

G20 AND LOW INCOME DEVELOPING COUNTRIES FRAMEWORK

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Key Messages

Turkey has made inclusiveness a key theme of its G20 Presidency, underscoring that strong, sustainable and balanced global growth needs to be inclusive of all countries. Low income developing countries (LIDCs)¹ are important sources of current and future supply and demand; promoting their integration into the global economy as a path to their prosperity is not just a moral obligation, it is essential for the sustainable and balanced growth of the global economy. Focusing on the relevance of G20 work for developing countries is particularly critical in 2015, a year in which the 2030 Agenda for Sustainable Development sets a new, comprehensive, universal and ambitious framework for global sustainable development efforts.

The G20 is well placed to contribute to the global development agenda mainly by strengthening development policies and coordinating its actions. It is home to half of the world's poor and brings together advanced and emerging economies. It provides policy coherence, analysis and practical tools to support growth and development. This work helps G20 members to better target their cooperation with developing countries and can help amplify development efforts on the international agenda.

G20 efforts support domestic resources, including on development finance. This year, the G20 Call to Action for Strengthening Tax Capacity encourages members to assist developing countries to improve their tax systems and benefit from the international tax agenda. G20-led efforts to reduce the costs of remittance transfers have contributed to estimated savings of up to USD 43 billion for migrants and their families. New G20 national remittance plans will help make progress towards the G20 commitment to take strong practical measures to reduce the global average cost to 5%. G20 leadership on anti-corruption, particularly on foreign bribery, beneficial ownership and public sector integrity, helps to bolster the impact of development revenues and benefits.

G20 work targets key areas that are enablers for sustainable development. Work on infrastructure is supporting ways and means for developing countries to prepare, prioritize and finance projects. A G20 Energy Access Action Plan with a special focus on Sub-Saharan Africa and voluntary collaboration will strengthen G20 coordination in the region in partnership with African stakeholders. A new G20 Action Plan on Food Security and Sustainable Food Systems promotes responsible investment, market transparency, human resource development, and sustainable productivity growth, as well as the development of a new G20 platform to measure and reduce food loss and waste globally.

G20 work promotes inclusive societies and opportunities for all. G20 efforts on financial inclusion are helping to open up access to payments, savings, credit and services, in particular for SMEs. Coordinated work on human resource development, in particular skills development, will help match job-seekers with employment opportunities. In 2015, the G20 has focused on promoting better integration of SMEs into Global Value Chains, in particular in LIDCs. The G20 Inclusive Business Framework, and the development of a new policy

¹ Low Income Developing Countries (LIDCs) does not denote an official category of countries. It is a generic concept used to cover as many countries as possible in line with the Turkish G20 Presidency's priority of inclusiveness. LIDCs does not prejudice official categories of countries such as LDCs or LICs used in UN, WTO and other relevant international organizations.

platform, will help low-income people participate in markets and enhance the role of the private sector in sustainable development.

The G20 can further support the ambition of the 2030 Agenda for Sustainable Development. It can contribute to the implementation of the Sustainable Development Goals (SDGs) by better aligning its development agenda with the 2030 Agenda, and deliver early leadership as the world shifts to a new sustainable development horizon. It can further enhance policy coherence, driving forward cross-cutting development activity. And the G20 can act in partnership with LIDCs for the 2030 Agenda, by strengthening dialogue and engagement.

Introduction

Inclusiveness is a key theme of Turkey's G20 Presidency. At the global level, this means a recognition that strong, sustainable and balanced global growth needs to be inclusive of all countries. LIDCs are important sources of current and future supply and demand; promoting their integration into the global economy as a path to their prosperity is not just a moral obligation, it is in all countries' interests. Bringing the G20's attention to LIDCs is particularly critical in 2015, a year in which the international community agreed on ambitious goals for sustainable development and the means to implement them.

Accounting for 85% of the global economy, over 75% of world trade and two thirds of the world's population, the G20 members have, and will continue to have, important implications for growth and development in LIDCs. The G20 plays a critical role in creating an enabling environment for inclusive global growth and development. Its work on ensuring financial stability, promoting growth and avoiding and managing crises is critical in supporting the opportunities and facing challenges for LIDCs. In turn, the increasing integration of developing countries into the global economy contributes to the G20's objective of strong, sustainable, balanced and inclusive global growth.

The G20's strengths – collective action, policy analysis, coordination and cooperation; the development of practical tools and ideas; and being a forum for learning and dialogue on good approaches to global challenges – can benefit LIDCs. In a number of areas these countries benefit from the broader discussions of the G20, and in some key areas, G20 work directly addresses the interests of LIDCs.

An open and closer dialogue between the G20 and LIDCs provides an opportunity to establish a deeper partnership and continue sharing the benefits of stronger economic and financial integration. This Framework is intended to broaden that dialogue.

G20 Work to Address Development Challenges

Key G20 work aimed at addressing development challenges can be grouped under three broad headings: Supporting Domestic Resources (Tax, Remittances and Anti-Corruption); Strengthening Key Areas for Growth and Development (Infrastructure, Energy and Food Security and Nutrition); and Promoting Inclusion and Opportunity (Trade and Global Value Chains, Financial Inclusion, Human Resource Development and Employment and Inclusive Business).

Supporting Domestic Resources

Tax

Challenges

Official Development Assistance (ODA) remains an essential source of income for many LIDCs to pursue their sustainable development policies. In addition, mobilizing domestic resources can contribute to the building of comprehensive and long-term development policies. LIDCs face a number of key domestic challenges in raising tax revenues, including: weak tax policy, administrative processes and capacity, structural constraints, low compliance, narrow tax bases, and missing reciprocal linkage between tax and public and social expenditures as well as illicit financial flows. Those endowed with natural resource wealth face particular challenges, such as volatile commodity prices, risks of a “resource curse” and pro-cyclical policies impacting macroeconomic stability and governance, as well as undermining the sustainable management of natural resource revenues.

A more open international trading system is posing various challenges to international tax matters as well. Coupled with heavier reliance on corporate income tax and greater exposure to profit shifting issues, LIDCs are becoming increasingly vulnerable to tax base erosion. Though the issues are not new, the G20 has recently placed a spotlight on these concerns.

G20 Contributions

The 2011 Report from the IMF, OECD, UN and World Bank Group, *Supporting the Development of More Effective Tax Systems*, set out how the G20 can provide leadership and political support for ongoing initiatives, and identified areas requiring additional attention. Progress has been made on a number of fronts through the implementation of a multi-year G20 work program that can help LIDCs benefit from the ongoing and wide-ranging reforms to bring greater transparency to the international tax environment, through exchange of information (automatic and on request), and address tax avoidance by large corporations through the G20/OECD BEPS project. Progress is being made with interested developing countries participating in the implementation of the G20/OECD BEPS project on an equal footing and IOs developing toolkits that can assist in implementing BEPS outcomes. Note should be taken of the extensive assistance that the IMF, WBG, and others continue to provide. This includes initiatives such as the TADAT (Tax Administration Diagnostic Assessment Tool) developed by the IMF in partnership with the WBG and others, Tax Inspectors Without Borders led by the OECD/UNDP and voluntary pilot projects partnering G20 and developing countries to promote automatic exchange of information. Capacity building efforts around domestic resource mobilization remain a high priority and have featured in major international development events in 2015, particularly in the Addis Ababa Action Agenda and the Addis Tax Initiative, in which a number of G20 countries committed to doubling the support they give to tax capacity projects by 2020. The G20 endorsed a Call to Action for Strengthening Tax Capacity in Developing Countries this year. The Call to Action includes a regular reporting mechanism for G20 members to demonstrate their increased efforts.

Remittances

Challenges

Remittances cannot be equated to other international financial flows, such as FDI, ODA or other public sources of financing for development. But they are an important source of family and national income in many low income developing economies, reaching as high as 48% of GDP in some countries. In 2014, these countries received nearly US\$200 billion, with the majority (77.5%) of flows emanating from G20 countries. Moreover, while the global average

cost of sending remittances is 7.5%, this ratio is significantly higher for low-income economies (9.12%); in some cases costs can be as high as 20%. In addition, some financial institutions have terminated client relationships with remittance businesses. The extent and underlying causes of these terminations (so-called “de-risking” activities) are not yet fully understood, but preliminary analysis indicates they are driven by multiple factors, and could have negative implications on growth and financial inclusion. The provision of financial services to remittance businesses fosters remittance transfers through the regulated financial system, supporting anti-money laundering and counter-terrorism financing goals. It is important to continue to encourage financial institutions and regulators to apply a risk-based approach commensurate with risks identified and consistent with guidance from the Financial Action Task Force (FATF). There is also the need to better understand remittance sectors and key corridors to maximize the gains from remittances, and boost financial inclusion, consumer protection and literacy.

G20 Contributions

In 2011, G20 members committed to work to reduce the average cost of transferring remittances from ten to five per cent. G20 actions have contributed to the lowest unweighted global average cost to transfer remittances to date [7.5%, Q3/2015]. The World Bank Group estimates that the reduction in the cost of transferring remittances since then has resulted in savings of up to USD 43 billion for migrants and their families in developing countries.

This year, G20 members have produced National Remittance Plans outlining concrete measures they will implement to further facilitate flows and reduce costs towards reaching the 5% target. The G20 High-Level Statement on Remittances reinforces commitments to reduce the cost of remittances. On “de-risking,” the G20 has asked the WBG to collect data on the scale and key drivers of the account closures of money transmitter organizations.

Anti-corruption

Challenges

Corruption has long been recognized as an impediment to growth and development, and a contributor to inequalities. In addition to increasing the costs of goods and services, misallocating public finances and distorting competition, corruption discourages foreign investment and may reduce the impact of development assistance, hindering developing countries from reaching development goals.

G20 Contributions

The G20 has adopted the 2015-2016 Anti-Corruption Action Plan, which focuses its work on where it can best add value to existing international efforts to reduce corruption and enhance transparency. G20 efforts to fight corruption in their countries as well as abroad, including by promoting transparency of beneficial ownership, promoting international cooperation in the recovery and return of stolen assets to their rightful owners and identifying trends and challenges in anti-corruption legislation and enforcement, have been critical to help address the corruption challenge and tackle illicit financial flows, and improve good governance in high risk areas. Through its leadership on anti-corruption, notably on transparency and procurement, the G20 bolsters the developmental benefits and the sustainability of its other priorities. This year, members will support integrity in their private sectors, including for their companies operating abroad, promote public procurement transparency, reiterate the importance of open data, strengthen the capacity of SMEs for anti-corruption, and continue to implement the *Principles on Transparency of Beneficial Ownership* adopted last year.

Strengthening Key Areas for Growth and Development

Infrastructure

Challenges

Lack of adequate infrastructure comes at an enormous economic and social cost, as infrastructure plays a critical role in growth, competitiveness, job creation, and poverty alleviation. Today, one billion people live more than two kilometers from an all-weather road, and almost 750 million lack access to safe drinking water. Closing the “infrastructure gap” is estimated to require an additional \$1-1.5 trillion/year, and will require greater reliance on private investment. Unfortunately, LIDCs typically face significant challenges in attracting both local and international private infrastructure investment. Local investors face the inability of domestic financial institutions to provide the long-term financing necessary for infrastructure development, while global investors may have erroneous perceptions of country risk.

A great challenge in infrastructure is selecting and preparing projects that will attract private developers and lenders; failure to meet this challenge has strongly contributed to a steady decline in investment over the last four years. National and subnational government agencies in LIDCs frequently lack the tools to effectively identify, prioritize, and select PPP projects.

G20 Contributions

Toolkits, Checklists and Other Instruments

There is ongoing G20 work to facilitate financial intermediation, with a focus on innovative asset-based financing models to attract greater participation of institutional investors in infrastructure development. Tools have also been designed to assist governments, including in LIDCs with project selection and preparation, PPP management, legal issues in procurement and the provisioning of proposed indicators to identify the most essential reforms to attract high quality investments.

Diagnostic and Analytical Studies

Several studies have been commissioned that focus on the: (i) specific risks and mitigation channels unique to investment in LIDCs; (ii) country-specific sector diagnostics; and (iii) partnership approach used by MDBs in their dealings with their respective member countries on the development of infrastructure projects.

Platforms and Forums

The Global Infrastructure Facility (GIF), convened by the WBG with the encouragement of the G20, will provide end-to-end support to ensure well-structured and bankable infrastructure projects are brought to market, with a concentration on finance options and structures that are able to attract a wide range of private investors. The Global Infrastructure Hub (GIH) was established at the 2014 G20 Leaders’ Summit to address data gaps, lower barriers to investment, increase the availability of investment-ready projects, help match potential investors with projects and improve policy delivery. As well, the G20/OECD Task Force on Institutional Investors and Long-term Financing, covers private sector and institutional investor involvement in infrastructure. The G20 has also supported work exploring options for multilateral development banks to optimize their balance sheets to allow further lending.

Energy

Challenges

Approximately 1.1 billion people across the world have no access to electricity, with nearly half living in Sub-Saharan Africa (SSA). These comprise two-thirds of the region's population. Unreliable power supply has been identified by African enterprises as the most pressing obstacle to the growth of their businesses – ahead of access to finance, red tape, and corruption – and investment in this area shows tremendous benefits for development: the International Energy Agency estimates that every dollar of additional power sector investment boosts GDP by an estimated \$15.

G20 Contributions

The G20 aims to address this global problem and place immediate attention on SSA, where urgent action is needed under a phased approach. Under the 2014 Principles on Energy Collaboration, G20 Leaders committed to work to “ensure access to affordable and reliable energy for all.” This supports the Agenda 2030 which includes an SDG on ensuring access to affordable, reliable, sustainable and modern energy for all. Reaching this goal until 2030 will require an almost tripling of annual investment flows to USD1 trillion. The G20 Action Plan on Access to Energy with a special focus on SSA will strengthen G20 coordination and establish a long term voluntary cooperation framework.

Food Security and Nutrition

Challenges

Food security and nutrition (FSN) remains critical for long-term economic stability and growth, as well as political and social stability. Yet, ensuring access to sufficient, safe and nutritious food remains a serious challenge. Despite significant progress in combatting undernourishment and malnutrition, 795 million people are still afflicted by hunger, 25% of children under five are stunted, and around one-third of the food produced each year for human consumption is lost or wasted. In addition to being a tragedy for individual potential, undernourishment and malnutrition can hinder current and future economic growth by increasing mortality and susceptibility to diseases, while lowering labor productivity. G20 members can directly influence the food insecurity situation, as they produce up to 80% of the world's cereals and account for a similar percentage of global exports. Moreover, many of the world's undernourished live in G20 countries.

G20 Contributions

The G20 can add value to FSN efforts by providing international leadership and encouraging international cooperation. G20 Agriculture Ministers this year invited FAO, together with IFPRI and other relevant international organizations, to establish a platform, building on existing systems, for sharing information and experiences in measuring and reducing food loss and waste (FLW), as well as in actions towards the recovery and redistribution of safe and nutritious otherwise wasted food to feed people. The 2014 G20 FSN Framework proposes tangible actions to positively influence the state of food security worldwide by: (i) increasing responsible investment in food systems; (ii) increasing incomes and quality employment in food systems; and (iii) increasing productivity sustainably to expand the food supply. The Framework also links FSN to related G20 work on financial inclusion, remittances, and human resource development. It pays particular attention to smallholder and family agriculture, with an emphasis on women and youth. The G20 FSN Framework's Implementation Plan has prioritized practical actions on responsible investment, incomes and employment, and sustainable productivity growth, including efforts to reduce FLW. This year's G20 Action Plan on Food Security and Sustainable Food Systems includes all of these important aspects.

Promoting Inclusion and Opportunity

Trade and Global Value Chains

Challenges

Trade is an essential driver of growth and development. Trade liberalization in a multilateral setting is particularly important in low income developing countries. However, they often lack the domestic technology, capital or specialized skills to join Global Value Chains (GVCs). They may also lack the requisite services and suppliers needed in GVCs. Export competitiveness is inextricably linked to having access to competitively-priced intermediate imports. Therefore tariffs on inputs, burdensome costly customs procedures and restrictions on access to both imports and services also directly impact GVC participation. For many, the primary mechanism to join GVCs is by attracting efficiency-seeking FDI, however, delivering a broadly competitive national environment to attract this FDI can be difficult. Moreover, low income developing countries often lack the most critical key features sought by GVC-oriented investors, including sound infrastructure and connectivity or regulatory and administrative efficiency.

G20 Contribution

The G20 is committed to a strong and well-functioning multilateral trading system with WTO at its core. This includes support for the early entry into force of the WTO Trade Facilitation Agreement and implementation of other Bali decisions, as well as support for a successful WTO Ministerial Conference in Nairobi, including on development and specific LDC outcomes.² Furthermore, G20 work, including as reflected in the joint OECD and WBG report on Inclusive Global Value Chains, aims to identify the challenges and opportunities for low income developing countries in adding value to their production and improving participation in GVCs. With determinants of success ranging from productive capacity, to infrastructure and services, to the business environment, to ensuring efficient trade and investment flows and good connectivity, there is broad scope for policy initiatives to address challenges of GVC integration for firms in low income developing countries.

Inclusive Business

Challenges

Inclusive businesses (IBs) utilize market-based approaches to incorporate the base of the pyramid (BoP) as an integral part of their business proposition by making the BoP part of their core value chain as suppliers, distributors, retailers, or customers – while still generating a profit.³ Yet, IBs face market-wide challenges – limited information, missing or restrictive rules and regulations, limited financial resources, inadequate infrastructure and capacity – which are compounded in LIDCs. Moreover, governments are often unaware of how to incentivize IBs, while some businesses do not even realize they primarily serve the BoP and are therefore inclusive.

G20 Contributions

The Turkish Presidency delivered the G20 Inclusive Business Framework, which presents an understanding of IBs, offers an overview of policy options and strategies to enable these businesses, and provides practical recommendations on IB to G20 members, non-G20

² At the WTO, the definition of Least Developed Countries (LDCs), as part of the group of developing countries, is used, and not the concept of LIDCs.

³ In developing countries, the base of the pyramid (BoP) comprises nearly 4.5 billion people who are low-income or who lack access to basic goods and services (A low-income person is commonly considered to be someone earning up to \$8/day in purchasing power parity terms).

governments, the private sector, and other stakeholders. The G20 Call on Inclusive Business makes the case for further action, including the development of a G20 Global Platform on Inclusive Business to advance information sharing and knowledge generation related to this topic.

Financial Inclusion

Challenges

Although access to finance has improved worldwide (World Bank FINDEX 2014), many LIDCs still face low rates of financial inclusion. Access to financial services has been strongly linked to poverty reduction through increased incomes, lower vulnerability, and consumption-smoothing, while access to financing is critical for firms to expand and to improve their competitiveness. Financial inclusion opens up access to payments, savings, credit and insurance services; while sending or receiving remittances is often among the first use cases after gaining access to financial services, offering a gateway to improve financial access for the 247 million migrants and their families around the world. Increased engagement with the private sector has been identified as one of the key elements of a successful financial inclusion strategy.

G20 Contributions

Access to Finance by SMEs is a priority issue under the Turkish G20 Presidency. This year there are two significant deliverables. The first is a Joint Action Plan on SME Financing from the Global Partnership for Financial Inclusion (GPFI) and the Investment and Infrastructure Working Group (IIWG), which commits G20 members to implement already agreed reforms in key areas for SME financing, and to report back regularly on progress. It also extends help to non-G20 countries that wish to make improvements in these areas and envisages increased outreach to private sector stakeholders. The second is the SME Finance Forum, which will launch its global membership network during the G20 Antalya Summit. The network consists of over 100 financial institutions, development finance institutions and fintech companies committed to expanding SME access to finance, from both G20 and non-G20 countries.

Human Resource Development (HRD) and Employment

Challenges

Despite rapid growth in many LIDCs in recent years, income inequalities have widened and little progress has been made in transforming employment patterns. However, their demographic dynamics constitute both a potential for growth and structural transformation, as well as a challenge to the sustainability of current growth patterns. With an increasing proportion of the population coming of working age and falling dependency rates, LIDCs are in the middle of a demographic transition that can support fast rates of growth and productivity increases. Yet, poor job quality remains a substantial challenge and employment in the informal sector often offers inadequate social protection. More must also be done to facilitate the participation of women and youth in paid work. It is important for developing countries, in particular LIDCs, to continue to develop employment-related skills that are better matched to employer and market needs in order to attract investment and decent jobs.

G20 Contributions

In 2014, the G20 committed to reduce the gender gap in workforce participation by 25% by 2025. In support of this initiative the G20 also developed National Employment Plans which provide opportunities for inclusion. In 2015, G20 Labour and Employment Ministers also agreed to reduce the share of young people who are most at risk of being left permanently behind in the labour market by 15% by 2025. The target group in this regard has been

identified as low skilled or informally employed young people and the young people who are neither in employment nor in education or training (NEETs).

The World Indicators of Skills for Employment (WISE) jointly developed by the OECD and the WBG provide support to LIDCs to develop skills strategies to better match skills and training to labor market demand. The Knowledge Sharing Platform shares good practices on HRD to help guide development of robust training systems. And, in collaboration with the ILO, a number of tools and pilot projects have been developed to promote good HRD practices in areas such as skills forecasting, management of vocational training institutions, and skills for trade and economic diversification. Finally, with support from the Russian Federation and the Republic of Korea, HRD initiatives are being undertaken in Armenia, Kyrgyzstan, Jordan, Nepal, Mozambique and Tajikistan.

In addition, the G20 work on employment, such as the G20 Skills Strategy and the G20 Framework for Improving Job Quality could be considered for use by LIDCs and include both policy principles and concrete actions that can be measured and monitored. Principally, the G20 Skills Strategy is being constructed to guide the development of skills for modern economies. The G20 Framework for Improving Job Quality provides a concrete approach to measuring different dimensions of job quality as well as key areas for improvements.

To maximize the impact of the G20 HRD and employment agenda on development, this year the G20 has developed the Multi-Year Framework for Policy Coherence and Coordination on Human Resource Development that will promote positive synergies between the Employment and Development Working Groups.

The Way Forward

The 2030 Agenda for Sustainable Development sets an ambitious, transformative and universal agenda for sustainable development efforts. The G20 is well placed to contribute to its implementation and can maximize its collective impact, including through consideration of the following steps:

Act together for the 2030 Agenda:

- Respond to the needs of LIDCs and development stakeholders by considering a more systematic dialogue, building on the Turkish Presidency's efforts in 2015. This can help ensure G20 development priorities remain responsive, relevant and visible.
- Encourage direct engagement with LIDCs, including through pilot schemes such as those supporting tax capacity building and skills development.
- Engage with regional stakeholders where good practice models can be replicated or where development challenges are most acute, drawing on the example of Sub-Saharan Africa and energy access this year.
- Further align the G20 development agenda with the 2030 Agenda and consider collective G20 action to add value.

Further enhance policy coherence:

- Enhance policy coherence on development across G20 work streams by reducing overlap and ensuring consistency, building on examples of joint work this year.
- G20 Finance Ministers and Central Bank Governors continue to discuss development dimensions of issues on their agenda. Sherpas support policy coherence on development efforts across several work streams.

Facilitate increased domestic resources:

- Support an inclusive international tax reform agenda, encouraging interested developing countries to participate in the G20/OECD BEPS project and other international tax mechanisms. Provide assistance on tax capacity building.
- Implement 5% remittances target via robust national remittance plans; monitor developments with well-defined mechanism.
- Implement the 2015-2016 G20 Anti-Corruption Action Plan, particularly with regard to enforcing foreign bribery legislations, conducting practical cooperation in the recovery and return of stolen assets, and the continued implementation of the G20 High Level Principles on Beneficial Ownership Transparency.

Further enable key areas:

- Support MDB and IO work on infrastructure and encourage better cooperation amongst them, on a voluntary basis.
- Implement the G20 Energy Access Action Plan to strengthen energy coordination and establish a long-term voluntary cooperation framework.
- Implement the G20 Action Plan on Food Security and Sustainable Food Systems and support the development of the platform to measure and reduce Food Loss and Waste.

Generate more opportunities:

- Implement recommendations from the Multi-Year Framework for HRD policy coherence and coordination.
- Take forward the G20 Inclusive Business Framework, and support the development of the G20 Global Platform on Inclusive Business.
- Support the better integration of LIDCs into GVCs.
- Implement the Joint Action Plan on SME Financing good practice principles, including support for non-G20 countries. Consider work to harness “digital finance”.