SDGs broadly, including its contribution to the achievement of fundamental goals such reducing poverty, addressing infrastructure requirements, improving health and education levels and raising living standards.

Business at OECD recommendations for OECD

- Explore how to most effectively link development aid with trade and investment liberalization and domestic reform.
- Provide easily accessible information, facts and figures to non-technical audiences, underlining how trade and investment contribute to economic development.
- Support the reform of the international trading system.
- Strengthen collaboration between the OECD development and investment experts, for instance in the context of the FDI Qualities project.
- Leverage the FDI Qualities work to demonstrate the impacts of FDI for SDG-related targets (e.g. the role of the private sector for formal job creation, upskilling, promotion of managerial practices etc. in developing countries) and identify ways in which policy makers in developing countries can attract FDI which is conducive to development.
- Promote the development of an enabling environment for both foreign and domestic investment in developing countries, for instance by fostering education and professional training programs that provide people with the skills required by the labor market, to enable the generation of more and better jobs.

Spotlight: Investing in the MENA region

The Middle East and North Africa region (MENA) comprises a set of highly heterogeneous economies exhibiting low levels of regional integration. What the MENA economies have in common, however, is their resource-based production structure and their concentration of exports in primary commodities resulting in a lack of economic diversification. The most distinctive example in this context are the Gulf countries whose economies are centered on the extraction of oil and gas. This specific set-up generates export dependencies and makes the MENA economies vulnerable to external shocks. Promoting diversification is hence a policy imperative. Moreover, conflict and fragility continue to distress the MENA region. Their negative ramifications constitute a threat to stability beyond the countries which are immediately affected, which in turn, further discourages investment. Yet, even though the region suffers from an image deficit, it also offers many business opportunities related to the region's geographical situation and its potential role of acting as a hub in enabling access to new markets on the African continent.

FDI by foreign multinationals can play a key role in promoting the economic development of the MENA region, fostering diversification, and enabling a better inclusion of domestic suppliers in GVCs, thereby fostering the region's stabilization and overall integration in the world economy. To date, however, FDI tends to be concentrated in extractive and non-tradeable sectors. Moreover, investors tend to be somewhat reluctant to become engaged in the region. Businesses wanting to invest in the MENA region often report as obstacles to investment, regulatory deficiencies (i.e. high tariff barriers and barriers to investment, corruption), unmet preconditions (a lack of connectivity and infrastructure, limited market access and missing integration of the region) as well as concerns related to investment security.

To tackle these problems, MENA countries have over the course of the last few years implemented a number of reforms, facilitating trade and lowering the barriers for foreign investment. Egypt, Jordan, Morocco and Tunisia have also become adherents to the OECD Declaration on International Investment and Multinational Enterprises.

Going forward, MENA governments will need to continue investing in infrastructure and fostering skills development. It remains a core priority to ensure that governments deliver on reforms and policy promises in order to meet investors' needs. Moreover, while foreign MNEs can play an important role in the development of the MENA region, putting in place policies to attract FDI should not be seen as a substitute for a country's larger trade and investment reform efforts. MENA countries should also promote the development of the local economy and domestic businesses. This may be achieved, amongst other initiatives, by reinforcing the fight against corruption, which is often cited as a major obstacle to entrepreneurial activity. To improve the investment climate for both foreign and domestic investors, MENA countries may also find it useful to refer to the Policy Framework for Investment (PFI) or the [OECD Declaration on International Investment and Multinational Enterprises](#). Adherence to such international instruments may have a signaling effect, helping address the region's image deficit.

Business at OECD acknowledges the OECD's engagement in and cooperation with the MENA region in the context of the MENA-OECD Competitiveness program, providing analysis and on-the-ground support with training and capacity building initiatives, and actively supports the work of the MENA-OECD Business Advisory Board, informing the work of the Competitiveness program.

Source: [EU-OECD Programme on promoting investment in the Mediterranean region](#)

3. ENVIRONMENT AND DEVELOPMENT

A recently published report by United Nations Environment Programme indicates that global greenhouse gas emissions growth at its current pace will lead to a global temperature increase of as much as 3.2 degrees Celsius above pre-industrial levels by 2100.¹² Such temperature rise would not only be far off from the initial target of the Paris agreement of holding the increase in the global average temperature to well below 2 degrees Celsius (and pursuing efforts to limit the temperature increase to 1.5 degrees Celsius) above pre-industrial levels, but it would potentially also entail disastrous effects on the environment, our societies and economies.

The effects of climate change are already and increasingly felt in countries all around the world. Developing countries are thereby especially affected by increased climate variability and changing eco-systems. Challenges include an increase in extreme weather events (storms, floods, droughts and heatwaves), decreasing soil fertility, losses of biodiversity and shortages in water availability, which pose serious threats to food security, especially in the least developed countries.

Just like many OECD economies, developing countries are hence in a great need of effective adaptation strategies to reinforce their climate change resilience. Such strategies may involve an alignment of practices and processes with new climate conditions, including more efficient deployment of scarce resources, developing drought and disease resistant crops, choosing different agricultural and forestry practices and investing in climate resilient infrastructure, such as building defences and adapting buildings to new climate conditions and extreme weather events. At the same time, however, developing countries often lack the resources and political support to establish adequate safeguards.

Assistance in this regard can come through 'traditional' channels, such as development aid, but also through the engagement of foreign multinationals. FDI can provide developing countries with more advanced technology, the relevant infrastructure and the expertise needed for meeting the challenges of changing eco-systems.

With respect to mitigation, the reduction of greenhouse gasses (GHG) and CO₂ emissions must be envisaged on a global scale. The question how developing countries can best be engaged in this

¹² [UNEP Emissions Gap Report 2019](#)

process, taking into account the “Common but Differentiated Responsibilities Principle” enshrined as Principle 7 of the Rio Declaration at the first Rio Earth Summit in 1992, however, remains highly debated. The OECD is exploring how developed countries can further support the uptake and diffusion of more environmentally friendly practices in developing countries. Approaches include efforts to better align development finance with climate goals.

In this context, however, it is important to ensure that due attention is paid to activities which may not be zero-carbon by definition, but which might still be needed in the path towards Paris Agreement-aligned economies. Put differently, it is important to take into account transition and enabling activities and consider how the potential of carbon intensive sectors can be leveraged for the achievement of climate policy objectives, safeguarding the principles of technology neutrality, cost effectiveness and free competition.

The engagement of private enterprises, providing the necessary products, services and infrastructure can further support climate mitigation. By exporting energy-economising technologies and innovative production systems or introducing infrastructures, technologies and know-how to harvest fossil-free energy sources such as wind, sun, hydropower or biomass, foreign MNEs can support developing countries’ efforts to meet the climate goals.

*Between 2000 and 2010, **the number of patented inventions related to climate change mitigation in buildings, transport and energy generations has tripled.***

[OECD, The World Bank, United Nations Environment Programme: Financing Climate Futures Rethinking Infrastructure, November 2018](#)

Another item to consider on the climate change agenda may be the promotion of sectoral decarbonisation, fostering a change in the energy mix, reducing the share of CO₂ emission intense fuels and steering towards energy solutions with a lower carbon intensity such as natural gas, power generated from wind, hydropower and/or hydrogen. This may also be supplemented with carbon capture and storage technologies (CCS). The OECD could look into potential approaches, such as rewarding companies that commit to reducing their carbon footprint and incentivizing consumers to change their demand patterns by encouraging low-carbon choices. However, we also underline the importance of technology-neutral policies looking for efficiency improvements across sectors.

The promotion of the circular economy may also play an important role in fostering sustainability and the achievement of the SDGs. The OECD is strengthening its focus on resource efficiency as the topic is gaining more and more traction in international policy debates. The inclusion of a development focus and engagement with business on these important discussions may be pivotal to drive change.

Business actively supports the OECD’s environment agenda and the Paris Agreement and is committed to make efforts to address key environmental challenges. Meanwhile, *Business at OECD*

underlines that carbon footprint should not be the only evaluation criterion for investments. Private investments should also be evaluated in terms of their contribution to overall energy improvements (access and energy mix) as well as their role in developing the broader societal and economic context of their operations.

Especially in light of SDG 7, ‘ensuring access to affordable, reliable, sustainable and modern energy for all’, it is important to consider company engagements relative to the country’s energy mix and to assess how investments can support and stabilize the overall access to energy. Tackling energy deficiency, in turn, is also key to support investment and trade as drivers of development.

Going forward, we call on the OECD to include business in these important discussions to ensure that decisions taken do not preclude private sector activity, but instead leverage the private sector as a partner in efforts to find effective solutions for the consolidation of environmental protection and development goals.

Business at OECD recommendations for OECD

- Maintain a close dialogue with the private sector in order to help economies identify approaches to climate transition, which are easily implementable on the ground and which do not entail adverse economic effects.

4. PRIVATE FINANCING FOR DEVELOPMENT

The financing needs of developing countries necessary to achieve the ambitious goals of Agenda 2030 are enormous and growing. UNCTAD estimates that in order to meet the SDGs by 2030, total investments in SDG-relevant sectors in developing countries will necessitate between \$3.3 trillion and \$4.5 trillion annually. This implies that there will be annual financing gap of some \$2.5 - \$3 trillion between the current funding and what is required.¹³

In addition, developing countries are likely to face additional financial challenges associated with the fight against climate change, the adaption to new environmental realities and efforts to address the ramifications of the COVID-19 crisis. The necessary funding cannot be stemmed by governments alone (even if they were to spend 0.7% of their GDP on ODA) and underlines the need to leverage other sources of financing, including such which engage the private sector for the support or provision of funds.

¹³ [IFC Closing the SDG Financing Gap—Trends and Data \(2019\)](#)

*'To meet the investment needs of the Sustainable Development Goals, the global community needs to move the discussion **from “Billions” in ODA to “Trillions” in investments of all kinds: public and private, national and global, in both capital and capacity...**'*

Joint report by The African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund, and the World Bank Group, April 2015 ([Link](#))

Mobilizing sufficient private capital flows for the SDGs, however, requires urgent action and innovative approaches - especially in light of the fact that less than a decade remains to deliver on the SDGs.

To begin, what is needed is a reinforced focus on other financial flows aside ODA that support sustainable development. The international finance landscape has changed, new actors have emerged and new financial instruments have come into use in development co-operation. At the same time, there has been an ever growing emphasis on sustainable development. In order to account for these changes, an international, multi-stakeholder task force of experts under the realm of the OECD Secretariat is working to develop the [Total Official Support for Sustainable Development \(TOSSD\)](#) statistics, which will constitute a new international statistical framework for monitoring official resources and private finance mobilized by official interventions in support of sustainable development, more broadly, and the 2030 Agenda, more specifically. TOSSD is an important step in the right direction, yet the concept needs to be designed carefully in order not to exclude certain types of financing that may contribute to capital mobilization in developing countries.

In addition, mobilizing private financial flows for the SDGs requires a stronger recognition of the fact that loans, credit-insurances and guarantees provided by multilateral institutions or private entities can also contribute to sustainable development. Export Credit Agencies (ECAs), specifically, which support exports and foreign investments from their respective home countries going abroad, can contribute to advancing economic development by providing access to capital and enabling projects in key segments of the economy (e.g. infrastructure and industry). Export credits extended directly to an aid recipient by an official agency or institution (official direct export credits) are included in the 'other official flows' (OOF) statistics, which are reported alongside ODA. ECA financing also counts into TOSSD, however only in combination with development finance from international financial institutions or development finance institutions and only when it is explicitly linked towards an SDG goal. That said, TOSSD currently disregards other official flows (like ECA cover) which are nevertheless important to deliver the large levels of capital mobilization that are required for the coming years. This issue should be addressed in future discussions on TOSSD.

Another important consideration in this context is that, over the last decades, there have been important geographical shifts in the balance and scope of international trade and an increasing importance of global value chains. [The OECD Arrangement on Officially Supported Export Credits](#),

which constitutes an important milestone in the field of export credits, however, dates back to 1978 and is hence facing significant limitations. As a result, many OECD-based businesses now face unfair competition in the financing of exports. *Business at OECD*, together with the European Banking Federation (EBF) and the International Chamber of Commerce (ICC), has called for a modernization of the Arrangement, outlining several much needed immediate updates (including increasing the cover of local costs, allowing for market-reflective repayment profiles, increasing maximum repayments terms, and greater down payment flexibility), and laying out guiding principles for a fundamental update.¹⁴ Such modernization could also serve as an occasion to align the Arrangement with current challenges including the sustainable development agenda, bearing in mind that this should not result in individual ECAs rushing forward in ceasing support for selected technologies, thereby creating an un-level playing field.

Relatedly, stronger convergence between the export and development finance agendas is needed. While most countries provide ECA and ODA financing at the same time, they often face different rules and criteria in development and export finance. A better alignment of the rules of (multilateral and bilateral) development finance and officially supported export credits would help to ensure a global level-playing field and make sure that the modernization of the Arrangement is effective by avoiding circumventions in other policies areas such as ODA.

Moreover, it will be crucial to address those factors that prevent private capital from flowing to developing countries in the first place, such as low return expectations coupled with high risk perceptions. These often relate to high up-front capital costs, long timeframes for achieving returns, and the absence of well-functioning capital markets. Innovative financial tools can help mitigate risks and improve investors' risk vs. return trade-off.

One promising concept in this context is blended finance, which combines ODA with other private and public resources. More specifically, blended finance builds on grants (funding specific activities to decrease overall project costs), technical assistance (i.e. initial impact funding assessments to improve success probability), guarantees (promising partial or full repayment in case of failure), first capital loss principles (specifying that 'first loss' investors, usually a public entity, lose money first in case of failure) and equity investments (i.e. the public sector buying a share of the investment in equity) in order to reduce the uncertainty associated with investments in developing countries. On this, the OECD has developed five [OECD DAC Blended Finance Principles](#), which aim to ensure that blended finance is deployed in the most effective way and is currently in the process of developing guidance for policy makers to support the implementation of these principles.

Financial innovations, such as blending, may bear a great potential for leveraging private finance for infrastructure and industry development, yet, they may not be suitable for all developing countries and projects. It must also be ensured that such tools do not crowd out traditional market-based finance and commercial bank loans. Most importantly, it must be kept in mind that while

¹⁴ [Business at OECD - European Banking Federation - International Chamber of Commerce, JOINT BUSINESS POSITION ON THE MODERNIZATION OF THE OECD ARRANGEMENT, November 2019](#)

blending does help to reduce investment uncertainty, it does not address the root causes of this uncertainty.

These challenges need to be tackled by developing country governments on the ground, through reforms and improvements of domestic policy making, regulatory frameworks and legislative processes. This will also be critical to counter misalignment and reversals of financial flows, which often arise from economic instability and political uncertainty in host countries. Governments should further address the misuse and loss of financing through corruption and criminalized markets. Lastly, ‘crowding in’ of private finance also requires effective ‘buy-in’. The OECD could support this process by helping to shift the narrative from the risks and obstacles associated with developing countries to the opportunities and chances for business, trade and investment.

Business at OECD recommendations for OECD

- Consider the role of exports credits and the modernization of the OECD Arrangement on Officially Supported Export Credits for leveraging sustainable development.
- Raise awareness for and reach out to business about blended finance initiatives, for example through new platforms and fora.
- Engage with the private sector to learn more about barriers to capital and investments in developing countries.
- Support the improvement of the investment environment and financial markets in developing countries, for instance by further promoting OECD tools and standards including the Policy Framework for Investment.

5. DEVELOPMENT, CORRUPTION AND ILLICIT TRADE

Development efforts are curtailed by inefficient resource allocation resulting from issues such as corruption and illicit trade, which also foster insecurity and instability around the world.

Corrupt politicians may seek to appropriate resources that appertain to the public or may decide to assign public funds, including development aid, not to the projects which entail the greatest value to society, but which entail the largest benefits to selected individuals in exchange for bribes and favours. This may eventually have severe impacts on a country’s development, for example, if expenditures for education, health or infrastructure are reduced - or if funds for investments in critical, future oriented technologies and infrastructure are diverted at the cost of a corrupt decision. Needless to say, corruption also represents an impediment to the principle of fairness and the establishment of equal opportunities, be it in the acquisition of resources, market competition, or the distribution of income, thus hindering societal development more broadly.

Moreover, there is also an important relation between corruption and human rights. Unsafe working conditions and human trafficking, for example, are often facilitated by bribery and other

corrupt practices. Illegal logging, wildlife trafficking and the pillaging of natural resources are other instances where corruption and illicit trade can cause significant damage to communities by reinforcing environmental degradation.

Most significantly, the perception of high levels of corruption in a potential host country is a disincentive to invest and engage in FDI. Corruption can thus curtail investment which could have supported the recipient country's economic development with additional financing, infrastructure and the generation of jobs. Commercial banks, and potential donors, too, may shy away from allotting funding to "difficult" projects or areas where the risk of corrupt managers or politicians misusing the money is high. Tragically, sluggish development due to a lack of funds, leading to persistent inequality and poverty, in turn, can reinforce incentives to engage in corrupt acts, thereby creating a vicious cycle.

*In total, **corruption** costs developing countries \$1.26 trillion every year.*

[World Economic Forum, December 2019](#)

*Leakages from **illicit trade** create an annual drain on the global economy of \$2.2 trillion – which amounts to **almost 3% of the world GDP**.*

[UNCTAD/Transnational Alliance to Combat Illicit Trade \(TRACIT\), July 2019](#)

The OECD is a leading institution in the international fight against corruption, building on its [Convention on Combating Bribery of Foreign Public Officials in International Business Transactions](#) (Anti-Bribery Convention). The Anti-Bribery Convention is a legally binding instrument, which requires States to criminalize the bribery of foreign public officials under their laws and to investigate, prosecute and sanction respective incidents. It has, to date, already been adopted in 8 non-OECD countries – namely Argentina, Brazil, Bulgaria, Colombia, Costa Rica, Peru, Russia and South Africa. The OECD should, however, consider further expanding the circle of adherents to help level the playing field and support development efforts on a global scale.

Over the years, the OECD has furthermore introduced a number of other standards to address corruption in more specific contexts, including the case of ODA. The [OECD Recommendation of the Council for Development Cooperation Actors on Managing Risks of Corruption](#) (2016) suggests measures for preventing corruption in ODA-financed projects, specifies sanctions to be provided in ODA contracts and advises development agencies on how to work towards a comprehensive system for corruption risk management.¹⁵ While we strongly support OECD work on legal instruments and recommendations, *Business at OECD* underlines the importance of effective (legal) enforcement of these measures. There is also a strong need for domestic reforms, reinforcing efficiency, transparency, institutional controls, accountability and the rule of law in developing countries in order to establish a conducive environment for the fight against corruption.

Aside a regulatory approach to anti-corruption, governments also need to address the root causes of corrupt actions. These may trace back to economic incentives stemming from persistent

¹⁵ For more information see [UNCTAD/Transnational Alliance to Combat Illicit Trade \(TRACIT\), July 2019](#)

inequality or cultural perceptions, for instance if people observe corrupt acts in their direct environment on a regular basis and begin to view them as somewhat ‘normal’. Effective approaches in this context may be broad-based education and training, underlining the damage even small corrupt acts can entail, and leading by example, that is, eradicating political corruption on all levels of government.

Adopting beneficial ownership information frameworks may further be conducive to effectively combat corruption, anti-money laundering and illicit trade. Beyond that, developing country governments may consider how to further promote responsible business conduct (RBC) practices, which comprise, among others, engagement with stakeholders, the protection and promotion of human rights, environmental considerations and safeguards for good working conditions.

Illicit trade similarly impedes economic growth and sustainable development efforts. It compromises the achievement of the SDGs by crowding out legitimate economic activity, depriving governments of revenues for investment in vital public services, dislocating jobs and causing irreversible damage to ecosystems and human lives. These alarming consequences are especially evident in developing countries, holding back progress, increasing costs and pushing the achievement of the Agenda 2030 further away.¹⁶

Beyond direct economic leakages, illicit trade also creates indirect leakages in the form of lost tax revenues, whilst further discouraging investment inflows by eroding the rule of law and weakening country credit ratings. Last but not least, illicit trade, as in the form of illegal agro-food trade, can destabilize food security and compromise development at its core.

Similar as with corruption, fighting illicit activities requires reinforcing good governance practices at both the national and regional levels, including the promotion of an inclusive legislative framework with a clear allocation of competences between law enforcement authorities and coordination as well as cooperation among authorities.

Business at OECD commends the inception of the [OECD Task Force on Countering Illicit Trade \(TF-CIT\)](#). Successfully fighting illicit trade across borders, however, requires increased international cooperation with selected partners, targeted campaigns and awareness raising activities in specific regions as well as a sound involvement of all stakeholders, including business, for instance through public private partnerships (PPPs) in all corners of the world. The *Business at OECD* Anti-Illicit Trade Expert Group (AITEG) is further elevating the fight against criminalized markets including through numerous innovative policy frameworks and approaches, working in partnership with TF-CIT.

¹⁶ In particular, illicit trade undermines the achievement of the economic goals of poverty reduction, decent jobs and economic growth (SDGs 1, 2, 3, 4 & 8). When it generates revenue for organized criminal and terrorist groups, illicit trade hampers the goals for peace and stability (SDG 16). Many forms of illicit trade also plunder natural resources (i.e. illegal logging and hunting of endangered species, SDGs 6, 14 & 15), or ultimately expose consumers to fake and potentially harmful products (SDG 12) (Source: [TRACIT Mapping the Impact of Illicit Trade on the Sustainable Development Goals](#)).

Business at OECD recommendations for OECD

- Scale up the fight against corruption in developing countries, i.e. by promoting the Anti-Bribery Convention in regional and country programs.
- Support the fight against corruption with informational-, educational and training campaigns from the earliest ages.
- Call on governments to lead by example by implementing sound governance frameworks across all levels of governments.
- Strengthen public-private partnerships and pioneer research on how to counter illicit trade across the developing world.

6. TAXATION AND DEVELOPMENT

Domestic tax resources are one of the main funding sources for economic development. Domestic resource mobilization is therefore key for developing countries to develop local revenue in addition to the ODA, FDI or remittance inflows.

Developing countries face, however, significant challenges in the mobilization of domestic resources. These may include a small tax base, weak tax laws, a high prevalence of informal work and illicit trade. Moreover, tax administration offices in developing nations often lack the capacity to effectively raise tax revenues. Research shows that at least 15 percent of GDP in tax revenue is necessary to finance the provision of basic public services. Yet, in almost 30 of the 75 poorest countries worldwide, tax revenues are below this 15 percent threshold.¹⁷

Institutional capacity building and tax reforms are important tools for boosting foreign economic activity and strengthening the tax base in developing countries. In many instances, MNEs and foreign business more broadly face high levels of uncertainty with respect to the application of tax rules, which may often be due to a lack of a robust legal framework and/or a lack of tax expertise within the local tax administration. Fostering fair, transparent, robust and efficient tax systems will also help developing countries better manage their tax revenues and increase predictability regarding tax resources. The OECD can play an important role in this field by promoting and supporting efficient domestic tax systems and reforms as well as tax certainty and predictability in developing countries.

Business at OECD engages with developing countries on issues relating to tax, including through the OECD Informal Task Force on Tax and Development. The *Business at OECD* Statement on Tax Best Practices for Engaging with Tax Authorities in Developing Countries is intended to support responsible business tax management and to enhance co-operation, trust and confidence

¹⁷ [OECD, Countries must strengthen tax systems to meet Sustainable Development Goals, February 2018](#)

between tax authorities in developing countries and international business, understanding that business must comply with the laws and regulations of the jurisdiction in which it operates.¹⁸ These tax best practices aim to promote stability, certainty and consistency in the application of tax principles as well as to support capacity building for efficient, effective tax authorities in developing countries, which are essential to foster cross-border trade, investment and sustainable growth necessary for domestic resource mobilization. *Business at OECD* has also been working with OECD to survey the take up of these best practices in developing countries.

Consistent implementation of international tax standards and best practices in developing countries may further help provide foreign companies with the tax certainty and predictability they need to establish their operations and invest abroad. Such tax system reform should ideally be envisaged on a multinational/international scale to avoid a proliferation of unilateral approaches and be designed in a way that is simple, consistent and fair across business and countries to ensure a global level playing field. The OECD can play an important coordinating role in this regard. Broader efforts to improve the business climate and reinforce research and analysis on how informal work can be ‘formalized’ can also play an important role for broadening the tax base.

The use of tax incentives to attract foreign direct investment and incentivize multinational enterprises (MNEs) to establish operations in the given country, by contrast, should be managed carefully. More specifically, tax incentives should always be aligned with the law, transparent and efficiently managed in order to maintain fairness and a level playing field for business both at a national and international level. Also, in order to be effective, tax incentives need to have pre-established objectives and timeframes. That is, they must be based on a broad economic assessment in order to prevent distortions across different investments and avoid tax revenue losses, which can occur if tax measures are targeting projects, which would have been implemented also in the absence of such incentives. Lastly, there is also a risk of triggering a ‘race to the bottom’ in which countries are introducing more and more tax incentives in order to attract investment, which eventually reduces again the amount of potential tax revenues.¹⁹

While the **ratio of tax to Gross Domestic Product (GDP) in OECD countries averaged 33% in 2008, in developing countries it was only around half this level, indicating that there was great potential yet to be exploited.**

[OECD work on tax and development, 2018-2019](#)

Rwanda reports that 70% of its tax base comes from MNEs. In Nigeria, MNEs represent 88% of the tax base.

[OECD Third International Conference on Financing for Development flyer, July 2015](#)

Working together within OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), over 135 countries and jurisdictions (including about 70% of non-OECD and non-G20 countries from all geographic regions) are collaborating on the implementation of 15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more

¹⁸ [BIAC Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries, June 2017](#)

¹⁹ [Business at OECD, DISCUSSION DRAFT: REPORT ON EFFECTIVE CAPACITY BUILDING ON TAX MATTERS IN DEVELOPING COUNTRIES, July 2016](#)

transparent tax environment. Throughout the BEPS project, Business has engaged in relevant dialogues with developing countries across regions to support consistent development and implementation of the BEPS project recommendations.

Business also plays an important role in supporting capacity building efforts. One example is the [Tax Inspectors Without Borders](#) initiative led jointly by the OECD and the United Nations Development Programme, which sends experienced private-sector auditors to developing countries to help build audit capacity in public tax authorities by providing hands-on technical support and working alongside local tax officials. Moreover, business can inform reform efforts by providing feedback on tax barriers on the ground and reporting cases where the implementation of international tax frameworks in developing countries is not in line with what was agreed.

Business at OECD continues to support OECD efforts relating to tax and development, including awareness raising activities with a view to promote pro-growth domestic tax reform as well the implementation of OECD International Tax Standards, which support trade and investment including in developing countries. Improving developing country domestic resource mobilization is an important step in fostering economic and societal development and resilience.

Business at OECD recommendations for OECD

- Promote, scale up and support institutional capacity building, efficient tax systems and reforms as well as tax certainty and predictability in developing countries.
- Support the effective implementation of agreed international tax standards in developing countries such as BEPS project.
- Engage with the private sector to learn more about tax barriers and the efficient implementation of tax rules.

III. BUSINESS AT OECD PRIORITIES FOR 2020-2021

In conclusion, *Business at OECD* identifies as its key strategic priorities for the cycle 2020-2021 the following activities/actions:

1. **Advance our cooperation** with different development-related work streams at the OECD.
2. Cooperate with other *Business at OECD* Committees in order to **explore parallels between development and other related policies areas**.
3. **Monitor the impacts of the COVID-19 pandemic** in developing countries (with a specific focus on selected regions, i.e. MENA) and help **identify effective policy responses** to the crisis.

Business at OECD Development Committee leadership

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Global Director, Sustainability, Environment & Human Rights, Reckitt Benkiser

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Mr. Michel Démarre
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