UNCTAD 2014 World Investment Forum Ministerial Roundtable: Investing in the Sustainable Development Goals

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16 October 2014

THE SDGS: NEW GOALS, NEW CHALLENGES, AND NEW OPPORTUNITIES FOR IMPLEMENTATION

Global development is now at a crossroads. The next 18 months offer a window of opportunity. We can and must use them to forge international consensus on a new, transformative framework for shared prosperity. This framework will bring together economic and social development priorities with the need for environmental sustainability, addressing the needs of both current and future generations. It also promises to capture better the multi-dimensional nature of wellbeing.

The Sustainable Development Goals (SDGs) currently being developed are timely. To succeed, they must build on the success of the Millennium Development Goals (MDGs) in galvanising political will for the eradication of poverty. But they should also address some of the shortcomings of the MDGs – most notably in relation to their means of implementation.

The MDGs have been successful in helping to focus international development efforts and have helped to underpin unprecedented increases in Official Development Assistance (ODA), which reached a record high of USD 135 billion last year.[1] These efforts must continue. For some of the poorest countries, aid remains a crucial part of the development finance mix: helping to fund the provision of public services, to build infrastructure, and – crucially – to strengthen institutions. For other countries, however, aid dependency is – or will rapidly become – a thing of the past.

A vibrant and responsible private sector is one key vehicle for realising the vision that will be set out in the SDGs. To achieve this, the SDGs should be accompanied by strategies to harness more and better quality private investment. Foreign direct investment can create jobs, help countries develop technology and productive capacity, and enable them to better integrate within global value chains. Although volatile, foreign direct investment to developing countries has risen steadily in the last 20 years. Countries such as China have become significant outward investors too. Nevertheless, Africa is the destination of only 5% of global foreign direct investment flows – arguably a low share given the multitude of investment opportunities on the continent.[2]

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[1] OECD (2014), *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development*, OECD, Paris.
[2] *Ibid.*

BETTER POLICIES FOR MORE AND BETTER INVESTMENT

Against the backdrop of these constraints and opportunities, the OECD is putting its wide-ranging expertise to use in an effort to catalyse private investment in ways that support development.

Enhancing the domestic environment for private investment. Designed in response to the 2002 Monterrey Consensus on Financing for Development, the OECD's Policy Framework for Investment (PFI) helps countries to take stock of a range of policy areas that are important for the investment environment, ranging from investment policy to responsible business conduct. Applied to over 25 countries to date, the PFI engages developing countries in a whole-of-government effort to attract more and better investment. It is currently being updated to reflect lessons learned, and can make a tangible contribution to the implementation of the SDGs.

Strengthening transparency, integrity and accountability. The OECD Anti-bribery Convention – adopted by all OECD countries plus seven non-members – is the first and only international instrument that tackles the "supply side" of bribery, establishing standards that criminalise bribery of foreign public officials in international business transactions.

Making responsibility a core aspect of business operations worldwide. Through the OECD Guidelines for Multinational Enterprises, governments are encouraged to maximise the positive impact that MNEs can make to sustainable development. In June 2014, the Global Forum on Responsible Business Conduct gathered for the second time at the OECD, further establishing itself as a space for multi-stakeholder dialogue on standards for business conduct. Continued efforts in this area, as well as ongoing OECD work in the area of due diligence in mineral supply chains, will be crucial to ensuring not only more investment, but *high quality* investment in development.

Addressing sector-specific bottlenecks. For many developing countries, addressing infrastructure bottlenecks will be key to unleashing new investment opportunities, but it also brings its own investment challenges. OECD work on the issue of long-term financing – initiated in collaboration with the G20 – is particularly relevant to the infrastructure sector, and aims to facilitate investment by institutional investors such as pension funds. Other work relevant to the implementation of the SDGs includes the OECD Policy Guidance for Investment in Clean Energy Infrastructure, which addresses the broad range of policy considerations which will be important in bringing about much-needed transformations in energy production and distribution.

Re-thinking the interface between public and private investment. Just as traditional aid will remain an important vehicle for public investment in some countries, we cannot treat public and private investment as completely interchangeable. They are guided by different incentives, and the public policy dilemmas that arise from private investment in public services need to be navigated carefully. But we *should* look more closely at how public resources can be used more effectively to leverage private investment. This includes appropriate targeting of ODA, but also other instruments – such as guarantees, mezzanine finance, and equity – by the public sector. Ongoing work under the auspices of the OECD's Development Assistance Committee (DAC) should lead to the development of a new measure – Total Official Support for Development (TOSD) – to complement ODA and capture public efforts of this sort.

TAXING FAIRLY AND PROVIDING CERTAINTY FOR INVESTORS

One of the most obvious – yet often underused – vehicles for investment in development is the tax system of a developing country itself. Reducing aid dependency and ensuring the levels of public investment needed to advance the SDG agenda will, in many countries, require concerted efforts to mobilise domestic resources through taxation.

At present, the global tax system contains gaps and loopholes which corporations can – and do – exploit to reduce the amount of tax they pay. Tax Base Erosion and Profit Shifting (BEPS) refers mainly to instances where the interaction of different tax rules leads to some part of companies' profits not being taxed at all. Although rarely illegal, the tax planning strategies of multinational enterprises can present particularly acute challenges for developing countries. Gaps in developing countries' tax legislation, often combined with low administrative capacity, mean developing countries may face cruder or more aggressive tax avoidance than typically encountered in more advanced economies.[3]

Developing countries also rely to a greater extent than others on corporate income tax. For example, Rwanda reports that 70% of its tax base comes from multinational enterprises, and in Nigeria, this is estimated at 88% of the tax base.[4] These may be extreme cases, but they serve to highlight the scale of the potential revenue loss from BEPS.

The OECD is working to address BEPS issues and is implementing the BEPS Action Plan, which was endorsed by the G20 in July 2013. This is not an anti-business agenda. Indeed, many investors want the clarity and certainty that the new rules are providing.

In just over a year, the first seven actions have been delivered and were presented to G20 finance ministers in Cairns, Australia, in September 2014.[5] The concerns of developing countries have already helped to shape the BEPS Action Plan from its outset. The OECD is strengthening further the way it works with developing countries on BEPS issues.

Efforts to address inconsistencies in tax rules will also need to go hand-in-hand with efforts to strengthen capacity in developing country tax administrations where this is lacking. This is another area in which international co-operation can play a vital role. Promising new initiatives such as the OECD's Tax Inspectors Without Borders can make a tangible contribution.

Another longstanding concern relates to the use of tax incentives (such as "tax holidays") by developing country governments to attract investment from multinational enterprises. Although not part of the BEPS Action Plan, this is another area in which current practices should be revisited. While tax incentives can attract investment if designed carefully, some evidence suggests that many incentives may not be well designed or implemented – and therefore do not achieve their objectives. The amounts granted to investors through such incentives – and therefore the opportunity cost to the public purse – can be sizeable.[6]

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[3] OECD (2014), *Report to G20 Development Working Group on the impact of BEPS in low income countries,* Part 1, July, OECD, Paris.
[4] *Ibid.*
[5] The first seven BEPS reports can be accessed at www.oecd.org/tax/beps-2014-deliverables.htm .
[6] OECD (2013), *Draft principles to enhance the transparency and governance of tax incentives for investment in developing countries*.

As international deliberations on the shape of the SDGs move beyond goals to consider their means of implementation, it is vital that tax issues such as these are addressed. And while addressing them requires well-co-ordinated efforts on the part of governments, it also requires buy-in from investors. The SDGs should reflect a shared vision – backed by joint efforts to realise that vision.

CONCLUSION

The year 2015 will be a busy one. Agreement must be reached on a set of goals that will make poverty a thing of the past; that will set the world on a course towards shared prosperity; and that will see resources managed for future generations.

Private investment can be an engine for growth, employment, and innovation underpinning the achievement of the Sustainable Development Goals. Attracting, retaining, and growing private investment will depend in large part on countries having the right policies in place – and implementing those policies. Inclusive, sustainable development will also depend on countries' abilities to attract the *right kind* of investment: investment that is responsible, and that underpins inclusive growth.

Tax revenues should be a motor for sustainable development in all countries. Effective and fair tax systems enable public investment in development, in efforts to eradicate poverty, and in accountable and responsive states. Addressing some of the pitfalls in the international tax system can and should support the implementation of the SDGs.

Finally, while the discourse around international development goals has evolved to place a greater focus on the role of the private sector, efforts to scale up private investment should not be seen as a substitute for sustained *public* efforts in support of development. The two can and must go hand-in-hand.

In all of these areas, the OECD is working with others to develop and implement Better Policies for Better Lives.

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