COUNCIL

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REFORM AND MODERNISATION OF THE OECD

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Reform and Modernisation of the OECD

Ministers request the OECD to... accelerate the process of structural change in the Organisation, in particular by adopting more stringent priority-setting and by formulating and implementing reforms of management and working methods, with a view to further enhancing the relevance, efficiency and effectiveness of the Organisation, consistent with available resources. (Communiqué issued at the OECD Council Meeting at Ministerial Level, 1996)

We welcome the OECD's effort to strengthen further its ability to adjust priorities to enable it to sharpen its focus on its core work and, at the same time, enhance its flexibility to take on new challenges. We look to the Secretary-General and the Council to take forward the reform initiative, and ask the Secretary-General to report on further progress to the 2003 Ministerial. (Communiqué issued at the OECD Council Meeting at Ministerial Level, 2002)

Introduction

1. The Secretary-General came to the OECD in 1996 with a mandate for reform. He began the modernisation of the Secretariat and its working methods – changes within the competence of the Secretary-General -- during the summer of 1996, and this modernisation continues today. Highlights of the accomplishments are set forth in the second half of this note.

2. In Autumn 2001, in his paper on Challenges and Strategic Objectives, the Secretary-General launched a cycle of substantive reform. He raised questions concerning:

   - the future role of the OECD in the architecture of international organisations,
   - the impact of OECD work on policy-making in capitals,
   - the setting of OECD priorities by Member governments,
   - improvement of the OECD committee process,
   - relations between the OECD and its sister organisations, and
   - the urgent need for a strategy on enlargement of OECD membership.

He also sent a questionnaire to capitals which was designed to assess the value of the OECD work by decision makers. By and large the responses were positive -- to the point of being of little help in streamlining and focussing the work of the Committees and of the Secretariat.

3. Making progress on these issues requires substantial involvement and buy-in, that is, decisions, by Member countries. Accordingly, at the beginning of 2002, Members established an initial set of three informal groups of OECD Ambassadors to carry forward analysis and develop recommendations on priorities, committees and relations with other agencies. In December 2002, the Members established a fourth informal group to develop a strategy on enlargement of the OECD membership and stronger partnerships with non-members. They also mandated work on decision-making and reflection on the future role of the OECD. The following section describes initial accomplishments and continuing challenges of this substantive reform. Several questions to help guide the discussion of reform at the breakfast meeting on 30 April are included at the end.
I. Substantive remodelling of the OECD for the 21st Century

Some excellent and very useful work has already been accomplished

New framework for planning, budgeting and management focussed on outputs and evaluation. During 2002, Informal Group 1 chaired by Ambassador Forsyth of Australia analysed ways to set priorities and allocate resources through the OECD programme of work and budget process. It recommended a new framework for planning, budgeting and management, focussed on outputs and evaluation.

Implemented in 2003 with substantial reallocation to high priorities and greater built-in flexibility. The Organisation moved immediately to implement the new framework. In Spring 2002 the Council identified priority work to be reinforced during the 2003-2004 biennium: facilitation of the Doha Round, corporate governance, anti-corruption, taxation, steel, shipbuilding and competition. Through the budget, the Secretariat and Members achieved an unprecedented level of reallocation of resources to these and other high priorities. Additional flexibility was achieved through the doubling of the Central Priorities Fund. Systematic evaluation of results will start from 2004 and provide essential input for future budgets.

Improved organisation of work on development and building partnerships. Another group (Informal Group 3) chaired by Ambassador Engering of the Netherlands examined principally the architecture of bodies and the Secretariat units that promote development. Its recommendations, which were adopted by the Council, have rationalised the organisation of these units and the relationships among them in pursuit of a new, co-ordinated development strategy. In February, the Council discussed the first draft of an “OECD Strategy for Global Development” that sets objectives for the medium term. The Council also endorsed Group 3’s recommendations on relations between the OECD and the Financial Action Task Force and the International Energy Agency. It agreed to consider at a later date proposals concerning co-operation with the European Conference of Ministers of Transport.

Better relations with OECD sister agencies.

The most difficult decisions remain to be taken:

Defining Members’ vision of the OECD in the 21st century

A report by an Ambassador on the role of the OECD in the global architecture provides a valuable basis. A report by an Ambassador Julin of Finland on the present and evolving role of the OECD in the global architecture has provided a valuable basis for discussion on what Members expect from the OECD as we move through the 21st century. He concluded that “The OECD Convention, new Mission statement and Strategic Objectives are all still valid, but do not offer sufficient guidance to help decide on strategic directions and the programme of work and budget.” The Mission statement he refers to was developed in Group 1: “To assist members to achieve the highest sustainable growth and standard of living for their people, and to contribute to the development of non-OECD economies.” Others, including the Secretary-General, believe that the language of the Convention, with its specificity, provides sufficient guidance for the work programme of the OECD, as it has done for the past 42 years. The discussion of this issue will no doubt continue. Some suggest that the Convention refers to a longer time frame and that an intermediate or medium-term mission statement would be valuable. Perhaps a working group of Ambassadors could explore such an approach.

The question of an appropriate mission statement has still not been resolved.
Improving the Committee structure

Informal group 2 chaired by Ambassador Hurtubise of Canada was charged with reviewing the existing Committees and their subsidiary bodies in order to identify a limited number that could be designated as central to the OECD’s mission, identify procedures for constituting Committees and Working Groups, and develop recommendations on ways of making the Committee structure more flexible. The Group will also propose mechanisms to promote multidisciplinary work.

A new thematic or “cluster” approach has been developed.

Group 2 began by developing a new thematic or “cluster” structure for the Organisation’s programme of work and committees. The Secretary-General commissioned a major analysis of the committees by an independent Consultant, Peter Nicholson. His report includes recommendations intended to maximise the impact of OECD work on policy-making in capitals: reorganisation of committees to attract more senior participation, systematic evaluation and changes in decision-making. The Secretary-General also issued to Members a questionnaire on their views of “core work” and their high and low priorities.

A thorough analysis of the committees has been done.

A thorough analysis of the committees has been done. Group 2 continues its work on the committee structure. It has in hand the Nicholson Report recommendations and will soon have at its disposal the information on Member governments’ views on “core” and “non-core” work and on high and low priorities. Major streamlining of the committee structure will depend on being able to identify and achieve agreement on the activities and committees that the OECD should eliminate.

Streamlining will require agreeing on the work and committees to eliminate.

Defining a strategy for enlargement – and/or stronger partnerships

Non-member countries wish to join the OECD and some countries with an important role are outside the membership.

A number of non-member countries have already expressed the desire to join the OECD. At the same time, there are large economies outside the OECD membership that have a significant (and increasing) global or sectoral role, and their absence raises the question of the continued relevance of the Organisation in helping to shape the global economy.

What should be the criteria for new members? How can we strengthen relations with non-members?

The fourth Informal Group chaired by Ambassador Noboru of Japan is examining the desirable characteristics and criteria for new Members (depending on the agreed vision of the future role of the OECD), as well as the method and timeframe of a possible enlargement process. The Belgian Delegation has contributed a proposed strategy for enlargement, including strengthened criteria, a modified accession process and a new “Association” status. The Group will also examine appropriate vehicles for the strengthening of relations with non-members, including as a means for facilitating enlargement.

If OECD enlarges, how can we preserve its working methods?

As part of its work Group 4 will identify the possible impact of enlargement on the functioning of the OECD and ways to ensure its continuing effectiveness. In particular, the OECD committee processes, while highly valued by Members, do not lend themselves in their present form to a greater number of participants.
How can we manage the budgetary implications?

Another important issue is how enlargement could affect the OECD budget. Today, eight Members contribute just over 80 percent of the Organisation’s annual budget. Accession of new members could be expected to reduce this share - at least marginally. The accession of new members will create additional work requirements related to those countries (economic and other country reviews, integration into statistical databases, cross-country comparisons, etc.). The Organisation would face significant budgetary difficulties or the need to suppress other work if the contributions of new members are used only to reduce the amounts contributed by existing members -- rather than to increase the Secretariat's capacity to undertake work. Similar problems would ensue with the accession of numerous countries whose contributions under present rules would be substantially less than the extra cost of their participation in the work programme. There may be several possible solutions. The Executive Committee review of principles and rules for establishing the scale of Members’ contributions to the budget is important in this context.

New procedures for making decisions? i.e., more frequent decisions by majority?

Does OECD need to modify its decision-making by permitting more departures from the consensus rule?

In parallel with the work of the fourth group, the Organisation is reviewing ways to further develop and improve the OECD’s decision-making processes. Ambassador Brückner of Denmark is facilitating this process. The major reason is to permit the OECD to be quicker and more dynamic, especially in taking up new challenges. It is also relevant to the issue of possible enlargement of the OECD’s membership and to streamlining OECD committees. Although the consensus principle will remain the general rule for decision-making in the OECD, the permanent representatives are reflecting on the types of decisions that, if consensus can not be achieved, might appropriately be taken by less than a consensus. They will also examine different formulas for majority decision-making that might be appropriate in such cases.

OECD Members have expressed their determination to move forward decisively on this ambitious agenda for reform in order to be able to present recommendations to the annual Ministerial meeting in 2004. At its meeting on 24 April, the Council agreed a Resolution that sets forth a timetable for actions to ensure that Members meet this goal.

II. Modernisation of the OECD Secretariat

Over the past seven years, the OECD’s ways of working have changed significantly:

A new Executive Directorate to supervise all support services.

Reduced operating costs by 21 per cent.

In 1996, based on reports from external consultants Coopers & Lybrand and Hayek, the Secretary-General created a new Executive Directorate to supervise all support services. By 2003, the Directorate had reduced operating costs by 21 per cent by simplifying internal management and administrative processes, improving the efficiency of basic support services, eliminating costly fringe services, and outsourcing numerous functions.
| **New staff rules, administrative systems, performance management and training.** | To improve human resource management, a key function in a knowledge organisation like the OECD, a new performance management system was introduced in 1999, accompanied by training for all managers. The staff rules were reviewed and substantially revised as part of a continuing process. Recruitment systems, training programmes and benefits were streamlined and modernised. A priority today is to orient these systems and rules towards increasing staff flexibility. |
| **Fully integrated information and communication systems; OLIS for capitals.** | OECD information and communications systems have been entirely renewed and integrated. The fully developed OLIS communications system provides delegations and capitals with rapid electronic access to all OECD documentation. |
| **Financial statements in accordance with IPSAS; audited by Price/Waterhouse Coopers.** | Modernisation of financial systems and controls has been and remains a high priority. OECD accounts have been restructured. In 2001, the OECD was the first international organisation to establish its financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), and from the year ended 31 December 2000, its financial statements have been audited by external accountants, PriceWaterhouse Coopers. Work to further improve the transparency of the OECD accounts and the budget is planned. |
| **New financial regulations and rules; stronger internal audit, new Review Committee.** | New financial regulations and rules came into force at the beginning of 2003. The current challenge is to implement this fundamentally different system that devolves significant new responsibility for control of expenditure to programme managers. The significantly strengthened independent internal audit function will assess the quality of these controls. The work of internal audit, as well as that of the Board of Auditors, will be overseen by a new Review Committee composed of representatives of Council. |
| **Redevelopment of the OECD site to meet health and fire standards.** | The Secretariat created a Site Project Team, supported by external professional advisors, to manage the major work needed to bring the OECD headquarters buildings up to safety standards and to provide modern, efficient conference facilities. So far, the team has carried out remedial measures to minimise the risks from fire and asbestos, run a competition to select an architectural team and a conceptual design for renovating the La Muette site, negotiated refurbished temporary accommodation at La Defense and begun the process of moving 1,000 staff to these offices. Construction work will begin in 2004 and the renovated facilities will be brought progressively into use from 2006 onwards. |

**The Secretariat also made significant changes in the organisation of its substantive work.**

| **New Centre for Co-operation with Non-Members; rationalised programme.** | In 1997 a new Centre for Cooperation with Non-Members was created to consolidate the activities of several units focusing on different regions. This unit has rationalised its programme using “Global Forums” open to selected countries from around the world, complemented by country- or region-specific programmes (e.g., Russia, China, Asia, Latin America, South Eastern Europe). |
New Directorate for Public Affairs and Communications; popular new web-site; a new OECD Forum to engage civil society.

The Secretary-General consolidated responsibility for publications, public affairs and media relations in a new Directorate for Public Affairs and Communications. It has significantly raised the visibility of the OECD’s work and increased interaction with civil society as requested by Ministers. It manages the highly popular OECD web-site which includes on-line access to OECD publications. The OECD Forum, held in conjunction with the Ministerial, has become an important venue where governments and citizens can exchange ideas and help to build mutual understanding and good policies.

New Directorate for Education; new Tax Centre; better organisation of work on governance.

The creation in 2002 of a Directorate for Education reflects the high priority Members attach to this sector which will be fundamental to development of the knowledge-based economies of the 21st century. The consolidation of the two Directorates working on public governance issues at the national and territorial levels is expected to improve the work of both. The creation of the Centre for Tax Policy and Administration has given impetus to OECD work on taxation issues.

Many of these changes were accomplished over a period between 1996 and 1999 when the Organisation also significantly reduced its consolidated budget, including pensions, by 10 percent in nominal terms and 18 percent in real terms. This was accomplished through the suppression of some 220 permanent (of a total of about 1850) as well as elimination of non-essential services, out-sourcing and efficiency gains. As a result the Organisation has come to rely heavily on voluntary contributions to accomplish its work programme; they approach some 25 per cent of the budget. This is welcome testimony that Members value the work, but it does not provide a stable basis for planning or recruitment, creates sizable additional burdens for management and also transfers the financing responsibility to a more limited set of countries willing to make these contributions.

Questions to help guide the discussion

What should be the composition of the future membership in order for the OECD to fulfil its mission? In particular, should the Organisation welcome more “major players”, or all "like-minded" countries?

Are some improvements in organisational aspects, including working methods, decision-making and budget stability, necessary conditions for enlargement?

Should the OECD have a more proactive role in soliciting future members, and what forms should relations with these economies take?

Within the context of efforts to focus the OECD work programme and streamline committees, would Members be prepared to forego activities which have relatively lower support overall?