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International Herald Tribune
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De-Facebook
I decided only recently to stop going on Facebook. I deactivated my account without actually deleting it ("Net disillusion", see www.oecdobserver.org). I still get an itch to reconnect, due to an addiction to the number of notifications that I received—friends’ comments on my profile pictures as well as messages in my inbox or posts written on my wall. Basically, I am totally obsessed by what people say to me or about me.

It’s been almost a week since I left this supposedly transformative social network, which makes you a fake friend addict, a notification druggie in need of regular doses of “likes” and photo comments. Have we really got like this, at least among younger people like myself? Forty “likes” were not enough for me, I always wanted more and I was insanely jealous of “friends” who had more friends than I.

Maybe I will eventually delete my account with its 500 or so fake friends, half of whom I don’t even know!

For now though, it’s clear that I am still SCARED, since my account is simply deactivated. It’s weird to say that you’re SCARED of deleting your account. And yet that’s exactly how I feel. As if Facebook were a link with all these people who I am in contact with or not, the people who I want to be, to speak to. It’s as if I was destroying an invisible link: they’re Facebook, they’re cool, classy, trendy. It’s absurd, it’s ridiculous and it’s completely stupid! Believe me, it’s like smoking. Just to be like everybody else.

Philippakis

Pupils in limbo
Having been a teacher in Texas for 25 years, I believe I have some insight into the questions raised here, especially as concerns the public school system in our state ("Lessons in resilience from PISA", see www.oecdinsights.org). I applaud Andreas Schleicher’s idea that the best things we can do to build “resilient students” is to train teachers in motivational skills.

There is no doubt in my mind that motivation, wherever it comes from, is the key to any student’s success.

There is also no doubt in my mind, though I am obviously showing my American mindset, that students find a great deal of their motivation from their culture: do their parents value education, do the students have intrinsic motivation, do they buy into the “it’s not cool to be smart” culture that is all too prevalent in many schools, are they encouraged by their teachers, counsellors, parents and friends to take the most challenging curriculums or are they told things like “take Spanish, it’s easier than French” or the like.

I applaud any efforts that would make this job of motivating students easier for the teacher.

I have always loved teaching. I am passionate about my subject matter. I’m sure that I’ve been successful from time to time in inspiring some of my students to greater things. At least one has followed in my footsteps to be a teacher and has told me and others that I was the one who inspired her. Unfortunately, that kind of feedback doesn’t come too often.

I am currently retired from teaching, but I’ve just finished a seven week substituting stint for the young teacher who took my place. It was truly fun and invigorating to be back in the classroom, but I was sadly reminded that one of the reasons that I chose to go ahead and retire was that there were so many students who just don’t seem to care; they have no love of learning. It’s extremely disheartening, and it is especially so because these are almost always the same students who cause so many of the discipline problems in the classroom.

Public school education in the States is not all bad. Students who participate in the advanced placement and international baccalaureate programmes tend to be very well prepared.

What I continue to worry about are the mid-range students...the "average students" who are left to be the examples and mentors for less able students in what are called “regular classes” when the more able students are put into the above mentioned advanced programs. In other words, the system provides plenty for the upper level students and provides adequately for the learning disabled, but it often leaves the average student in a limbo. It’s not difficult to see why they are not always very resilient.

June Ebert

Comments may be edited for publishing. Replies to the above comments can be made at the respective websites.
Pushing the boundaries forward

The OECD 50th Anniversary Week 2011 was a milestone in our history

The OECD 50th Anniversary Week 2011 was a momentous and inspirational occasion. Against the background of a fragile recovery of the world economy, 21 heads of state and government and deputy prime ministers, 86 ministers and state secretaries, and over 2,000 participants from business, labour and civil society gathered to identify and discuss the policies needed to achieve a more inclusive and greener path to economic growth and job creation. Concrete policy actions for tapping new sources of growth, including green growth, expanding employment through innovation, skills and trade, and embarking on a new, broader strategy for development, were discussed. Our member countries defined a vision for the organisation as an open, inclusive, global policy network together with our partner countries. Overall, the OECD’s 50th Anniversary Week was a milestone in the history of the organisation.

From jobs and debt crises, to energy and the environment, including deepening concerns about poverty, inequality and food insecurity, no one can underestimate the challenges facing the world today. Our leaders, under the chairmanship of US Secretary of State Hillary Clinton, identified political priorities and gave us a firm mandate to address some of these challenges. What are those priorities?

First and foremost, ministers asked the OECD to enhance its contribution to international development through an OECD Strategy for Development. This strategy will be based on a broader approach that goes beyond aid. Growth-oriented, inclusive and based on knowledge-sharing and dialogue, the strategy will help us deepen our policy work with developing countries in areas such as domestic resource mobilisation and taxation, investment, innovation, trade and governance, and to address issues such as food security. Just this summer we established, together with the South African government, a Centre for African Public Debt Management and Bond Markets.

A second priority is to place the environment at the heart of a more inclusive and greener growth model. The OECD’s Green Growth Strategy, which our members have welcomed, shows that by combining the right economic and fiscal tools with policies for innovation, education and regulation, we can help expand our economies, create jobs, and safeguard the environment at the same time. Green and growth go together, and people everywhere expect action. OECD and partner countries can set the example.

Third, skills are a vital ingredient for the advancement and success of our economies. This is true, not just for green growth and the industries and services we rely on, but above all to enable people to participate and cope with the demands of the future. Skills are vital for overcoming today’s jobs crisis and fighting social exclusion. The OECD Skills Strategy, discussed and welcomed at the ministerial meeting, will deliver a cross-cutting report on the way forward in 2012.

Fourth, empowering women is central to OECD efforts to foster stronger, fairer, economic growth. By strengthening women’s participation in the labour force, and improving their employment, education and entrepreneurship prospects, we could promote growth and reduce inequalities and poverty at the same time. Social and workplace measures all count, as do attitudes and culture. The new OECD Gender Initiative, launched at the MCM to examine barriers to gender equality, make data more comparable and highlight good practices, will provide policymakers with invaluable support.

Fifth, trade also has an impact on jobs and workers’ lives, and to promote and accelerate this cross-fertilisation, ministers welcomed the launch of the International Collaborative Initiative on Trade and Employment, whose findings will be ready for 2012.

Sixth, building a fairer world also means achieving “better standards for better lives”. The updated OECD Guidelines for Multinational Enterprises adopted at the ministerial meeting now address human rights, thereby reinforcing this renowned benchmark. In mining, ministers adopted the Recommendation on Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Meanwhile, Russia took another step towards OECD accession by joining our Working Group on Bribery.

Last, but by no means least, we need to find new measures of well-being that go beyond GDP. The OECD has been leading groundbreaking work on measuring progress for a decade, and the successful launch at the OECD Forum of Your Better Life Index, an online tool which lets people everywhere rank the factors that they feel matter most for measuring well-being, has been a big step forward.

These highlights from an inspiring OECD Week confirm that at 50, ours is very much a “happening” organisation: not a think-tank, but rather a “do-tank” that all countries can benefit from. Our ability to evolve stems from the solid knowledge base we have built up over half a century. Our data and agreements, our committees and public forums, our peer reviews and standard setting, our best practices and our strategic work: all of this has given our policy advice a reliability that our members and partners value. It gives us the confidence to continue pushing the boundaries forward. At 50, our work begins anew.

OECD Observer No 285 Q2 2011

See also www.oecd.org/secretryalgeneral and www.oecdobserver.org/angelgurria
News brief

Long-term care spending to double—

Spending on long-term care in OECD countries could double or triple by 2050, due to ageing. A report, Help wanted? Providing and paying for long-term care, says that half of all people who need long-term care are over 80 years old, and that the share of the population in this age group will reach nearly one in ten (higher in some countries) in the OECD area by 2050, up from one in 25 in 2010.

See book review and www.oecd.org/health/longtermcare

—as crisis stretches health spending

Health spending continues to rise faster than economic growth in most OECD countries, latest data show. Health spending reached 9.5% of GDP on average in 2009, up from 8.8% in 2008. This was particularly marked in countries hit by the global recession, with Ireland’s health spending rising from 7.7% of GDP in 2007 to 9.5% in 2009, for instance.

Health spending per capita rose on average across OECD countries by 3.5% in 2008, with public spending on health growing by an even faster 4.1%. OECD Health Data 2011 were released 30 June.

See www.oecd.org/health

Start-ups squeeze

After a significant decrease in the second half of 2008, the number of new enterprises started to recover around the first half of 2009 in most OECD countries. However, by the second quarter of 2010, the number of newly created enterprises was still below its pre-crisis level in most countries. This was particularly true in countries such as Denmark, Germany, Spain and the US. However, entrepreneurship in Australia, France and the UK appears to have firmed up, with the number of new firms created in 2010 being higher than the pre-crisis peak.

The data come from the inaugural edition of Entrepreneurship at a Glance 2011, which also says that some OECD countries are far better than others when it comes to funding young, innovative and growth-oriented companies. Venture capitalists in Israel allocate more financing to young companies than any other country in the OECD, with the equivalent of 0.18% of GDP. The US, Sweden and Finland are not too far behind.

Visit www.oecd.org/std/entrepreneurship

Multinational guidelines updated

Some 42 countries have committed to new, tougher standards of corporate behaviour in the updated OECD Guidelines for Multinational Enterprises, adopted in May 2011. The new guidelines are the fifth update since 1976, and now include recommendations on human rights abuse and responsibility towards supply chains, making the guidelines the first inter-governmental agreement in this area. See article in this edition.

www.oecd.org/daf/investment/guidelines

Soundbites

Energy future

"When I was president, the economy benefited because information technology penetrated every aspect of American life. More than one quarter of our job growth and one third of our income growth came from that. Now the obvious candidate for that role today is changing the way we produce and use energy."

Former US President Bill Clinton, Newsweek, 27 June 2011

Budget history

"Europe today is in the same situation America found itself in 1790: at a crossroads. Its situation will not stabilise without a common budget that is capable of financing its debts."

Jacques Attali, French founding head of the European Bank for Reconstruction and Development, writing in Slate.fr, 4 July 2011

Russia moves towards Anti-Bribery Convention

The OECD has invited the Russian Federation to join the OECD’s Working Group on Bribery and to accede to the OECD’s Anti-Bribery Convention. OECD Secretary-General Angel Gurría signed an exchange of letters with first deputy minister of foreign affairs, Andrey Denisov, and Russia’s minister for economic development, Elvira Nabiullina, at a ceremony with the US secretary of state, Hillary Rodham Clinton, during the OECD Ministerial Council Meeting on 25 May.

“This is a significant milestone in Russia’s accession to the OECD,” said Mr Gurría. The Russian parliament is expected to proceed to approve the country’s accession to the OECD Anti-Bribery Convention.

For more, see www.oecd.org/bribery
Economy

Slower growth lies ahead for most of the world’s major economies, according to the latest OECD leading indicators. The indicators, which use data from order books, building permits, long-term interest rates and the like in a bid to anticipate turning points in activity, had suggested mixed trends in March, but May indicators released this July point to slowdowns in Canada, France, Germany, Italy and the UK, as well as Brazil, China and India. However, more positive, if tentative, signs were emerging for the US and Russia.

Meanwhile, GDP in the OECD area grew by 0.5% in the first quarter of 2011, the same as in the previous quarter but down from 0.9% a year earlier. Private consumption’s contribution slipped to 0.2 percentage points, half its previous quarterly level, and its lowest since the second quarter of 2009.

Consumer price inflation in the OECD area reached 3.2% in the year to May 2011, up from 2.6% in April. The acceleration in inflation was particularly marked in the US, where consumer prices rose by 3.6%, up from 3.2% in April. Energy prices rose by 14.2%, compared with 13.8% in April. Excluding food and energy, consumer prices rose by 1.7% in May 2011, the highest rate since July 2009.

The unemployment rate of 8.1% in May 2011 in the OECD area was unchanged for the third consecutive month, with the euro area rate of 9.9% also steady. There were 44 million unemployed people in the OECD area in May 2011, down 2.8 million from a year earlier but 12 million higher than in May 2008.

Merchandise trade grew strongly across major economies in the first quarter of 2011. Total imports of G7 and BRICS countries grew by 11% in the first quarter compared to 8.2% in the previous quarter. Total exports grew by 8.5%, compared to 8.2% in the previous period.

See www.oecd.org/statistics

New debt centre for South Africa

The OECD and South Africa have opened a centre in Midrand, South Africa to help African governments manage their debt and bond markets. The centre, which started operations on 30 June, will help reduce the cost of managing public debt and encourage the development of financial products, such as mortgage loans, micro-credit and financing for small and medium-sized firms. "With the most advanced financial market on the African continent, we look forward to partnering with the OECD in facilitating and building capacity of our neighbours in the region," said the South African finance minister, Pravin Gordhan.

See www.oecd.org/southafrica

OECD and India enhance tax co-operation

The OECD and India have announced plans to strengthen ongoing co-operation on tax-related issues through the development of a three-year partnership to promote a structured dialogue and information sharing.

See www.oecd.org/tax and www.oecd.org/india

Internet economy advances

As news broke that wireless broadband subscriptions in OECD countries exceeded half a billion at the end of 2010, OECD governments and other stakeholders met in Paris to lend their support to a framework promoting a more transparent, open Internet. The new principles aim to improve Internet governance, while retaining the light-touch, flexible regulation that has been the kindle of the Internet economy’s success. The free flow of information should be promoted and protected, representatives of governments, business, civil society and the technical community agreed. It was the job of governments to improve their efforts to protect personal data and the freedom of expression, while an international regulatory regime should be resisted: "The development of such a formal regulatory regime could risk undermining its growth," a communiqué said.

For more detail, including clips from Vint Cerf of Google and Tim Berners-Lee, "founder" of the world wide web, www.oecd.org/internet/innovation

Plus ça change...

"Economic expansion under modern conditions is increasingly dependent on the supply of scientific and technical and other highly qualified personnel, and the development of education to produce such personnel. This dependence is likely to be accentuated in the decade 1960-70."

By Henning Friis, "Preventing a bottleneck in economic progress", in issue No 4, June 1963
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Multinational enterprises: Better guidelines for better lives

The OECD Guidelines for Multinational Enterprises have just been updated. What are the main changes and how might they affect international corporate behaviour?

Among the headline topics swept into the mainstream by globalisation has been the proliferation of multinational enterprises and the effects they have had on the places where they operate. Today, MNEs account for a large portion of global trade and investment, and are also major employers. Their ability to influence the well-being and practices in the places they operate is significant.

To be sure, MNEs can be a force for betterment. A 2008 OECD report on pay and conditions in MNEs found that in general, foreign multinationals pay 40% higher in average wages than local firms, with an even higher differential in low-income countries of Asia and Latin America.

But how well behaved are MNEs in their host countries and what standards do we have to influence their conduct? The evidence of the benefits they bring to host countries in terms of jobs, capital and technology transfer is too often marred by abusive wage practices, poor working conditions and child labour. This problem applies not only to companies that come from developed countries, but increasingly to those from emerging markets, too.

Part of the problem is governance, both in firms and among public authorities competing for investment. This relationship can be imbalanced, as some large firms may have more financial clout than the regions or countries where they are based. They can be particularly influential in countries where there is conflict, or where governance is weak. In such circumstances, it is not hard to see how exploitative and even corrupt relations may develop.

Many international firms are acutely aware of these risks and have developed their own internal codes of behaviour in a bid to ensure high standards. Take Cadbury, the leading chocolate manufacturer. They have created a code of practice under which the company voluntarily refrains from marketing to young children or selling through vending machines in primary schools. Similar codes have proliferated at industry and sector levels too.

Governments also have codes, and chief among them are the OECD Guidelines for Multinational Enterprises, or MNE Guidelines. Originally drawn up in 1976, these guidelines provide a comprehensive set of voluntary recommendations on good corporate behaviour. They seek not only to protect rights, but to foster good governance and better risk management through provisions on anti-corruption, transparency, disclosure and tax. A total of 42 countries adhere to the guidelines, including all OECD members plus Argentina, Brazil, Egypt, Latvia, Lithuania, Morocco, Peru and Romania. Seven more countries are on course to adhere: Colombia, Costa Rica, Russia, Jordan, Serbia, Tunisia and Ukraine. All of these countries together represent over 85% of global foreign direct investment.

While not legally binding, all multinational enterprises headquartered in adhering countries are bound to comply. And adhering governments are required to deal with allegations of violations. These government-endorsed voluntary standards have been embraced by firms the world over to demonstrate their commitment to corporate social responsibility and sustainable development. They complement national laws and have inspired legislation in several countries. They work because they are designed to build an atmosphere of confidence and predictability between businesses, governments, labour unions and civil society.

The MNE Guidelines form part of a wider OECD Declaration on International Investment and Multinational Enterprises. They define an ideal set of investor responsibilities in a host country, while the Declaration contains commitments by governments to avoid discrimination against multinational enterprises, to avoid imposing conflicting requirements upon them and to co-operate on issues affecting investment.

A key challenge for the OECD has been to keep the MNE Guidelines fresh and relevant, while maintaining their consistency and authority. The MNE Guidelines were already updated four times through 2000, and the financial crisis that struck in 2008, by eroding trust in global business, hastened the need for a fifth review. In 2009 OECD ministers called for revisions that would "enhance their relevance and clarify the responsibilities of the private sector".
Meanwhile, the landscape for international investment has changed since the start of the 21st century. New patterns of production and consumption have arisen, old ones have become more complex, and emerging giants like Brazil, China and India are attracting a larger share of world investment. This added pressure to other needs, such as addressing climate change, boosting development and improving human rights, all of which call for the highest standards of international business conduct.

So, it was with some anticipation that the new update of the OECD MNE Guidelines was finally issued at the 50th anniversary Ministerial Council Meeting in May 2011. All G20 countries were invited to fully participate in the update, while business and trade unions, as well as civil society, were involved. What has changed?

First, firms must now address both current and potential adverse impacts of their operations as an integral part of their management processes. This applies not only to the enterprise’s own operations, but to those of its suppliers too. No longer can firms turn a blind eye to how their suppliers operate, and indeed, are bound to conduct “due diligence” to ensure the firms they deal with abide by the OECD guidelines, too.

A second notable change has been to add human rights to the existing principles and standards, which already include disclosure, employment and industrial relations, environment, combating bribery, consumer interests, science and technology, competition and taxation. A new section draws heavily on the 2010 Guiding Principles for Implementing United Nations Framework for Business and Human Rights. In fact, the author of those principles, John Ruggie, worked closely with the OECD in drafting the new chapter, which establishes that firms should respect human rights in every country in which they operate, even if the host country has a poor record on human rights itself.

The guidelines also urge firms to maintain a vigilant eye, seeking out potential breaches of human rights, on an ongoing basis. As chair of the OECD’s annual meeting of ministers in June, US Secretary of State Hillary Rodham Clinton pointed to this important stipulation as she voiced support for the MNE Guidelines, and more specifically the section on human rights, saying that

No longer can multinationals turn a blind eye to how their suppliers operate

“...they will be helping us determine how supply chains can be changed so that it can begin to prevent and eliminate abuses and violence.”

The 2011 update has also expanded the scope of the key chapter on employment and industrial relations, which now stipulates that firms pay a decent wage that “should be at least adequate to satisfy the basic needs of the workers and their families.” This important add-on is in part thanks to ongoing efforts by the Trade Union Advisory Committee to the OECD (TUAC), which in its statement on the update considers that “...these elements significantly increase the relevance of the guidelines and their potential to raise the standard of responsible business conduct in a global context.”

One pivotal, if widely criticised, element of the MNE Guidelines is the National Contact Points (NCP). These government-run offices in signatory countries are responsible for encouraging observance of the guidelines, and for promoting and explaining them to the business community, workers and anyone interested in knowing how the MNE Guidelines work. Anyone may contact an NCP, which acts as a type of mediator.

However, critics have argued that NCPs have not fulfilled their role, pointing to long waiting times for considering complaints, potential conflicts of interest, weak oversight, and shortfalls in the public information effort.

The 2011 update responds to these criticisms by providing more guidance on how to promote the guidelines and make the results better known. It also includes instructions aimed at making the different NCPs act in a more uniform manner and gives them guidance on how best to handle cases that are simultaneously brought up in a national court of law.

The OECD MNE Guidelines have the potential to help level out the international playing field for business, too. Winand Quaedvlieg, who chairs the international investment and MNE group of the Business and Industry Advisory Committee to the OECD (BIAC), said that the “OECD needs to do its part by working closely with governments in order to promote in non-adhering countries the introduction of CSR standards comparable to the guidelines.”

More than just a policy tool for governance, the updated MNE Guidelines testify to the importance of dialogue in building a better world economy. They confirm the OECD’s federating role by having gathered stakeholders, not just around the table, but around the common goal of making sure that everyone benefits from the global investments that underpin so many of our economies and shape our futures.

References


See www.oecd.org/daf/investment/guidelines
Taking a robust stance on bribery

Bribery is a modern day scourge on international trade. At a time when so many people are struggling through an economic downturn, bribery is a very real disease threatening our prosperity. It poses a serious challenge to the development of economies and contributes to market failure. It distorts competition, damages free enterprise and blights business. It stifles talent and innovation and kills entrepreneurship. In many cases it is the poorest in society who are hit the hardest.

For business, bribery is a threat that needs to be actively managed, like fraud or embezzlement. Corruption adds up to 10% to the total cost of doing business globally, and up to 25% of the cost of procurement contracts in developing countries.

Doing business in corrupt markets has been found to add costs equivalent to a 20% tax on business. In 2010 and 2008, roughly a fifth of surveyed executives reported that they had been asked to pay a bribe, with a similar proportion reporting that they had lost business to a competitor who paid bribes.

Social costs invariably come hand in hand with costs to business—detrimental effects to employment, health, education and a wasteful depletion of natural resources.

The UK Bribery Act, which came into force on 1 July, is an important step in Britain’s efforts to combat bribery. The Act will equip the UK courts with some of the most robust anti-bribery legislation in the world. The Act consolidates and brings up to date previous legislation and introduces two new general offences of giving bribes or receiving bribes: an offence of bribery of foreign public officials for business reasons, and an offence relating to commercial organisations which fail to prevent bribery committed on their behalf.

Taking a robust stance on bribery will not just tackle the scourge, but it will act as a spur to business. Robust action against bribery will strengthen free market forces. It will fuel competition and will ensure consumers and the public get a fairer, better deal. Prices come down, services improve and business grows. But most of all, a tough stance against bribery will attract business and investment rather than deter it.

A tough stance against bribery will attract business and investment rather than deter it.

Business agrees with us. They too would like to see the scourge of bribery removed from business transactions. They will also want to see fair play by everyone and a level playing field for all. All the leading businesses and business organisations in the UK have made clear they want to see an end to this problem.

This is not just a problem for the West or the leading economies in the world. Bribery does even more damage to developing countries that can least afford it. Developing countries face enough of a struggle to build economies, create proper tax systems, provide public services like health and education, and stimulate growth. Bribery adds costs, cheats the system and steals money. It traps people and countries in poverty.

I call on other countries to look hard at their own laws and regulations on bribery and to take tough action against it. The more that join with us to fight this scourge the quicker we will beat it. Many countries already have tough laws on bribery but there is no doubt more can be done to make them stronger and also enforce them fully.

The OECD has led international efforts to tackle bribery across the world and should be commended for their efforts thus far. The UN Convention against Corruption is another important international agreement in the fight to build stronger economies and societies. There are many other organisations such as the G20 joining in the effort to tackle this problem and the UK is keen to work with them all. I firmly believe that the UK Bribery Act will do more to support business and our trade with the world. But the UK cannot succeed alone. Only by global action, only through determined leadership, and only through government action in OECD countries and elsewhere, and through the support of business, will we make possible the prosperous future we all want to see.

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Data also come from various World Bank and UN reports.
INSTRUCTIONS FOR USE

To find the right solutions for the environment, you need to know how a city works.

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CREATIVE SOLUTIONS FOR OUR ENVIRONMENT
How can policy help expand economic opportunities without overly straining natural resources or destroying the planet? And how can we relieve intensifying environmental pressures that currently threaten our welfare? The OECD Green Growth Strategy points a way forward.

In the last 100 years the world population has multiplied by four, but economic output has increased 22-fold. This fast growth has led to widespread prosperity and longer, healthier lives. But even wealthier countries realise that our systems of production, trade and consumption cannot be sustained without putting people's lives at risk. Water scarcity, air and water pollution, resource depletion, climate change and irreversible biodiversity loss are realities that affect everyone. People everywhere know there is no choice but to change course towards more sustainable, green growth.

But what does green growth actually mean? The textbook definition is double-edged: green growth is about being able to foster economic growth and development, while ensuring that the earth's natural assets continue to provide the resources and environmental services on which our wellbeing relies. Looked at more simply, it is about cleaning up the way our economies grow, both by better managing how we do things today and investing time, money and effort into harnessing new sources of smarter, cleaner economic activity.

The world's energy needs illustrate the issue clearly. Fossil fuel consumption has risen 14 times in 100 years, yet by 2050 the energy needs of 9 billion people will have to be met for heating, cooking, lighting, production and transport. On the one hand, this is a daunting challenge: fossil fuels are becoming depleted and are becoming costly, and they carry a heavy price tag in terms of air pollution and climate change. On the other hand, this same challenge opens up opportunities for exploiting cleaner energy technologies, insulating old buildings and constructing new ones, and encouraging more efficient means of producing and consuming goods and services. Indeed, energy could generate a new economic revolution, rather as communications did in the 1990s.

There are many initiatives out there to suggest change is already happening. China's 12th five-year plan has a green development section which provides detailed policy guidelines and targets for tackling climate change (including producing 16% of its primary energy from renewable sources by 2022), and for managing and preserving resources.

Neighbouring Korea has set the pace among OECD countries by launching its own National Strategy for Green Growth (2009-2013), under which the government has earmarked about 2% of GDP to spend on green growth programmes and projects. Denmark's 2009 Agreement on Green Growth targets modern and competitive farming and food sectors that embrace environmental goals, while from 2012...
The strategy comprises a practical guiding framework for policy, examples of tools for use in promoting green growth, and a process for monitoring progress.

The policy framework is about getting the essentials right, such as institutional settings to improve resource management, encourage economic activity and foster innovation. On the broad economic front, there may be trade or investment barriers to address to improve the spread of green technologies and practices. Or green growth policies may have to be matched with poverty reduction goals, for instance. As for the tools, a wide set is considered that correspond to different situations. For instance, a country facing technological blockages may need to invest in R&D, perhaps using subsidies or other incentives. Small businesses are harbingers of innovation, and some countries may need to take action to help them flourish, such as by improving access to finance and enhancing communications infrastructures. There may be intellectual property rights to address, too.

For fighting pollution and climate change, market-based tools are needed, particularly taxes and carbon markets, while subsidies that incite industries to pollute or extract resources unnecessarily should be wound down. Instead, subsidies could encourage new, cleaner activity, though these should be designed to avoid being locked in to particular activities over time. Also, the likes of waste fees, energy-saving building codes and new public procurement practices could all help stimulate demand for cleaner, smarter goods and services.

As with any transition, green growth will create winners and losers. Some household incomes could be hit, say, by higher fuel taxes. However, there are policies for compensating for such losses, for instance, by using lump sum transfers or tax credits that are calculated on the basis of average green tax payments per household. Such policies are explained in the OECD Green Growth Strategy report entitled Towards Green Growth.

An essential driver of the OECD Green Growth Strategy is the ability to set concrete goals and monitor progress. The organisation's internationally comparable indicators for green growth are capable of sending clear messages to policymakers and the public at large. Environmental and resource productivity is being monitored, for instance—this is rarely carried out in standard accounting frameworks—as are the natural asset base and changes in the quality of life, including through the OECD's new online tool, the Better Life Index. Indicators describing policy responses and economic opportunities will also help to assess the effectiveness of particular policies and how they may be adjusted.

Green growth is a strategic concept, which helps bring harmony and coherence to existing environmental and economic policy priorities. It helps governments to keep the environment at the heart of their thinking, alongside conventional priorities such as finance, employment and investment.

In short, the OECD Green Growth Strategy is about far more than just technology or innovation. As OECD Secretary-General Angel Gurría explains, it is about what we eat, what we drink, what we recycle, re-use, repair, how we produce and how we consume. It is about how we all behave every day of our lives.

For more information on the OECD Green Growth Strategy, contact Nathalie Girouard, greengrowth@oecd.org

References


Visit www.oecdbetterlifeindex.org/
Untangling intangible assets

Assets you cannot touch lie behind successful innovations. What are they and how can policy make a difference?

How many people you know swear by their iPhone? Probably quite a few. Apple’s popular mobile telephone has become the standard-setter for virtually all smart phones today. The phone’s look and feel, innovative design and user-friendly interface, and clever marketing have made this phone the ubiquitous portable communication device of recent years.

Likewise, Apple’s iPad has combined these same characteristics to take a lead on what is becoming a fast growing market for tablet computers. What does Apple have that its competitors don’t?

A new report from the OECD suggests that the answer concerns less the tactile physical item itself than all the clever underlying stuff you cannot touch or carry home in your pocket. These “intangible assets” are often overlooked by policymakers, yet many firms such as Apple have intangible assets to thank for much of their success. The importance of intangibles, which were highlighted in the 2010 OECD Innovation Strategy, is now the focus of a new OECD paper on the sources of growth (see references). What do we know about these intangible assets and why should policymakers care?

In simple terms, intangible assets, sometimes referred to as knowledge assets or intellectual capital, are essentially assets which do not have a “physical or financial embodiment”. Yet, intangibles make up an increasing share of many companies’ total assets, particularly in more advanced countries. In fact, a 2005 study of 25 EU countries found that business investment in intangibles represented on average 6.8% of GDP, compared with an average of 9.9% in tangibles such as machinery, equipment and buildings. And in countries such as Finland, the UK and the US, investment in intangibles matches or actually outstrips investment in tangibles. Today, many knowledge-based companies possess relatively little tangible capital. For example, in early 2009 physical assets only made up about 5% of Google’s total worth.

One key intangible is design. Crucially, design does not just refer to visual appearance, style or fashion: it also relates to ease of use, aspects of functionality and customer experience. Consider a major transport firm such as Airbus, where spending on design helps to determine the competitiveness of aircraft by affecting, for instance, the choice of construction materials, fuel consumption and seating plans. Good design helps explain the popularity of some Internet search engines over others, and the success of some social network sites.

Of course, stylish looks and physical attributes are important to innovation for a wide variety of businesses, including some traditional ones. Take Italy, where a furniture industry made up largely of small and medium-sized firms continues to thrive, thanks largely to comparative strengths in design. Customers around the globe eagerly pay top prices to show off distinctive Italian designs in their homes.

Firms are well aware of the value of this intangible asset. Indeed, one survey of businesses in the UK suggests that spending on design could significantly exceed spending on R&D.

Another vital intangible asset highlighted in the report is software, which can increase business and economic performance. The Internet itself is largely a product of innovations in software, and the most successful websites are frequently those that manage software most effectively. OECD research has shown that simply using software makes a positive contribution to growth and is instrumental in the evolution towards knowledge-based economies that depend on abstract analytical skills rather than manual dexterity. Software also plays other important roles, enabling global trade,
facilitating and securing online transactions, driving telecommunications and protecting privacy online.

It’s hardly surprising that software has become a mammoth focus of business investment. By the beginning of this century, US businesses invested about the same in software as they did in trucks, buses, ships, boats and railroad equipment combined. Perhaps less obvious are intangible assets such as inter-firm networks or personal data.

Online business and other networks are now widely recognised as key contributors to firm performance. Technology moves quickly, and firms need to keep up. This means being able to collaborate with a vast range of potential partners, be they from government, law firms, PR agencies or even competing firms.

Networks grease the wheels of business and help entire economies to make progress. They can help identify opportunities, access resources and support enterprise management. One study shows that networks that include firms of all sizes can help smaller businesses reach international markets more quickly and at lower cost and risk.

The explosive growth of digital technologies has created vast amounts of “big data”. Store loyalty cards are one example, which customers are often enticed to use through special discounts or rewards. In turn, the retailer gains a wealth of information about its customers’ purchasing habits. These can be combined with the cardholder’s personal information, submitted when the card was first acquired, to hone selling and marketing techniques. One year after introducing such a card scheme, Tesco, the UK supermarket chain, found that members were spending 28% more at their stores and 16% less in arch-rival Sainsbury’s. Such customer profiling ideas are now being used in marketing on online social networks.

The rise of intangible assets is likely to continue, but not all countries have been able to unleash innovation at the same rate or come up with the productivity boost that intangibles can bring. What role could public policy play?

The possibilities cover quite a broad range. For a start, human capital is at the heart of the intangibles agenda. So governments must remain attentive to their education and training policies, especially in universities and vocational training institutions, making sure that courses and study programmes reflect the multidisciplinary and evolving skills needs of innovative businesses. For instance, benefits could arise when engineers have a good grasp of design principles, and designers have a basic understanding of the technical needs of engineers.

Beyond the classroom, it is always important for governments to make sure regimes are in place to protect intellectual property effectively, but this is particularly the case for investments in design and software, where ideas are all too easily stolen.

In the past, research from government laboratories played a role in sparking important innovations in the software sector; indeed, the Internet browser was born in a government lab. But today’s software industry has matured to such a degree that it is less clear whether such a public lead is still necessary.

Perhaps more important is for governments to provide the conditions for investment to flourish, such as encouraging venture capital, which remains important for many innovative firms that use intangible assets intensively. In the meantime, government services that traditionally support access to technology and scientific advice for innovating firms could be expanded to provide useful information on marketing, design and the arts.

There are other policy settings that could be adjusted too, such as those governing privacy to help firms extract more value from data, in healthcare, for instance. However, as ongoing work at the OECD shows, these public policy issues are inherently sensitive and difficult to get right.
NEW SOURCES OF GROWTH

Digital readers

Governments in a number of OECD countries have invested public resources to help foster a wide variety of inter-firm networks, often focusing on small and medium-sized businesses. For example, one Danish programme has aimed to help smaller firms compete on a more equal footing with larger ones. Nevertheless, a frequent experience of publicly-supported network programmes is that as government support wanes, private sector participation often declines. So governments need to work closely with businesses in the design of such schemes, as firms themselves are usually better placed than governments to identify opportunities for inter-firm networking and to assess just how valuable those collaborations might be.

A number of complex policy questions remain to be fully resolved, including reforms to how companies report their investments in intangibles, as well as issues relating to the tax treatment of intangibles, which can promote or discourage investment in R&D, affect how intangibles are used, and affect how they are traded. These and other challenges are currently being taken up by the OECD. Progress in all these areas will do much to encourage companies to invest in intangible assets and spur the type of innovation that increasingly drives growth in today’s economies. By focusing on what makes intangibles tick, policymakers could help more companies like Apple to break through and make a positive difference for the wider economy.

While the quality of online education is a subject of intense debate among educators, parents and students alike, what is no longer open to debate is the need for digital literacy. A recent report in The Guardian affirmed that adults with Internet skills are 25% more likely to get work and to earn as much as 10% more than their colleagues who don’t have such skills.

Are our children well-prepared to enter this technology-rich world?

Not as well as you might expect a crop of “digital natives” to be. The OECD’s Programme for International Student Assessment (PISA) finds that nearly 17% of 15-year-olds who have grown up “wired” do not have the skills to move easily through the digital environment—which means that these students could have a difficult time completing their studies and, later on, looking and applying for work, filling out forms to pay their taxes or even reserving a seat on a train.

PISA’s groundbreaking 2009 survey of students’ digital literacy shows some fascinating results. For example, in each of the 19 countries that participated in the digital reading assessment, the more frequently students search for information online, the better their performance in digital reading.

Meanwhile, being unfamiliar with online social practices, such as e-mailing and chatting, seems to be associated with low digital reading proficiency. However, students who frequently send e-mails and chat on line attain lower digital reading scores, on average, than students who are only moderately involved in these activities.

Similarly, students who sometimes use computers at home for leisure or schoolwork scored higher in the digital reading assessment than both rare and intensive users. And after accounting for students’ academic abilities, the frequency of computer use at school is not. This finding suggests that students learn digital navigation skills by themselves, simply by exploring the nearly infinite offerings on the Internet. To help students at school, education systems should consider integrating computer use into curricula and investing more in training teachers on how to use digital technologies, both to help them teach and to help students learn.

For more information on OECD work on intangibles, contact Alistair.Nolan@OECD.org

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OECD Observer No 285 Q2 2011 15
Global Green Growth Institute

Working with developing and emerging countries to promote economic growth and environmental sustainability

Established in June 2010, the Global Green Growth Institute (GGGI) is an independent nonprofit “think and action tank” that promotes a new model of green growth. Headquartered in Seoul, GGGI will open regional offices in Denmark and the UAE.

Vision and Mission

Green growth is still a fairly new concept. Our approach is to identify the premise that has the ability to deliver strong growth so as to engineer it directly into the industrial development and growth strategies of countries. Our goal is to generate synergy effects by pursuing a strong economic growth and a well-established environmental stewardship.

GGGI not only serves as a trusted advisor in the development of green growth strategies to developing and emerging markets, but also works with the private sector to act as a facilitating platform for discussions with governments about how to improve the enabling environment for investment, innovation, trade and services across various industry sectors.

A new kind of organization

GGGI is a new kind of international organization that is interdisciplinary, multi-stakeholder and driven by emerging and developing countries. GGGI was established to maximize the opportunity for bottom-up (country- and industry-led) progress on climate change and other environmental challenges within core economic policy and business strategies.

Primary activities:

- **Country programs** – Advising governments
- **Public-private partnerships** – Working with industry
- **Research** – Sharing cutting edge research with academia and others

GGGI is engaging with many partners to promote the green growth paradigm through various efforts around the world. One of its objectives is to share research results of country projects at a global level.

The concept of green growth suggests that “Growth and climatic and environmental sustainability are not merely compatible objectives, but can be made mutually reinforcing for the future of humankind.”

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Africa's emerging partnerships

There are signs of a new, more confident and self-affirming Africa taking shape. As the 2011 edition of the African Economic Outlook argues, this newness is also evident in the continent's relationships with emerging economies.

Africa is abuzz with talk of new investment, new cities, new airports, new refineries. It has weathered the global economic and financial crises and has shown signs of rebounding in 2010. There are political and economic headwinds to confront of course, but the new African Lions seem ready to take them on.

The transformation has been striking. The new millennium saw per capita incomes in Africa rise faster than high-income countries for the first time since the 1970s. Poverty and inequality remain, but for a score of countries the income gap has narrowed with wealthier OECD countries. One reason is the effect of emerging new markets, in particular China and India.

Before the talk was in dollars. Now leaders speak equally of Chinese renminbi, Indian rupees and Brazilian reals. Are the last shackles of colonialism finally being broken? Or is another form of dependence taking over, this time based on commodity-hungry emerging markets?

The answer largely depends on how Africa turns the sea changes that have occurred in its favour. Those changes have been across the board.

Take development aid. The traditional economic powers still dominate in official development assistance (ODA), with the countries that make up the OECD Development Assistance Committee (DAC) accounting for some 90% of the world's bilateral assistance. But aid from emerging partners is growing fast, and a quarter of China's aid now goes to Africa.

Trade is also shifting. True, Europe and North America still account for more than half of Africa's trade and foreign investment stock, but the "emerging partners", countries that do not belong to the club of traditional OECD DAC donors, have become more present on the African scene. Trade between Africa and its new partners is now worth US$673.4 billion a year, which is some 37% of the total.

As for foreign direct investment (FDI) to Africa, the share of non-OECD countries has risen, albeit to just 21% of the total in 2000-2008. Some three-quarters of Chinese FDI to Africa was concentrated in mineral and hydrocarbon-rich countries, such as Cameroon, Nigeria, Gabon, South Africa and Zambia, but also Algeria and Libya; indeed, some 30-50% of FDI goes to North Africa.

But as the Africa Economic Outlook shows, a closer look at countries for which data has been scant shows that while emerging partners still represented only around one tenth of FDI inflows to those destinations, their share has approximately doubled between the first and the second half of the decade.

Beyond these shifts in headline numbers, China has led the way in Africa in other ways too, particularly through its behaviour and generally positive discourse on the continent's potential, a stance that has also revived interest among traditional competitors. This change in perceptions is aptly captured in the shift from the "hopeless" continent tag peddled by The Economist in 2000 to its upbeat "uncaging the lions" feature in 2010.

Most attention on the economic changes in Africa focuses on China, India and Brazil. China, for instance, appears to bring comparative strengths in infrastructure development, India in learning and services, and Brazil in agriculture and agro-processing. Other new partners include OECD members Korea and Turkey, as well as non-OECD countries such as Argentina, Indonesia, Singapore, UAE and Russia. This diversity of partners is a tremendous opportunity for Africa to seize. Each wave of countries engaging with the continent...
brings with it a new array of products, capital goods, technology, know-how and development experience. For instance, imports of affordable consumer goods from Asia help African consumers increase their purchasing power and improve living standards.

What about the oft-decried scramble for the continent’s natural resources? There is clearly competition between the emerging and traditional powers for minerals.

The jury is still out on how this development approach compares to the path preferred by the traditional partners.

This is important for development: an African Economic Outlook survey of 40 country experts reveals that emerging partners are perceived locally as being more effective partners, particularly in agriculture and infrastructure. Moreover, emerging partners reach countries which have been neglected by traditional partners, such as Ethiopia, Guinea and Sudan.

Perhaps the biggest difference emerging partners have brought is in the mix of financing it offers, often backed by export credits and “resource for infrastructure” credit deals, which are not defined as ODA under the OECD DAC’s strict norms. So when China’s Exim Bank issued Angola with credit lines worth $2 billion in 2004 and $2.5 billion in 2007 for the construction of railways, roads, hospitals, schools, social housing and more, the credit lines were secured by crude oil exports. In 2010, China struck a $23 billion deal with Nigeria to construct three oil refineries and a petro-chemical complex on a similar basis.

Emerging partners other than China also mix aid and investment, albeit on a smaller scale. For instance, in 2007, Senegal struck a $2.2 billion agreement with the Indian government and Arcelor Mittal to launch an iron ore extraction project, along with plans to build railway lines and a port.

The jury is still out on how this development approach compares to the path preferred by the traditional partners, of separating investment from official aid (that is generally not tied to contracts from donor countries) and institutional capacity building. The wider range of finance from emerging partners appeals to resource-rich countries, and leads to projects that private investors otherwise shun, such as building 6,000 km of new roads in the Democratic Republic of Congo. Moreover, it incites African countries to re-invest part of their revenues into wider national development.

Both approaches struggle with the likes of project coherence and management. But emerging partners are viewed as delivering “turn-key projects” faster than traditional partners, and are said to be less bureaucratic. However, they can be very demanding about implementing credit lines, which leads to problems akin to those of tied aid.

There is no clear evidence that either approach improves development more than the other. Proponents of the traditional donors have shown concern that the intense nature of the new partner relationships could cause Africa to overspecialise in unprocessed raw materials. However, African manufacturing output of machinery, transport equipment and processed commodities roughly doubled in the last decade, mostly aimed at a few emerging markets. And though diversification and productivity challenges remain, African firms now have access to more affordable goods than before. Moreover, emerging partners are becoming major sources of innovation, not least for adapted advanced technology, such as affordable solar-powered mobile phones and LED lighting for homes, workplaces and schools.

What about governance? Interestingly, there are signs that the emerging-partner approach to Africa has not worsened governance as some feared, but may have improved it in some cases. For instance, while Chinese aid for infrastructure is often tied to contractors, it is not explicitly bound to policy conditionality. This may be one reason why co-operation with emerging partners is popular among African nations. Moreover, some African countries say their power to renegotiate assistance with OECD countries has been boosted by the presence of emerging partners, so improving overall ownership of policies.

The shift in global wealth may spell the end of post-colonialism, though as the African Economic Outlook says, the key for Africa is to harness the complementarities in the traditional and emerging partner approaches, while devising home-grown development policies, and in particular boosting its own internal integration. Then, Africa will become more cohesive, and its bargaining power, as well as its partnerships, will strengthen.

References
African Economic Outlook 2011. The African Economic Outlook is produced in partnership by the African Development Bank (AfDB), OECD Development Centre, UN Development Programme (UNDP) and the UN Economic Commission for Africa (UNECA).
For queries on this article, contact Jean-Philippe Stijns at the OECD Development Centre.
Congratulations to the OECD on its 50th anniversary

As the world's leading steel company, ArcelorMittal recognises the contribution the OECD has made to fostering an integrated and growing global economy.

Through its core values of Sustainability, Quality and Leadership, ArcelorMittal supports responsible economic growth that promotes the health, safety and wellbeing of its employees, contractors and the communities in which it operates.
This is such an auspicious occasion as we mark the 50th anniversary of the important work that the OECD has done. But before the OECD, there was General George C. Marshall. He realised that a peaceful, stable Europe would need more than rebuilt town squares, railroad tracks and factories. He knew that Europe needed a community of shared economic values. And therefore he, along with President Truman, decided to convene such a community. And what we saw was this remarkable commitment to the rebuilding of former adversaries at the end of a devastating world war because there was a recognition that we needed, as the slogan goes, better policies for better lives, and that through those better policies that would create better lives, there would be a greater chance for peaceful co-operation and real human security.

When President Kennedy ratified the OECD convention 50 years ago, he too hoped to help widen the circle of economic co-operation. What followed for the OECD, and indeed for the world, surpassed even his ambitious vision. Because we did not seek economic growth just for ourselves, but we understood that we would all benefit from growing the pie, and we welcomed partners into a system designed to help all nations begin to create better lives for their own people. And as a result, together we helped usher in the greatest era of growth the world has seen.

A group of European nations, along with the United States, became a transatlantic community, and then the global network that we celebrate today with 34 countries, a secretary-general from Mexico, a prime minister from France, a prime minister from Japan, and the president of the European Commission, and partners from all over the world. But for all of its changes, the OECD remains as it was in those earliest days, a community of shared values, open and effective markets, human rights, freedoms, and the rule of law, accountable governments and leaders, free, fair and transparent competition, President Kennedy's belief that a rising tide can and must lift all boats.

So for five decades this has been a laboratory and a launching pad for smart economic policies to bring those values to life. Member states have improved labour conditions, exposed tax havens, worked in ways large and small to hold ourselves and others to even higher standards. Now, I'm aware that these efforts rarely win a great deal of publicity. This is the hard, sometimes frustrating, difficult work of forging consensus and creating new and hopefully more effective ways of reaching toward our common goals. Because this is a place where leaders and technocrats, business, labour and civil society can find common ground and produce tangible benefits for our fellow citizens.

But let me quickly add that success was never a foregone conclusion. That's why these 50 years are especially worth celebrating today. And yet even as we stop and mark this anniversary, we recognise that the work now being done is occurring during a time of dramatic economic changes. Many nations in this room, including my own, are still recovering from the worst financial crisis since the Great Depression. Rising economic powers are gaining a larger share of the world's wealth and influence. And one of the underlying convictions of the OECD is that when one gains in wealth and influence, one also must accept greater responsibilities.

Two decades ago, when the Berlin Wall came down, the nations of Eastern Europe turned to the OECD for help not only to build democracies, but also market economies. And today we need to work with a new generation of emerging economies and emerging democracies as they chart their own futures. The values, standards and hard-won knowledge of the OECD are as essential as ever. And it falls to us to promote them in this tumultuous time. I applaud the OECD for its bold vision statement which we are unveiling today for endorsement by this ministerial. I believe if this vision statement is followed and implemented through specific, concrete actions, it will help the OECD to have its next 50 years be as successful as its past.

I want briefly to touch on three of the most important ideas. To start, many of our
nations are seeking a stronger economic recovery. All of us want more opportunities and more jobs for our own citizens. So the OECD must continue to deliver forward-leaning policies that help unlock the potential for inclusive, sustainable economic growth. Sometimes that means raising standards for how our companies operate and compete. Other times, it means making markets more effective and lowering economic barriers.

For example, we must continue to use this venue to stimulate new jobs from sources like clean energy and more energy efficiency. We need to be serious about eliminating barriers to trade, investment and fair competition both at our borders and behind them. Through its work on such complex challenges such as export subsidies, the OECD is critical. And if we want to unleash the full potential of entire societies, we must do more to support women and girls who want to learn, work and start their own businesses, which is why I'm very proud to support the OECD's Gender Initiative.

In a few minutes, we will also endorse the OECD's updated Guidelines for Multinational Enterprises. These guidelines, developed in close consultation with both business and labour, set a new higher standard for how our companies should operate, including an important new chapter on human rights. Second, development was at the heart of the OECD's founding mission—in fact, the "D" at the end of the title. And it belongs at the centre of our agenda today and in years to come.

Each year, the chair chooses a theme to highlight. And since the United States has sought to elevate development within our own foreign policy, we wanted to focus on what the OECD can do to foster more effective development practices. We start by recognising that aid, while it remains essential, is not enough to deliver sustainable growth. Countries must be the authors of their own development. And we need to make it a priority to help nations mobilise their own resources to create those greater opportunities.

But what do we expect of such countries? Well, we expect that they need to fight corruption. They need to be transparent about budgets and revenues. And they need to collect taxes in an equitable manner, especially from their own elites. They need to put in place regulations designed to attract and protect investment. And the OECD is here to help when they ask for it. This is, after all, a body of knowledge that the OECD has been uniquely building for decades. And today, a new set of nations is looking to learn these same lessons. From Latin America, to Africa, to Southeast Asia, and now to the Middle East and North Africa, this is the moment to leverage the strengths of this organisation to deliver transformative growth. And the OECD's new framework for development marks an important step in that direction. I will return to these issues at greater length tomorrow, but I wanted to use this 50th anniversary celebration to emphasize their importance.

And third, we cannot simply raise our own standards or level the economic playing field among OECD nations. A global economy depends on a global network, and therefore, the OECD must continue to build varied, flexible partnerships in service of the standards we have worked to achieve. We have already seen how deeper engagement helps all of us to share lessons and best practices.

Chile formed an environmental protection agency as part of its accession talks. Russia is about to join the working group on bribery, and we hope that Russia will soon accede to the Anti-Bribery Convention. And we look forward to working closely with all working group members on robust enforcement of the convention.

The OECD is also deepening engagement with emerging economies, it must also continue its groundbreaking work to develop multidiiplinary guidelines for the treatment of state-owned and state-controlled enterprises.

Now, we recognise that countries will make different choices about how much of their economies to keep in the hands of government. Still, whether they are owned by shareholders or states, all companies should operate on a level playing field consistent with the principles of competitive neutrality. And these companies should be solely commercial, not political actors. Now, I'm well aware that this will not happen overnight. But the great lessons that we have learned from 50 years of incremental progress is that we can raise the standards of fair competition. And when we raise those standards, we help maintain them everywhere.

Half a century ago there was no guarantee that the world's great economies would coalesce around a common vision, but that is exactly what happened. And there were no guarantees that nations from Mexico to Chile to Korea would grow into dynamic developed partners, but they have. The same values and vision needs to continue to guide us, and that's why the new vision for the future is so critical.

See www.oecd.org/oecdweek
Better policies for better lives

Uncertainty about the future, eagerness to devise new ways of managing our economies, and to contribute to the debate on how to make better policies for better lives: these were just some of the discernible public moods at the OECD Forum, held on 24-25 May.

There was also a mood of celebration, as over 2,000 people attended to mark the 50th anniversary of the OECD. Some of the world's leading thinkers and doers, movers and shakers, were gathered as heads of state and political leaders—most of whom would also attend the OECD Ministerial Council Meeting on 25-26 May (see www.oecd.org/mcm2011)—mingled with representatives of business, labour, civil society at the Forum to ensure a lively start to an historic OECD Week.

European Council President Herman Van Rompuy joined OECD Secretary-General Angel Gurría to open the debates by outlining the achievements of the OECD, and expressing confidence in the future. However, serious challenges had to be confronted and overcome: "We are not out of the woods yet," Mr Gurría said, wondering if the crisis had not "merely changed its face."

These remarks set the tone of the debates over the next two days, with rich discussions and Idea Factories on innovation, new sources of growth, jobs, the environment, gender, social policies, public trust, corporate responsibility, development, trade, and more. Short, lively summaries of the public debates, as well as lists of speakers, video clips and photos, can be seen at www.oecd.org/forum2011

Your Better Life Index

A highlight of the 50th anniversary Forum was the launch of Your Better Life Index, an attractive online database which lets users from the public decide which factors they believe count most in measuring well-being. On a simple, user-friendly website, thousands of people from all over the world were able to test out how countries perform against their preferences, and share their views and index scores with other members of the public, through social media and so on. This important initiative by the OECD is part of a pioneering project to go beyond traditional measures of economic output, such as GDP, and involve the public in the process of finding, and building, measures of people's broader well-being. Such was the success of the launch of the Better Life Index that for a time, the server it was being hosted on briefly overloaded. Since the launch, nearly half a million people have visited the site and some 20,000 indexes have been shared.

Recent speeches by Angel Gurría

Green growth for an inclusive world economy
20 June 2011
Remarks delivered at the Global Green Growth Summit, Seoul, Korea.

OECD-FAO Agricultural Outlook 2011-2020
17 June 2011
Opening remarks at the press conference launch, Paris, France.

Adapting tax systems and international tax rules to the new global environment: A shared challenge for India and the OECD
13-14 June 2011
Remarks delivered at a high-level tax seminar, New Delhi, India.

OECD Economic Survey of India
14 June 2011
Remarks at the press conference launch, New Delhi, India.

The food crisis: Beyond agriculture
7 June 2011
Remarks delivered at the Forum of the Americas, Montreal, Quebec, Canada.

Professional mobility and migrants integration
7 June 2011
Remarks delivered at the Forum of the Americas, Montreal, Quebec, Canada.

A fragile recovery
6 June 2011
Remarks delivered at the Forum of the Americas, Montreal, Quebec, Canada.

Going for growth in Canada: Key challenges and how the OECD can help
3 June 2011
Remarks delivered at the Public Policy Forum conference, Ottawa, Canada.

Canada and the OECD: 50 years of converging interests
2 June 2011
Remarks delivered at the Public Policy Forum conference, Ottawa, Canada.

Annual Bank Conference on Development Economics (ABCDE)
May 30, 2011
Welcome address, OECD headquarters, Paris, France.

A new paradigm for development
25 May 2011

Green and growth go together
25 May 2011
Remarks at the Ministerial Council Meeting 2011, session 3.

Presentation of the Secretary General's Strategic Orientations
25 May 2011
Remarks delivered at the Ministerial Council Meeting 2011.

Presentation of the Economic Outlook No. 89
24 May 2011
Introductory remarks to present the OECD Economic Outlook.

Exiting from the crisis: Towards a model of more equitable and sustainable growth
24 May 2011
Remarks delivered at the OECD 50th Anniversary Forum 2011.

Your Better Life Index
24 May 2011
Introductory remarks delivered at the OECD Forum 2011, session on Measuring Progress.

Signature of Memorandum of Understanding between the OECD and the ILO
23 May 2011
Introductory remarks at the signing of the Memorandum, Paris, France.

The global economic situation and the outlook for the European economy
18 May 2011
Introductory remarks delivered at the Brussels Economic Forum, Brussels, Belgium.
Calendar highlights

Please note that many of the OECD meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For a comprehensive list, see the OECD website at www.oecd.org/media/upcoming, which is updated regularly.

JUNE

30/5-1 Broadening Opportunities for Development, ABCDE 2011 conference hosted by the OECD, the French government and the World Bank.

14 Agricultural and Food Price Volatility: African Views and Perspectives, conference organised by the Sahel and West Africa Club, the Trade and Agriculture Directorate, and the OECD Development Cluster.

15-17 40 Years of Chemical Safety at OECD: Planning for the Next Decade, organised by the Environment Directorate.


28-29 Internet Economy: Generating Innovation and Growth, high-level meeting organised by the Directorate for Science, Technology and Industry.

JULY

4 Competitive Growth for Quality Jobs, conference organised by the East Forum and the OECD. Rome, Italy.

6-8 New Directions in Welfare, conference organised by the UK Open University and OECD Statistics Directorate.

8 Local and Regional Strategies to Relaunch Economic and Employment Development, organised by the OECD LEED Trento Centre. Trento, Italy.

8-10 "Le monde dans tous ses États", conference in the series of "Les rencontres économiques d'Aix-en-Provence", organised by the Circle des économistes. Aix-en-Provence, France.


AUGUST

22-26 Ecocity World Summit 2011. Montreal, Quebec, Canada.


SEPTEMBER


13 Publication of Education at a Glance.


24-26 Annual meetings of the World Bank Group and the International Monetary Fund. Washington, DC, US.

OCTOBER

12-13 Measuring Broadband to Understand its Relationship to Productivity, Innovation and Entrepreneurship, workshop organised by the OECD and the US government. Washington, DC, US.


13-14 Building Quality Jobs in the Recovery, conference organised by the OECD LEED Programme and the Irish Department of Environment, Community and Local Government and POBA, Dublin, Ireland.

18-19 Governing board of the International Energy Agency (IEA) meeting at ministerial level.

23-26 World Health Summit. Berlin, Germany.

25-26 Making Water Reform Happen, global forum, organised by the OECD Environment Directorate.

NOVEMBER

2-4 World Pension Summit. Amsterdam, The Netherlands.

3-4 G20 Summit. Cannes, France.

22 Publication of the OECD Economic Outlook.

29/11-1/12 Aid Effectiveness, high-level forum organised by the Development Cooperation Directorate. Busan, Korea.

JANUARY 2012


25-29 Davos World Economic Forum. Davos, Switzerland.
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The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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Israel’s economic strategy

A year ago, at the 2010 OECD Ministerial Council Meeting, Israel was formally invited to become a member of the OECD, following three years of accession negotiations. Israel duly became the organisation’s 33rd member country a few months later, in September 2010. The OECD Observer asked the minister of finance, Yuval Steinitz, to outline his views on the country’s economic challenges.

OECD Observer: What main economic challenges does Israel now face?
Yuval Steinitz: Our key challenges include the rising competition to Israeli exports, the unsatisfactory performances of the education system and relatively high level of income inequality. The 2011-2012 budget strives to improve education, health and social welfare. In addition, it sets out to promote the high-tech industry, support higher growth and increase the integration of Ultra-orthodox (Haredim) Jews and Israeli Arabs into the workforce. Government expenditure is expected to increase by 2.6% in 2011 and 2012 alike, as dictated by the new fiscal rules.

What attributes would you highlight?
Our focus continues to be on promoting significant economic growth, increasing participation in the labour market, improving education and reducing the income inequality between the centre and periphery. In addition, we are working to develop a long-term and strategic fiscal planning based on:

- education, which is Israel’s long-term growth engine;
- encouraging the Ultra-orthodox and Arabs to participate in the labour market by providing skills and job opportunities;
- promoting business in Israel by cutting red tape and streamlining regulations;
- investing billions of shekels in transport infrastructure, including roads and rail, with a focus on connecting the Galilee and the Negev.

How important has joining the OECD been for Israel and what can membership bring your country?
Becoming a member country of the OECD has already led to economic improvements and enhanced Israel’s economic image, as well as improved the functioning of various sectors in Israel’s society and economy, including environment, education and employment. The improvement and upgrading process is continuing as part of the government’s commitment to ongoing peer review by the organisation and to adjust its regulation policy to OECD standards. The process of joining the OECD has already encouraged us to adopt a variety of reforms and norms. We are building on the experience of the OECD member countries in forming government policy and implementing reforms, such as on the environment. OECD membership is a driving force for continual improvement of government efficiency through annual reports, peer reviews and the organisation’s wealth of expertise. We plan on taking full advantage of what the OECD has to offer us. The OECD is also a unique forum in which we can discuss national experience and best practices, and find solutions to common problems.

The OECD is celebrating its 50th anniversary. What contribution do you think Israel can make to the organisation in the years ahead?
Israel shares the basic values of an open market economy and democratic pluralism. It ranks among the world’s leading countries with respect to the number of scientists, engineers and high-tech start-ups per capita, as well as R&D spending per capita. Due to its achievements in information technology, water management, industrial biotechnology and knowledge-based agriculture, Israel can contribute to improving standards of living through innovation. Moreover, we believe our fiscal frameworks—including the new “two-year budget model”—are modern and innovative, and can be examined by other member countries.

We look forward to contributing to OECD working groups on a variety of topics.

How do you see the economic challenges facing the world more widely?
In the short term, downside risks remain a concern. We are particularly concerned with the deterioration of global fiscal positions, the uncertainty related to a premature exit from expansionary fiscal and monetary policies, and the potential for inflation and rise in commodity prices. We are also monitoring the stress remaining in the financial sector and the imbalances in the global economy.

This article first appeared in OECD Observer No 284 Q1 2011.

For more on Israel’s accession to the OECD, see www.oecd.org/mcm2010 and www.oecd.org/accession

Visit www.finance.gov.il
A profile of the economy

In many respects Israel's short but dramatic history has created a combination of economic, social, demographic and political circumstances without close parallel with any other OECD member country. Some of these characteristics are outlined here, and are explored in more depth in the OECD's first Economic Survey of Israel, published in 2010.

Consider the market-oriented reforms since the mid-1980s, for instance. Israel's initial decades of economic management saw a corporatist approach, with widespread public ownership, strong trade unions and severe trade restrictions. Energy and telecommunications sectors were entirely operated by state-owned enterprises, and government had significant holdings and influence in many other sectors. Although trade-union power has diminished substantially since the mid-1980s, it is still considerable. In recent years the unions and employers' representatives have increasingly presented a common front on policies.

Macroeconomic policy reached a turning point in 1985 with a radical stabilisation programme designed to tackle hyperinflation and put the debt-to-GDP ratio on a downward path. The anti-inflation measures were particular successful and were followed up by the implementation of an inflation-targeting approach to monetary policy in the early 1990s. Indeed, inflation has typically been well below 5% annually since the late 1990s. The 1990s also saw extensive structural reform. As in many OECD countries, this included privatisation and regulatory reforms to encourage product market competition.

In addition to this dramatic switch in economic management, Israel's economy has experienced rather more shocks (both positive and negative) than most, even during the relatively stable post-1980s era.

Mass immigration from the former Soviet Union in the early 1990s, the dot.com bubble, the Second Intifada, which began in autumn 2000, and the recent global economic downturn have all generated considerable cyclical effects on output and employment.

The strong influence of the 1990s dot.com bubble on Israel's economy highlights the prominent role high-tech activities have played in growth, attracting much interest from outside. Innovation policy has played a role in this, notably featuring a system of competitively awarded research grants and additional support for firms located in special business parks (business incubators). Other factors contributing to Israel's impressive profile in high-tech and R&D activity include: a fairly large defence industry; training with sophisticated skills brought by the wave of immigrants; and engineering and science education and the labour market, and also represents a fiscal burden and also has implications for human resources.

Compulsory military service (three years for men, two years for women, followed by reserve-service requirements) affects education and the labour market, and also contributes to divisions within society. Ultra-Orthodox Jews and Arab-Israelis are exempt, freeing them from the downsides of service but excluding them from a range of subsequent fringe benefits and other support; this exclusion contributes to lower labour market participation and income levels. In addition, there is little doubt that a greater share of resources is devoted to civilian security arrangements than in most OECD countries. Checks on entry to government offices are tight; transport networks, offices, shops, restaurants and bars are often manned by private security guards; and scanning devices similar to those used in airports are often found on larger premises.

Policies have been favourable towards business for some time to draw investors in and anchor them down. Still, the country arguably has some outright disadvantages as far as some investors are concerned: it is further from major markets than many competing business locations and the politics of the region probably puts some off. Retaining a reputation for excellence in high-tech and research activities also presents challenges because of the global mobility of these sectors.

Substantial security costs

While the substantial resources devoted to the military and security services have some positive benefits for civilian economic development, this also incurs considerable costs. Government spending on defence equipment and personnel is now well below previous peaks, but it is nevertheless still comparatively high at around 8% of GDP. About 1.5 percentage points of that is accounted for by military aid from the United States. But even when this is taken on board, this spending still represents a fiscal burden and also has implications for human resources.

Building a good environment for stronger, more inclusive long-term economic performance must remain a core goal for both macroeconomic and microeconomic policies.

Outside the high-tech sectors, Israel plays an important role in the world diamond industry, though the sector accounts for only a small share of the economy. Agriculture now accounts for around 2% of GDP, though related experience in managing scarce water resources has developed into another area of high-tech expertise.
Israel's history and the geopolitics of the region have additional economic implications. The country is described by some as an "island economy". Although trade and investment flows are substantial with the wider world, those with neighbouring economies in the Middle East are relatively small, while cross-border movement of labour is also limited. This has prompted a widening of channels to temporary foreign workers from further afield (such as the Philippines and Thailand), who now account for about three-quarters of the non-Israeli workforce. Meanwhile, economic ties, particularly with the United States and Europe, go beyond trade and investment. There is a large positive net balance of transfers comprising government-to-government transactions, not only from US military aid, but also transfers between private households (including remittances) and transfers to non-governmental organisations that support a wide range of groups and causes. Net private transfers come to about 2% of GDP, which is high by OECD standards. Land property rights are also somewhat unique: only 7% of land is privately owned, 12% is owned by the Jewish National Fund, and the remaining 81% either directly by the State of Israel or by the Development Authority.

These positive and negative influences have contributed to an average growth rate of nearly 4% per year since 1996, the sixth highest figure among OECD countries. However, growth has also been helped by relatively rapid population increase. Over the same period, per capita growth was only 1.7%. On a purchasing-power-parity basis, the level of GDP per capita, at $27,661 in 2009, is just over 80% of the OECD average (that average was about $33,023), and is far below that of top-ranking OECD countries. Furthermore, for a developed country, Israel suffers from high rates of poverty, particularly among Arab-Israelis and Ultra-Orthodox Jews. Building a good environment for stronger, more inclusive long-term economic performance must remain a core goal for both macroeconomic and microeconomic policies.

In several respects the economy is already on that path. The absence of critical failure in the domestic financial sector ensured that the recent downturn was mild and the recovery relatively speedy. Meanwhile, new finds of offshore natural gas will further reduce the need for imported energy and permit a cleaner fuel mix. The associated tax and royalty revenues will help fiscal balances, which are in better shape than many OECD countries but nevertheless need improving. The ratio of public debt to GDP was 75% in 2010, which is lower than many OECD countries but higher than is optimal.

However, there remain significant macroeconomic challenges. The monetary authorities are facing a difficult scenario in which rapidly rising house prices and overall economic performance have...
favoured an early start to normalising the policy interest rate. However, this has prompted exchange-rate appreciation, with potentially damaging effects on the profitability of the export sector.

Fiscal policy also faces tough trade-offs. While there is a need for debt reduction, achieving policy goals in some areas, particularly on the social front, will require additional spending, and revenue growth is being restrained by ongoing cuts in income-tax rates, as part of a wider programme for encouraging business activity.

In structural policies, significant in-roads have yet to be made in reducing outcomes in poverty. However, measures are in train that ought to have impact in the future. In particular, education reforms are moving ahead quite rapidly on some fronts. For instance, in secondary education, teachers’ pay is being increased in exchange for increased hours devoted to teaching small groups of students.

For the business sector, ongoing cuts in income tax rates are being accompanied by efforts to lighten urban planning procedures and to cut other aspects of red tape for businesses. However, much work remains to be done, notably regarding competition. One study has estimated that the 20 largest family business holdings totalled 30% of the market value of Israeli company shares, a relatively high value compared with equivalent calculations for other countries. Public concern about the role of these groups in the economy has prompted the government to appoint a special committee, which is due to report in the coming months.

For more information on the economy contact Philip Hemmings at the OECD Economics Department.

References
Visit www.oecd.org/israel

Innovation in Agricultural Policies for Development
Israel’s agriculture is unique among developed countries in that land and water resources are nearly all state-owned and that agricultural production is dominated by co-operative communities. Israel is a world leader in agricultural technology, particularly in farming in arid conditions. Israeli agriculture thus relies on an “induced”, rather than “natural” comparative advantage, one built on knowledge and technological progress. Israel has made progress in removing policies that distort trade and resource allocation, and support to agriculture is lower than the OECD average. The 2010 Review of Agricultural Policies in Israel measures support provided to Israeli agriculture and evaluates the effectiveness of current agricultural policy measures.

A special focus of the 2010 report examines agriculture’s performance with respect to water resources and pollution, soils, biodiversity, air emissions and climate change. The future success of Israeli agriculture and further productivity gains will rely heavily on ensuring an effective system of research, development and technology transfer, the report says.

The review then examines the legal and regulatory framework and company practices to assess the degree to which the recommendations of the OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises have been implemented.

For more information on the economy contact Philip Hemmings at the OECD Economics Department.

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Visit www.oecd.org/israel
Banks in Israel have played an extremely important role in the process of positioning Israel as a developed, advanced economy that is attractive to international investors.

As reported in the January 2011 report on Israel by the International Monetary Fund: “Banks proved resilient to global downturn and have strengthened further”. The report continues: “Financial stability indicators suggest that the resilience of the banking system has increased over the past year. Capital adequacy ratios, notably including Tier 1 capital relative to risk-weighted assets, have risen for most banks, while impaired and non-performing loan ratios have declined. Indicators of credit risk also appear strong; although household leveraging has increased somewhat in recent years, the overall level is low, and mortgage loan-to-value ratios are also low by international standards. Banks maintain high liquidity, and interbank and direct exchange rate risk exposures are small”.

The impact of the global financial crisis on the economy was moderate in Israel, relative to the developed countries. This effect was primarily felt in the last quarter of 2008 and in the first quarter of 2009; in the subsequent quarters, conditions changed in Israel as a positive trend emerged. This trend continued into 2010, although growth slowed somewhat in the last few months of the year due to a decrease in exports. Looking ahead, the Israeli economy is on a course of balanced growth. The main source of potential risks is a scenario of negative developments in the global economy, which would obviously affect Israel; however, in scenarios without a crisis of this type, the consensus among economists puts growth in the Israeli economy at 4.2% in 2011.

On May 2010 Israel was invited to join the OECD. The Association of Banks in Israel sees the invitation as recognition of Israel’s achievements, economic strength and its ability to contribute to the organisation and to the global economy. Local economists estimate that Israel’s accession to the OECD will give Israeli society and the economy a boost and contribute to upgrading areas such as the environment, education, employment and many others.

The banking industry in Israel displayed strong resilience during the recent financial crisis. The financing strategy deployed by Israeli banks relies primarily on deposits from the public, rather than on funding through the capital market. In other words, unlike banks elsewhere in the world, which were dependent on the capital market and on securitisation instruments in order to finance their operations, the Israeli banks had more stable financing sources heading into the crisis. As a result of this strategy, the Israeli banking industry’s investments in risky assets overseas were of negligible volume relative to the total volume of the banks’ assets, and the banks were not harmed by various toxic assets. Overall, the actions taken by the banks strengthened the financial robustness of the system and increased confidence in the banks, both of the Israeli public and of global financial entities.
The division of the Israeli banking system
According to the volume of assets\(^\text{a}\), 31 December 2010

The relatively favourable macro-economic background along with the cautious, responsible conduct of the banks in Israel over the years supported the banks' rapid recovery from the direct effects of the downturn. As a consequence, in contrast to banking industries worldwide, which have experienced mergers and acquisitions and other structural changes, the global crisis did not damage the resilience of the Israeli banks and did not affect their structure.

Israel's banking industry encompasses 19 commercial banks. Most of the banks are concentrated into five banking groups: Leumi, Hapoalim, Discount, Mizrahi-Tefahot and FIBI. Alongside these groups are three independent banks (Union Bank, Bank of Jerusalem and Dexia) and four branches of foreign banks (HSBC, Citibank, BNP Paribas and State Bank of India). The operations of the foreign banks with branches in Israel are relatively limited in scope, representing less than 2% of the assets of the banking system. These banks do not operate in the retail sector and are mainly focused on corporate activity, private banking and investment banking.

Israel has more than 1,100 bank branches. In recent years, the main trend in the area of branching has been the opening of smaller, specialist branches, such as branches specialising in retail banking, private banking, corporate banking, etc. The new branches opened based on this format rely on advanced self-service technologies, which allow for more efficient service and enable the banks to recoup their investment in the new branch within a shorter period.

Technological sophistication

Over the years, Israel's banking industry has been at the forefront of global technology, offering its clients services based on a wide range of advanced technologies and direct-service channels, including online and mobile services. Internet-based banking services in Israel are considered highly successful both as a means of receiving information and of executing banking transactions.

Leaders in business sector financing

Banks play a key role in supporting the growth of the business sector in Israel. Over the years, the commercial banks have developed extensive activity in the business and commercial sectors and have become leaders in corporate financing. The corporate divisions of the banks provide services to the major corporations in the Israeli economy as well as to middle-market businesses. The banks also offer services to small businesses through business banking departments within bank branches. Experts in the areas of investments, foreign trade, project financing, securitisation and syndication are available to clients at the banks. In addition, the banks provide support to clients through professional consultants, such as attorneys, accountants, and appraisers.

Competition is hardening among the banks over leadership in financing deals in the Israeli economy, with foreign banks operating in Israel also involved. In many cases, major transactions are financed through risk sharing (syndication) among a number of banks, as well as non-bank entities.

The crisis, especially the last quarter of 2008 and the first quarter of 2009, was an important test for the banks. On one hand, this ordeal revealed that in contrast to parts of the non-bank market, which operated without adequate controls, the banks maintained highly responsible credit-risk management policies over the years. On the other hand, the credit crunch at the outbreak of the crisis required the banks to be acutely alert to developments in the corporate sector and to support its emergence from the downturn to the extent possible.

The banks' willingness to continue to support the business sector during this difficult time eventually proved justified and helped bring about the turnaround in the Israeli economy, which quickly returned to a trajectory of growth.

The banks' responsible policies and the relative cautiousness of private customers in Israel are reflected in clients' debt burden. The debt burden (the ratio of credit granted to private customers to their disposable income) serves as a measure of borrowers' ability to repay their debts; this ratio has remained low relative to other OECD countries. The low debt burden also stems from the high rate of savings in Israel, in a global comparison.

In the area of credit for private customers, an increase in housing credit has been evident in the last five years. This trend stems from the upswing in the economy, which has also been reflected in a steep increase in prices of homes; this increase in turn has heightened demand for larger mortgages. However, despite the expansion of housing credit, the ratio of this credit to income remains low relative to other developed countries.
High capital adequacy
The Israeli banking system has already entered the era of Basel II. During 2009, the banks began to implement the Basel Committee’s recommendations, which represent an innovative and advanced approach to risk management and capital allocation. Since the end of December 2009, the Israeli banking system has operated in accordance with the Basel II guidelines, adopting the standard approach to the measurement of capital adequacy.

The transition from the Basel I guidelines to Basel II did not have a significant impact on capital adequacy ratio values (the ratio decreased from 13.69% under Basel I to 13.61% under Basel II). However, estimates indicate that Israel’s banking industry will align with the global trend, in which supervisory agencies are demanding higher capital ratios and better capital quality, over the coming few years.

As in other countries, risk management has become one of the key issues of concern for the financial industry in Israel. Banks have been required to create a central risk-management function headed by a chief risk manager with the status of a member of management.

Foreign investors
Capital movements into Israel in foreign currency in 2010 were marked by a significant increase in the volume of short-term financial investments by foreign investors, and by Israelis investing overseas. A substantial part of foreign investments in Israel were in government bonds, and the foreign investors’ share of this segment rose significantly.

2010 was also a significant year in foreign investors’ relationship with the Tel Aviv Stock Exchange (TASE). In May, MSCI transferred Israel from its emerging-markets list to its developed-markets category. This change, which was based on an appreciation of the development and resilience of the Israeli economy, led to the departure of foreign investors specialising in the emerging markets during the months preceding the switch; they are now being replaced by foreign investors who are adding the Israeli capital market to their developed-markets investment portfolio. This changeover, reflected in an increase in the volume of foreign investments in local equities, has been gradual.

Assessing environmental risks
Under the general heading of risk management, a specific area being led by the Association of Banks, in collaboration with the Supervisor of Banks, is a drive to increase the banks’ awareness of environmental risks. These are risks to which the banks may be exposed as a result of financing (through credit or investment) of entities whose activity could cause environmental damage. This initiative is aimed at positioning Israeli banks in line with leading banks globally, which in recent years have devoted a great deal of attention to such risks. The Association of Banks also recently promoted a requirement, within a new standard in the area of appraisals, for appraisers assessing land for credit applications to specify all information they receive regarding any pollution or suspected pollution of the ground.

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The process of arrival of these foreign investors is expected to continue in the second half of 2011, in view of the strong performance of the Israeli economy in terms of growth and relative financial stability. As a result, the volume of foreign investments on the TASE is likely to grow. Israeli banks operate sophisticated dealing rooms and offer all of the services required by foreign investors for their activity in the Israeli capital market.

Alongside the foreign operators active in Israel, the banks also serve Israeli and foreign clients operating overseas. A change in the banks’ strategy with regard to international operations has been evident in the last two years. Whereas in the past, the banks’ policy in this area was to expand their activity by means including the acquisition of local banks in foreign countries, today this strategy is being reconsidered, and the emphasis is on the development of activity within the existing branches. Assets of the branches of Israeli banks overseas totalled ILS 14.5 billion at the end of 2009 (~$4.0 billion), accounting for approximately 14% of total assets.

Against this background, it is likely that over the coming year the banks will continue to focus on reinforcing their stability and developing new services, products and areas of activity. More intense competition in future within the entire financial sector and the need to cope with stricter regulation globally will pose considerable challenges for Israeli banks.
Innovation is a major driver of productivity, economic growth and development. Many OECD countries today are looking to boost productivity through investments in science, technology and R&D. What experience can Israel, new OECD member and the "start-up nation" feted in a recent book by Dan Senor and Saul Singer, bring to the table?

Israel's innovation laurels are several—highest gross expenditure on R&D, largest amount of companies listed on NASDAQ outside of North America, highest level of venture capital as share of GDP, etc. How did this success come about?

According to Israeli venture capitalist Dr Orna Berry, there is no doubt smart policies played a key role in spurring innovation. "The Israeli government made a crucial strategic decision to jump start a science-based sector by providing financial support for commercial R&D," says Ms Berry. "This policy made up for market failures and the heightened risk in operating in a geographically isolated market like Israel."

She knows the system well, having seen it through both the private and public sectors. In addition to a 25-year career in science and technology industries, she was the chief scientist from 1996 to 2000, a post since the first companies emerged from the incubator programme in 1993, 61% have secured follow-on funding that embodies the Israeli government's hands-on approach to innovation. The Office of the Chief Scientist was created in 1969 within the Ministry of Industry, Trade and Labour, and would eventually become an important player during the high-tech boom.

But at the time of the Chief Scientist's creation, Israel's economy followed a distinctly corporatist approach, with widespread public ownership and heavily restricted trade. The so-called "lost decade" that followed the 1973 Yom Kippur War saw public debt rise to almost 300% of GDP. Israel wouldn't find its feet again until 1985, when it tackled hyperinflation and public debt through its Economic Stabilisation Programme.

It was the emergence of Israel's export-based high-tech sector in the early 1990s that really put the country's economy on track, with GDP growth of at least 4% a year. Specialising in computer hardware and software, medical technologies and pharmaceuticals, this sector became world-renowned for innovation. Flash drives, cardiac stents, instant messaging and shopping.com are only a few of Israeli-bred innovations that have emerged in the last few decades. High-tech industries represent almost 50% of total industrial exports today, according to OECD data. Between 1995 and 2004, Israel increased its spending on R&D, calculated as a percentage of GDP, from 2.7% to 4.6%, a rate higher than any OECD country.

Israel certainly had the human capital by the early 1990s to fuel the boom. Israel's compulsory military service provides early training in sophisticated technologies. Furthermore, the country saw the influx of almost one million ex-Soviet Jewish immigrants in the 1990s. These highly educated immigrants, whose ranks included 82,000 Russian-trained engineers, assimilated into the local labour market, providing key scientific and IT skills. The Jewish diaspora also provided a large pool of researchers.

"Government policy was instrumental in unleashing the potential of this abundant human capital," says Ms Berry. The technological incubator programme was set up in 1991, in part to provide these skilled immigrants with funding and know-how to become successful entrepreneurs. It was run by the Office of the Chief Scientist, which funded potential entrepreneurs. Since the first companies emerged from the incubator programme in 1993, 61% have secured follow-on funding and 40% are active to this day. The private sector has since invested over $2.5 billion in incubator graduates, according to the OECD.

At the core of Israeli innovation policy is the chief scientist's matching grants programme. Through this initiative,
firms submit R&D proposals to the chief scientist, and grants are awarded on a competitive basis, with between 66 and 90% of the research costs covered. "We reviewed proposals according to their technical and commercial feasibility, risks and the potential for projects to generate expertise," says Ms Berry. These grants are actually high-risk loans—successful projects must pay back the Office of the Chief Scientist the funding received via a deduction of a small percentage of annual sales.

Another government programme set up in the early 1990s, Yozma, has been credited with creating Israel’s vibrant venture capital industry. Founded with a budget of $100 million in 1993, Yozma established 10 venture capital funds, contributing up to 40% towards the total capital investment. The rest was provided by foreign investors, who were attracted by risk guarantees. Nine of the 15 companies that received Yozma investment went public or were acquired. "In 1997 the government received its original investment with 5% interest and the funds were privatised," recalls Ms Berry. A recent OECD report on innovation calls Yozma “the most successful and original programme in Israel’s relatively long history of innovation policy.”

Although these programmes have benefited Israel’s export-led growth and offered a model for other OECD countries, their legacy is mixed today, says Mario Cervantes, OECD senior economist. "The returns in terms of longer-term job creation and income growth have not kept up, despite continued investment in high-tech," he says. "Many Israeli start-ups are sold to the US market and get absorbed into global firms, never really expanding in Israel. This is expected given the small size of the internal market, but it does raise questions about how much of the returns from innovation end up back in the economy in terms of jobs created." According to OECD data, Israel’s information and communication technology sector accounts for about 20% of total industrial output and 9% of business sector employment.

Moreover, Israeli businesses can be just as held back by excessive red tape as they are encouraged by government innovation policy. The OECD’s Product Market Regulation Database, a set of indicators to measure how policy promotes or inhibits competition, gives Israel a worse score than any other OECD country. The OECD’s 2009 Economic Survey of Israel called for more work to be done in reducing regulatory barriers and other channels of state influence on business.

While government policy has actively promoted high-tech industries, other sectors seem to have been left out. "With the exception of the information and communications technology services sector—which is very R&D intensive—innovation in other service sectors has received less attention, as illustrated by the weaker labour productivity performance of the business service sector compared to the US, Korea or the UK," says Mr Cervantes. "Perhaps this is because of—or despite—the competition as well as regulatory barriers that limit incentives for innovation.”

Israel’s economy remains heavily reliant on its high-tech sector, which provides a narrow base for growth, the OECD argues. Innovation policy will have to reach out to Israel’s traditional industrial and service sectors as well. Indeed, the OECD’s landmark Innovation Strategy stresses a broader view of innovation, beyond R&D, that encompasses both technological and non-technological forms of innovation such as design, organisational change and marketing.

Authors Senor and Singer found another trait in Israeli culture behind the “start-up nation” worth mentioning. They credit Israeli chutzpah, an almost untranslatable word meaning gall, audacity and guts (or bold arrogance, depending on the context). In Israel, chutzpah in business is most often seen in the country’s risk-taking culture and is something other OECD countries might do well to adapt to their innovation policies. However, Israel should not sit on its laurels either, since innovation is an ongoing enterprise. “Maybe there is still scope for some more chutzpah in Israel’s innovation policy as well,” Mr Cervantes adds. Ilan Moss

References

OECD Factbook is the OECD's annual flagship that presents key data across the full subject range of OECD work.

Each variable is presented in a two-page spread, with definitions, overviews of recent trends, comments on comparability, and indications on where to go for more information on the left-hand side, and tables and graphs showing the actual data on the right-hand side. In some cases, more than one page of charts and graphs are shown. All of the charts and graphs include StatLinks, URLs linking to Excel® spreadsheet files containing the underlying data.

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Israel has been witness to a sharp rise in foreign direct investment (FDI), since drastic steps were taken to liberalise the economy and reduce public debt. The stock of inward FDI has grown from about 7% of national GDP in 1996 to over 30% in 2007. In 2010, the net FDI inflow was $5.2 billion.

As mentioned in a recent OECD Economic Survey of Israel (page 19): “Government support to business is wide-ranging, with three principal themes: promoting large-scale greenfield investment, small and medium-sized enterprises, and research and development.” Israel’s accession to the OECD should have a positive impact in attracting yet further investment.

Encouraging capital investment
Israel’s industry is well positioned among the top high-tech world leaders, among other reasons, due to its investment incentives policies. In January, the Israeli Knesset passed a substantial set of changes to its Law for the Encouragement of Capital Investments (“the Law”).

The changes in the Law have created widening opportunities for initiatives in Israel. New investors will find that access to tax benefits and grants have been simplified and are relatively easy to operate in Israel.

As of 2011 fixed tax rates are charged to all companies, which run an “Industrial Enterprise” provided they meet a minimum export quota as income from production activities.

A qualifying industrial enterprise is a business which is competitive and contributes to the national product or any aspect of renewable energy. The benefits are not limited in time, and no minimum investment is required. The benefits apply only on preferred income, considered to be generated from activities in Israel only.

Currently, the standard corporate tax rate stands at 24%, but will be reduced gradually to 18% by 2016. The income tax rate imposed on preferred income may reach as low as 6%.

Under certain conditions, R&D activities in Israel for the benefit of a foreign resident and royalties, may also qualify as preferred income. Furthermore, a preferred company is entitled to accelerated depreciation rates on productive assets. Industrial enterprises are eligible for grants as well as tax benefits. Both grants and loans are available. The volume of a grant may reach up to 24% of the investment program.

Why invest in Israeli companies and funds?
Setting up an Israeli industrial subsidiary or greenfield investment is not the only driver of investment. Israel is open to foreign investments, and the government actively encourages and supports the inflow of foreign capital through foreigners investing in Israeli shares or securities. In 2010, foreign investment in traded securities accounted for $9.1 billion (which represent a growth of 280% from 2009).
Generally, a foreign resident will be exempt from tax on the capital gain earned upon the sale of the security of an Israeli resident company, or upon the sale of a right in a foreign corporation, the main assets of which are rights, directly or indirectly, in assets located in Israel, subject to the following conditions:

- The capital gain is not attributable to a permanent establishment in Israel.
- The security is not of a real estate company.

However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident (i) has a controlling interest of 25% or more in such a non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such a non-Israeli corporation, whether directly or indirectly.

In addition to the above, and for the purpose of encouraging investments in Israel, Formal Notes of the Israeli Tax Authorities grant this exemption to foreign residents who invest in Israeli venture capital funds, hedge funds and private equity funds, under several conditions, even though the management company of such a fund is considered to be an Israeli resident and constitutes a permanent establishment in Israel for the fund. This specific exemption for foreign investors in Israeli funds encompasses also interest and dividends paid to the foreign investors, and not only exemptions for capital gains, as granted to investors in regular Israeli companies.

Israel has also a participation-exemption regime for Israeli holding companies. Under specific conditions, Israeli holding companies will be exempt from tax on dividends received from foreign subsidiaries and from capital gains tax upon sale of such subsidiaries. Furthermore, Israeli holding companies will be exempt, inter alia, from tax on interest received on bank deposits in Israel and income (interest, dividend and capital gains) from traded securities. Foreign shareholders will benefit from a reduced withholding tax on dividends of merely 5%.

In contrast, the standard withholding tax rate is 20%. If a foreign company receiving the dividend is a shareholder with a substantial interest (i.e. holds an interest of more than 10% in the payer), the rate is 25%. Israel signed numerous treaties for preventing double taxation. Where, in a particular case, a treaty rate is higher than the domestic rate, the latter is applicable.

Benefits for immigrants
Israel is also doing its utmost to attract immigrants. New residents enjoy benefits no matter what their immigration status or visa. Even non-citizens immigrating for a short period of time, holding, for example, an expert visa, can partake.

One of the main benefits for new immigrants is a ten-year period ("benefits period") during which passive, active and capital gain income from abroad is not subject to Israel’s fiscal system.

As for Israeli source income, a new resident will be exempt from capital gain tax on the sale of non-traded (i) securities of an Israeli resident company or (ii) rights in a foreign resident corporation, most assets of which are rights, directly or indirectly, in assets located in Israel, which were purchased by the new resident while being a foreign resident, if the securities or rights were not acquired from a relative of the new resident. The exemption will generally not apply on the sale of securities of a real estate company.

In addition, a new resident may choose not to be considered an Israeli resident for tax purposes for his first year in Israel, provided that he informs the assessing officer about his choice within 90 days from his arrival.

During the benefits period, there are also benefits for foreign corporations held by the new resident.

1. A corporation is domiciled in Israel if:
   - it is incorporated in Israel;
   - its business is managed and controlled from Israel.

However, a corporation will not be considered domiciled in Israel only because the new resident is managing and controlling the entity’s business from Israel. This will apply also in the case where the new resident established a new foreign corporation after his immigration to Israel.

2. Also, in general, a foreign company whose income is derived from a "special profession" and at least 75% of its control held by Israeli residents is deemed to be an Israeli company.

3. In addition, a foreign company will be considered a Controlled Foreign Company if, among others provisions, more than 50% of its control is held by Israeli residents. Undistributed profits of such a company will be deemed distributed to the controlling (Israeli) shareholders at the end of the tax year, pro rata to their share.

However, for purposes of these provisions, including for examining the control of such companies, the new resident will not be considered as an Israeli resident during the benefits period.

For more information, contact Harel Locker, Tax Partner, of S. Friedman & Co. Law Offices.

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Immigration and employment: A complex challenge

Israel's labour market is a reflection of the country's complicated demographic patchwork. This brings strengths and weaknesses.

If you are examining the Israel labour market for the first time, probably one of the first features you will notice is how international it is, given its relatively small size. The country, which has a population of just 7.5 million, has managed to integrate massive influxes of immigrants from the worldwide Jewish diaspora into its workforce. In the 1990s no less than a million immigrants from the former Soviet Union alone were absorbed, mostly to the benefit of both newcomers and locals.

But Israel is a divided society. It has the highest poverty rates in the OECD, attributable in part to low labour force participation among certain groups of the population. And while some other Jewish immigrant groups remain excluded, Israel's non-Jewish temporary and foreign labour migration system is in need of major reform. These messages were made clear in the OECD's 2010 Review of Israel's Labour Market and Social Policy, which provides some sharp insights into this complex labour market. The report found considerable challenges ahead for policymakers—tackling poverty and inequality while increasing labour force participation under fair employment conditions. Israel can learn from OECD experience in this respect. Yet, as a country founded on immigration, Israel can also offer some compelling lessons in labour market integration.

Israel's labour market is deeply segmented. Alongside Israel's highly-skilled, high-tech labour force is another far-removed demographic group, marked by high non-employment rates. Labour force participation in Israel is 64% among the working-age population—considerably lower than the OECD average of 71%. This reflects gaps in workforce participation for the two main disadvantaged groups in Israel, Arabs and Ultra-Orthodox Jews, or Haredim. Only 20% of Israeli Arab women work while three out of four male Haredim forgo paid employment for lifetime religious study. Those that do work from both groups are likely to have low-paid employment. For these two groups, poverty and labour force participation are inexorably linked.

According to Bank of Israel statistics, just over half of the Arab population and 60% of the Haredim live in poverty. Meanwhile, poverty rates for the rest of the population are at 12%. These significant gaps result in a Gini coefficient (whereby the higher the number, the wider the income inequality) of 0.38, higher than the OECD average of 0.31. And such striking inequality exists in spite of Israel's strong economic growth over the last 20 years: except for slumps in 2000 and the current downturn, GDP has grown by at least 4% per year in real terms since the early 1990s. But too many Israelis have been left behind, and the high rate of non-employment is a large factor.

According to OECD experts, good government policy must play a role in bringing people out of poverty and reducing inequality. At 0.4% of GDP in 2007, Israel's public spending on labour market policies is low compared with OECD countries. Nevertheless, one programme has seen some successes. The Wisconsin Programme—modelled after its namesake state's "workfare" initiative—was part of the government's strategy to increase labour market participation among Arab and Haredi groups. In a few pilot regions, working-age individuals who received income support spent 20 to 40 hours a week working. The programme came to an end in 2010. Israel has also used an earned income tax credit to target low-income workers. However, the amounts are small and take-up is low, according to the OECD.

When Israel joined the OECD in September 2010 it seemed that the country had turned the page on immigration. Current rates were well below most OECD countries and since 2002, net immigration has represented only 12% of population growth, compared with the OECD average of 50%. Yet almost 40% of workers in Israel are born abroad—one of the highest ratios in the OECD.

Behind this figure are two separate stories of immigration and labour market integration. The first story—Jewish immigration—has largely been a success, with 60 years of government integration...
policy. The other face of immigration is that of non-Jewish foreign workers, almost 9% of the workforce, whose employment conditions are poor, with low pay, unpaid overtime, no training and limited job security.

"Israel provides an example of what can be achieved when there is a strong institutional commitment to supporting the integration of newcomers, and also what some of the limits are," said OECD migration specialist Jonathan Chaloff.

On the eve of statehood in 1948, almost 65% of Israel's Jewish population consisted of immigrants who had fled persecution and genocide in Europe, according to Israeli government statistics. Initial inflows were enormous relative to the population: 26.2% in 1949, 14.5% in 1950 and 12.8% in 1951. The Law of Return in 1950 stipulated that any Jew is entitled to immigrate to Israel and obtain full citizenship, known in Hebrew as aliyah, or "ascent."

While most Jewish immigrants then were Ashkenazi from Central and Eastern Europe, the 1950s saw the arrival of entire Sephardic Jewish communities from North Africa and Mizrahi Jews from the Middle East. By the end of the decade, a majority of the ancient Jewish communities in the Arab world had resettled in Israel. An array of institutions helped integrate these immigrants, often destitute and low-educated. The Jewish Agency, a governmental body formed immediately to house Sephardic and Mizrahi Jews.

According to the OECD, central planning objectives dictated how newcomers were dispersed from transit centres to development towns throughout the country. Unskilled immigrants were employed through make-work programmes and public employment. Development towns fared rather poorly, contributing to some of the inequalities still existent today between Sephardic and Ashkenazi Jews.

The situation changed in the 1980s, as migration flows into Israel slowed to a trickle. By the late 1980s, the Ministry of Immigrant Absorption had shifted to a market-based approach, consisting of a "basket" of benefits for immigrants. This new system was put to the test in the 1990s. When the Soviet Union crumbled in 1990-91, Israel's population exploded by almost 20% as Soviet Jews poured into Israel under the Law of Return. Almost 333,000 arrived in the first few years, putting an immediate strain on Israel's teetering finances. But a number of circumstances allowed for a remarkably smooth integration.

Immediate citizenship allowed Soviet immigrants unrestricted access to the labour market. Their "basket" of benefits on housing, education and consumption provided for seven months of cash grants above the minimum wage and became the de facto policy for Russian immigrants in the 1990s. Most Soviet Jews chose this "direct absorption" over state-run reception centres.

The 1990s also saw the emergence of a dynamic high-tech industry, and many experts now view the arrival of 82,000 Soviet-trained engineers as a catalyst. In the 1980s, Israel only had some 30,000 engineers, but immigrants soon filled the ranks as engineers, scientists and IT specialists. However, these newcomers didn't just join the high-tech boom upon arrival—they first started in low-skill jobs and slowly transitioned to white-collar jobs closer to their educational level.

For employers, Israel's policy of Jewish immigration had also worked as a labour migration channel, allowing recruitment from a pool of educated and skilled workers. The OECD review found mainly positive outcomes for natives, including increased consumption, little competition with immigrants and most importantly, a general rise in overall incomes in the 1990s.

The other major recent wave of Jewish immigration, the 14,000 Ethiopian Jews who were airlifted during "Operation Solomon" in 1991, has fared significantly worse. With a poverty rate of 51.4%, Ethiopian immigrants are segregated from the rest of society. Almost 25% of these immigrants live in just 15 neighbourhoods, according to the OECD report. Harking back to earlier days, a centralised
absorption programme and publicly-run reception centres remain in place and the state spends three times as much per capita on absorbing Ethiopians. Although employment rates are increasing for Israeli-born Ethiopians, much work remains to be done.

According to the OECD, there is also considerable room for improvement on another avenue of immigration to Israel, that of temporary labour migration. Current Bank of Israel estimates show that 8.7% of the workforce consists of non-citizens. Historically, Palestinian cross-border workers have made up an important part of the temporary labour force, but since the early 1990s, a temporary labour migration policy has brought in non-Jewish migrant workers from Southeast Asia, China, Nepal, India and the Balkans to fill low-skill jobs. In 2008 there were about 200,000 such workers, mostly in domestic services, agriculture and construction. Almost half were irregular.

This system is in need of major reform, argues the OECD. Contrary to Israel's experience of workforce integration for Jewish immigrants, the OECD found that the large-scale admission of foreign workers has not brought a positive contribution to growth. The recruitment system is plagued with illegal fee-taking and other unlawful practices that benefit employers. There is also a lack of enforcement of existing legislation on the hiring of foreign workers, domestic labour law and working conditions.

"Israel's experience in the 1990s was a laboratory for studying the impact of large-scale migration on the labour force, and the long-term results have been positive overall," said Mr Chaloff. "Today's question is how best to manage low-skilled migration to benefit not just employers but the country in general. Israel is still searching for the right answer." IM

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Tourism: Rooms for improvement

Israel is a popular holiday destination, thanks to cultural and historical, but also leisure, attractions. But there are challenges to overcome.

Tourism in Israel has witnessed sharp growth since 2006, thanks to greater stability, economic growth, major marketing drives and an increasing interest worldwide in Israel as a rather unique tourism destination. According to the UN World Tourism Organisation, the industry has experienced an average of 12% growth in the past three years, while the ministry of tourism estimates tourism revenue at close to 2% of GDP.

The general manager of the David InterContinental Hotel sweeps his arm over the blue expanse of the Mediterranean, and then the row of high-rises along the northern shore of Tel Aviv. "You ask why tourism should grow here? Why shouldn't it? Look at our assets: sunshine, smooth blue swells of sea, sand, and a vibrant economy," exclaims David Cohen.

His counterpart at the Sheraton, a few miles north, is as adamant. "Our occupancy rate? It averages over 80%, and in peak seasons, July and August, we top 100%! We see growth continuing at 10% to 15% per year in the future," explains Jean-Louis Ripoche, general manager of the hotel. The Sheraton is now planning new hotels in Tel Aviv and Jerusalem, including an upscale boutique hotel in Jaffa, the first to have a non-kosher kitchen.

The ministry of tourism does not conceal their enthusiasm: "2010 was a record year, with $4.3 billion in tourist revenues, almost four times the 2002 income of $1.2 billion," explains Stas Misezhnikov, minister of tourism.

By the year 2015, the ministry of tourism forecasts that tourism revenues will have jumped another 43% to reach $6.1 billion, derived from five million annual visitors. What is driving this growth? Experts point to several factors.
First, the indisputable advantage of being the location of a number of holy sites for the world's monotheistic religions. Israel capitalises on religious tourism, and is planning and implementing further projects in this area.

Another strong driver of tourism growth is the booming economy. Business travellers represent a healthy segment in total in-bound tourism, and the increasing demands of various engineering, high-tech and green industry sectors point to larger numbers of visiting managers.

A third major growth factor for the industry is the opportunity presented by emerging markets. In order to increase visitor arrivals, Israel has signed co-operation agreements with over 30 emerging and other countries, with positive results. Minister Stas Misezhnikov notes that "there has been a significant increase in the numbers of Russian visitors to Israel since 2005, and now we are seeing increasing numbers of South Americans, tourists from Central Europe, and visitors from the Far East."

Israel has enjoyed prosperity and stability for the past few years, but must still face the ongoing challenge of changing perceptions, notably about security. For Minister Misezhnikov, "there are still common misconceptions among potential visitors related to security. We spend an excess of $55 million every year to position ourselves as a unique and attractive tourism destination. This is a slow cumulative process that will lead us to achieve our goals with time."

Israel's reputation as a relatively expensive tourist destination compared with other Mediterranean competitors, such as Turkey, Morocco or Tunisia, represents a challenge. On the other hand, proponents point to Israel's excellent services and infrastructure, as well as its gourmet food and beautiful sites, which together mean good value for money.

Still, there are several bottlenecks to overcome, such as flight volume and hotel capacity. Building restrictions in Tel Aviv have slowed hotel growth, explain both the Sheraton and David InterContinental managers. "You must also consider that real estate prices are exploding," says Jean-Louis Ripoche. "That does not help hotel investment or room rates." That might well explain why no big new hotels have been built in Tel Aviv for the past 15 years.

Overall, the increasing number of inbound tourists in the past few years and the continuous growth of tourism revenues shed a bright light over the future of the Israeli tourism industry. According to Alain Dupeyras, the head of tourism in the OECD Centre for Entrepreneurship, SMEs and Local Development, "the continued opening up of the country's skies to low-cost airlines will certainly provide a powerful boost to Israeli tourism."

Mediaside

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Learning to care

In 1950, less than 1% of the global population was over 80. By 2050, the share of those aged 80 and over is expected to reach nearly 10% across OECD countries. The trouble is, while people are living longer, they are not always able to look after themselves. Relying on family help can be difficult, not just financially, but also because, as people live longer, their children may also be ageing and facing challenges of their own. That is why public authorities are starting to focus on the issue of long-term care and the provision of services for elderly people with reduced functional capacities.

Help Wanted? Providing and Paying for Long-Term Care is the result of a two-year project conducted by the OECD in 2009 and 2010, covering 29 OECD countries. The report reveals that almost all OECD countries surveyed encourage home-based long-term care as the preferred method for most recipients, despite the fact that most countries pay more for institutional care than home-based care. Switzerland, for instance, devotes 1.8% of its GDP to institutional care, but only 0.3% to home-based care. Only four countries buck this trend: Denmark, Austria, New Zealand and Poland.

There are obstacles to the implementation of home-based care, such as a limited number of providers (whether by firms or families that are willing or able to help out) and a lack of incentives. Governments have tried to counteract these problems in various ways. Norway, for instance, encourages competition between private home-care providers by issuing vouchers: employers provide their employees with these vouchers, which may then be used to buy formal care in lieu of a part of the employee's income.

The development of new technologies could improve the productivity and efficiency of long-term care workers, but this area demands more attention. Better interaction between long-term care and the wider healthcare systems could also improve efficiency. Many OECD countries have tried to do this by integrating care services within their healthcare systems, but it remains to be seen whether this can generate the highest health gain per dollar. To make more progress, the authors recommend information sharing, evidence-based guidelines and care planning programmes. More generally, they suggest that societies need to change their perspective on long-term care. Caring for the elderly is a learning process, and one which concerns every one of us.

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Coming out of the water closet

In the last edition of the OECD Observer we showed how investing in a gas-based kitchen can save lives. The simple water closet can also be a means to good health and dignity, and a source of economic wellbeing, says a new OECD report, Benefits of Investing in Water and Sanitation. The health benefits we all know something about: improving access to safe water and sanitation could save the lives of 30% of children under 5 in developing countries, by cutting down on diarrhoeal diseases such as cholera, typhoid and dysentery.

However, consider also how much time and water it takes for morning ablutions—to take a shower, brush your teeth, use the toilet, make breakfast and wash up afterwards. How much more time would it take if the closest access to clean water and plumbing was two kilometres or more down the road? No wonder Benefits of Investing in Water and Sanitation reports that meeting the Millennium Development Goal for sanitation—to reduce by half the proportion of people without access to safe drinking water and basic sanitation—would add more than 200 million days of school attendance per year and raise labour productivity.

Furthermore, improving water and sanitation services could save a global $84 billion a year, according to the report. Simply by treating preventable infectious diarrhoea, health agencies could save $7 billion a year. Almost 10% of the global cost of disease could be prevented through better services.

But at what cost? The report estimates the investment in water and sanitation services across 67 developed and developing countries at $18 billion a year, and an additional $4 billion for maintenance over the next two decades, an amount the authors admit will be hard to achieve. On the other hand, a bail-out package to help just one European country pay its debts has cost more than that amount in the past year alone. With almost 884 million people lacking access to safe water supplies and 2.6 billion without access to basic sanitation, an investment in sanitation across 67 countries would pay solid dividends in health and economic terms.

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Food inflation rises

Food prices have increased over the year to January 2011 in many of the world's economies. Moreover, those increases, which accelerated from mid-2010, reversed the downward trend in food prices of 2009 and the first half of 2010, OECD-FAO Agriculture Outlook 2011-2020 says. Three-quarters of the OECD countries recorded retail food price increases of 5% or less, while price increases exceeded that in half a dozen or so countries. Two OECD countries, Korea and Estonia, experienced increases of over 10%. Brazil, China, Indonesia and Russia all had double-digit rates of food inflation during the year to January 2011, well up on the previous year. In South Africa, food prices increased by a moderate 3.3%, though this represented a doubling from the rate of the previous year. Food price inflation also accelerated in the second half of 2010 in several countries from Africa, Asia and Latin America. In high-income OECD countries the contribution of food price movements to inflation has been positive though small, generally around 0.5 percentage points. However, food price increases contributed over 1.5 percentage points to inflation in countries such as Estonia, Turkey, Hungary and Korea. This contrasts with the year to January 2010 when food prices decreased, attenuating inflation. The contribution of food price movements to OECD inflation remains small, the report notes, not least because of the small share of food expenditures in the overall consumer basket.

Migration in a crisis

Migration into OECD countries fell by about 7% in 2009 to 4.3 million people, down from just over 4.5 million in 2008. Recent national data suggest migration numbers fell further in 2010, the 2011 International Migration Outlook says. The decline is particularly marked in Asian OECD countries and in Europe, notably the Czech Republic, Ireland, Italy, Spain and Switzerland. Movement between EU member states fell by 22% in 2009. But permanent migration to Australia, Canada and the US rose slightly.

The drop in migration coincided with declining job opportunities from the economic crisis. Temporary labour migration declined by 17% in 2009. Young immigrants have been especially hard hit by job losses, as have workers in construction, finance and retail. However, immigrant employment has risen in education, health, long-term care and domestic services. More migrant women have also joined the labour force, compensating for job losses among male migrants, the OECD report says. Still, given the severity of the crisis, migration fell less than expected, the OECD believes, probably because ageing and falling fertility rates propped up demand for skilled and unskilled workers. The report makes four key recommendations to help governments improve management of migration flows: convince the public about the facts—most migrants are well integrated in OECD societies; broaden co-operation with origin countries and employers; strengthen integration efforts; and guarantee equal rights by encouraging naturalisation.
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<td>Consumer price index</td>
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<td>Japan</td>
<td>Gross domestic product</td>
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<td>-0.7</td>
<td>Current balance</td>
<td>Unemployment rate</td>
<td>Interest rate</td>
<td>Interest rate</td>
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<td>Industrial production</td>
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<td>Gross domestic product</td>
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<td>3.9</td>
<td>Current balance</td>
<td>Unemployment rate</td>
<td>Interest rate</td>
<td>Interest rate</td>
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<td>Industrial production</td>
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<td>Unemployment rate</td>
<td>Interest rate</td>
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### Definitions
- **Iceland**, **Mexico**, and **Turkey**: seasonally adjusted apart from Turkey.
- **Interest Rate**: Three months.
- **Current Balance**: Billion US$; seasonally adjusted.
- **Unemployment Rate**: % of civilian labour force, standardised unemployment rate; national.
- **Cyclical Movements in Industrial Production**: From six to nine months in advance.
- **Consumer Price Index**: Measures changes in average retail prices of a fixed basket of goods and services.
- **Gross Domestic Product**: Volume series; seasonally adjusted.
- **Leading Indicators**: A composite index based on other indicators of economic activity which signals cyclical movements in industrial production from six to nine months in advance.

### Data
- **Gross Domestic Product**: Various countries and periods.
- **Consumer Price Index**: Various countries and periods.
- **Industrial Production**: Various countries and periods.
- **Unemployment Rate**: Various countries and periods.
- **Interest Rate**: Various countries and periods.

### Source
Main Economic Indicators. April 2010. OECD Observer No 285 Q2 2011 55.

### Notes
- "OECD Observer" is not available.
- "Enhanced engagement programme".
- "Assessment candidate to OECD".
- "Enhanced economic indicator program".

Source: Main Economic Indicators, April 2010.
Your better life trends

The OECD's Your Better Life Index, launched at the 50th anniversary OECD Forum on 24 May, lets users from the general public weigh up the factors (initially from a list of 11) they feel matter most in assessing their well-being.

Though just a few months old, a few clear trends are starting to emerge from the half-million or so visits the index has notched up. First, "life satisfaction" is currently the most highly rated topic for most people, regardless of their country of origin, followed by "education" and "health". At the other end of the scale, "community" and "income" rank among the least important issues so far, with the very lowest rank afforded to "governance".

The reasons behind these rankings are still being investigated, and these preferences could change over time. The "jobs" factor, for instance, could slip back if the economic recovery gathers pace. Still, "life satisfaction" and "health" are timeless human priorities and may not shift much.

So, which countries perform best against the most popular factors as chosen by our users? For "life satisfaction", the top two countries are Denmark and Canada, for "education", Finland and Korea do well, and for health, Switzerland and Austria show up top. And if you happen to choose "governance" as your top quality of life indicator, then Australia and New Zealand come up top. More trends in the months ahead at www.oecd.org/statistics/factblog and www.oecdbetterlifeindex.org.

See also "Better measures for better lives" at www.oecdobserver.org.

Jobs with small children

Most people would probably agree that female employment and maternity leave are related issues. But did you know that female employment rates are not always highest in countries where paid maternity leave is longest?

In fact, employment rates of women are relatively high in France and Sweden, yet paid maternity leave in these countries is relatively low, at 16 and 8.5 weeks respectively. Compare that with Greece, where paid maternity leave is above 43 weeks, but where the employment rate for women is just 55%, well below the OECD average of over 63%.

Does that mean cutting maternity leave would help bolster employment? Not necessarily; after all, both the UK and Ireland have relatively long paid maternity leave (52 and 42 weeks), yet their female employment rates are relatively high.

Several factors affect female employment, but one question that really matters for mothers wishing to enter— and stay— in the labour market is how to cope with toddlers and school-going children. For these mothers, the quality and availability of childcare services and pre-school education are vital. Public spending on childcare in France, Sweden and the UK is in the 0.4–0.6% of GDP range, more than double that spent in Greece, or indeed Korea where the female employment rate is below 60%.

Visit www.oecd.org/social/family/database

Childcare and pre-primary education

Public expenditure, selected countries, % of GDP, 2005

Source: OECD Family Database 2011
Introducing the BlackBerry PlayBook™ tablet.

Multitasking  
Speed-freaking  
Web-rocking  
Ultra-portable

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