COUNCIL

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OECD REFORM

Paper by the Secretary-General

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“Nobody has yet succeeded in convincing me that all we do now is good and useful. Much of it is a hang-over from our past, and we all know that countries and organisations who cannot escape from their pasts are doomed, one day, to die. This is the inevitable fate of human beings, but it need not be the fate of organisations, provided they are sufficiently adept and adapting themselves to changed circumstances.”

(Taken from OECD Deputy Secretary-General Flint Cahan’s New Year letter for 1960)

1. At the Ministerial Council meeting in 2004, Ministers “noted and welcomed the Report on the OECD Reform set out in C/MIN(2004)1 and invited the Secretary-General to report on the implementation of the agreed next steps at their next meeting”.

2. The OECD has moved forward in a number of important ways.

PART I: OECD’S ROLE IN A GLOBALISING WORLD

1. Relations with Non-OECD Economies

3. The OECD now works with more than 70 non-OECD economies throughout the world, through its focussed outreach programmes on priority issues of mutual interest, from competition to corporate governance; from agriculture, trade and tax to the environment; and from macro-economic, labour and social issues to ensuring the effectiveness of development assistance programmes.

4. Since the MCM 2004, the OECD has a number of significant achievements to report, including:

   i) MENA – The launch of an initiative to promote good governance and investment in the Middle-East and North Africa (MENA) region.

   ii) China – The first OECD Economic Review of China, plus a major interdisciplinary report on Governance in China;

   iii) Launching four Agriculture Policy Reviews of Brazil, China, India and South Africa.

   iv) India – An expansion of OECD’s relationship with India, through my meeting with the Prime Minister and the subsequent hosting of our Global Forum on International Investment.

   v) Russia – An OECD regulatory reform review of Russia, the first for a non-OECD economy.


5. The OECD has also made significant progress in improving its strategic approach to outreach:

   i) In accordance with the Resolution agreed by the Council in July 2004, OECD Committees are now developing their own pro-active strategies for the involvement of non-Member economies in their work, based on relevance and mutual benefit. This is important in an Organisation like the OECD, where all the significant outputs are developed at the level of the substantive committees by senior policy experts from the corresponding ministries.

   ii) OECD Members have also made progress towards guiding principles for a Differentiated
Engagement Strategy (DES) aimed at strengthening the Organisation’s relationship with certain non-OECD partners. This will be a corporate strategy to be co-ordinated centrally.

II. Enlargement

6. Despite the hopes of 12 months ago, and the excellent work of the Group of Ambassadors chaired by Ambassador Noboru of Japan, Members have not yet agreed to move on enlargement of the OECD. This is regrettable, and I believe that Members should redouble efforts to break the current log-jam. Engagement with, and the participation of the major global economic players, including China, Russia, Brazil and India, in OECD’s work is vital for this Organisation to remain effective in helping to steer the global economic agenda. I am pleased that Members recognise that the DES is not a substitute for an “enlargement strategy.

PART II: GOVERNANCE AND MANAGEMENT OF THE OECD

I. The Central Governance Structures

7. In exploring governance structures for the OECD, the starting point must surely be the “output results” that capitals expect the Organisation to deliver.

8. The output results of today’s OECD bear little resemblance to those of the OEEC (or the early OECD) in fulfilling its role under the Marshall Plan, and nor have they for many decades. The challenges for OECD Governments and the Organisation have changed, and today’s OECD reflects its Members’ current priorities. Yet the central OECD governance structures have not evolved in line with these changes.

9. The OECD Secretariat and Committees are using new technologies to improve productivity and overall communication. OECD’s On-Line Information Service (OLISNET), our web site, Source OECD and our various Electronic Discussion Groups (EDGs) are good examples. However, technological advances also offer opportunities for structural change that can result in and make financial and efficiency gains. Yet the central OECD governance structures have not changed since the inception of the OECD.

10. An enlarged membership will bring challenges for the governance of the Organisation. Even with its current membership, I have serious doubts that the central governance structures are the most appropriate for a Committee-driven Organisation like the OECD. As we move forward on enlargement and look forward into the 21st century, the need to re-shape the central structures of the OECD becomes even more urgent.

11. In this connection, I am very pleased that the Council has responded positively to the recent initiative of the United States to press for change in the central governance structures of the OECD.

12. As I will be leaving the Organisation in May 2006, I have no personal stake in this issue. However, I owe it to Members and my successor to offer reflections, based on my experience of leading the OECD for almost a decade, with the aim of leaving an even better governed Organisation for my successor.

13. I would first note that, due to its Committee structure which mirrors a government’s structure, the OECD’s substantive policy agenda and outputs respond directly to the needs of, and are closely monitored by, senior policy officials from capitals in a way that may be unique among international organisations. It is these Committees that produce the outputs of the OECD, the policy advice, guidelines, principles (“soft law”) and best practices that are of such value to our Members. While the substantive work programme is formally approved by Council, it is developed at the Committee level. Some substantive input comes from
senior management (for example in areas such as health, electronic commerce or our enhanced work on statistics, entrepreneurship etc), and Ministers have themselves sometimes introduced important pieces of work such as the Growth Project, Trade and Adjustment and the ad hoc work on steel.

14. Because of the role of OECD Committees, the Council and its sub-bodies cannot be expected to play a significant role in the development of the substantive outputs of the OECD. Instead, the Council and its subsidiaries focus on internal management issues – to the point of micro-management at times - and act as a “Management Oversight Board” for the Organisation. But the capacity to play this role is compromised by the routine turnover of Ambassadors, which means that there is no institutional memory, and no experience of the continuity of reforms in the governing body.

15. It behooves us to examine current governance and management structures from a cost/benefit point of view.

16. Obviously, an Organisation of this size, with a substantial budget, requires a Governing Board. But Members should consider whether the current structure meets the cost/benefit test. There are alternatives which bear examination.

17. The current superstructure for what is a Committee-driven organisation, is very expensive. Possibilities for savings should be welcomed at a time when a number of Members tell the Secretariat that Foreign Ministry budgets are under huge pressure.

18. Because of ICT advances, officials in capitals who are responsible for the OECD are today in a position to monitor all aspects of the OECD’s management and substantive committee work in “real time”. As the US suggested at the ECSS, the Council need not meet as frequently as it does now. (The Council currently meets every two weeks and sub-groups, together with Heads of Delegation, hold approximately 100 meetings per year, with substantial documentation and interpretation costs). Rather, as initially suggested by the US at the recent ECSS, Council meetings could be held quarterly, and be used for establishing and agreeing priorities, approving and monitoring the programme of work and budget (PWB), and deciding other strategic issues, such as enlargement.

19. Implicit in the US ideas floated at ECSS is that quarterly meetings would be more appropriate for a strategic, decision-making body. It would also be consistent with the movement of the OECD towards true results-based budgeting, whereby having determined the outputs within the PWB framework, the Secretariat would manage the outputs and the management would be held accountable for the results. With less frequent Council meetings, Members would need to consider whether subsidiary bodies are needed to deal with more routine issues in the Organisation, and, if so, how these should be constituted, how frequently they would meet, etc. (Alternatively, they might conclude that during periods between Council meetings, communication could, for the most part, be maintained electronically, without the need for face-to-face meetings.)

20. Reform in the direction of the US ideas might lead Members to conclude that they could assume and exercise more governance of the OECD from their respective capitals. The IEA serves as a possible model here. This would offer the possibility of significant budgetary savings for the Members and the Organisation. In addition, greater governance of the OECD from capitals would provide other advantages. For example, OECD co-ordinators in capitals would be better able to:

− Co-ordinate their governments’ work with the OECD, by consulting directly and regularly with the many different Ministries involved;

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1 Since my arrival at the OECD in 1996, I have worked with 97 OECD Ambassadors.
− Determine their country’s “whole of government” position on priorities and budgetary allocations within the OECD; and

− Promote the work of the OECD in their countries in an effective way.

21. Of course, there would also be “costs” to the Organisation which would need to be analysed and assessed. From my perspective, many individual experienced Ambassadors and other members of Delegations have provided wise counsel on many occasions over the years to the Secretary-General and my management colleagues. This would be significantly reduced if OECD’s governance were to be predominantly run from capitals, with less frequent Council meetings.

II. Streamlining the Senior Management Structure in the Secretariat

22. Apart from changes to the Members’ governance of the OECD, I also see room for savings within the Secretariat in ways that would not prejudice the quality of outputs. For example, currently there is a Secretary General and four Deputies. Since my arrival, I have assigned to each Deputy the task of overseeing a number of Directorates, as well as helping to co-ordinate horizontal cross-cutting work. They also represent the Organisation at events around the globe. Unfortunately, because there are so many DSGs, they are not as highly valued as they would be if there were only one or two, and the Secretary General is often obliged to attend events in order for there to be an official role given to the Organisation.

23. The Directors are the principal managers in the OECD, which is entirely appropriate given their expertise and their responsibilities for managing their staff and the production of the outputs of this Organisation. I wish to see their role further enhanced within a new management framework. I have tried different approaches to bring a corporate view across directorates with varying degrees of success, including the creation of a Directors Management Group which meets every two weeks. In this, my last year, I intend to strengthen that approach.

24. Even within the existing structures, the number of Deputies could be reduced to two. With Directors more directly involved with senior management, and with a more representative role assigned to Directors and the Chief Economist, two DSGs would be more than adequate. In this connection, Members might recall that when I created the post of Executive Director in 1996, I transferred to that post major management responsibilities from two Deputies. In creating this post, external consultants and I recognised the need for someone senior, with an in-depth knowledge of management issues developed over time, to take responsibility for management; someone who could take a longer term view, and enhance the institutional memory of the OECD. It is not possible for rotating DSGs or Ambassadors to develop sufficiently the knowledge or insights about this Organisation to fulfil this role.

III. Moving Forward with Governance Reform

25. In short, I am convinced that reform to the OECD Governance structures could yield huge savings for Member governments and for the Organisation. Change, properly managed, offers the prospect of a more efficient Organisation, that would be even more responsive to the priority needs of its Members, and one that would, as a result, be better able to fulfil its key role of helping to shape the global economy.

26. These very substantial cost savings could be applied, at least in part, to enhancing the intellectual capital of the Secretariat. (One example would be the expansion of the Young Professional Program which, although of great value to the Organisation in bringing fresh talent and future expertise, has been starved of resources. Another is in the area of communication where, despite significant improvements, much important work of the OECD is little known because of a lack of adequate funding. Yet another is
outreach, where the implementation of our priority work is too often dependent on the availability of short-term voluntary contributions).

27. Of course, agreement to far-reaching reform is not going to be easy. In the final analysis, the Members will need to reach a consensus on any structural changes. However, I do think it important that OECD Ministers and senior policy makers in capitals be given an opportunity to consider a range of proposals, some far-reaching, developed by respected people with a broad and in-depth knowledge and understanding of the Organisation and its substantive work. This implies pulling together a group of “wise persons”, whose work would be complementary to the consideration of the issues by the OECD Council, and could feed into the deliberations of OECD Members. I have suggested this on two occasions, including a proposed initiative by the G-8; in this connection, I am attaching a copy of a letter I sent to Prime Minister Chretien in 2001.
Dear Prime Minister,

G7/G8 Summit 2002

As you prepare to host the 2002 Summit of World Leaders, I would like to offer some perspectives on the importance of this Summit from my point of view as Secretary-General of the OECD.

The G7 forms the nucleus of the OECD membership which is now at thirty. Moreover, the G7 provide more than 70 per cent of the financing of this group of the most industrialised countries of the world. The OECD is in fact the G30 of democratic nations, although sometimes, I refer to it as the G30+ in as much as it is engaged in programmes of varying degrees of intensity with at least seventy non-member economies at the present time.

This year in my Challenges and Strategic Objectives Paper which I present to Member countries, I focus again upon the role of the OECD in light of the phenomenon of globalisation which, of necessity, engages this Organisation with a greater and greater universe of countries. Nearly all of our work is motivated by some aspect of a global agenda, not only an agenda of the thirty democratic industrialised countries within the framework of a “club” which it once was.

When I read the recent Communiqués of the G7/G8 I note the same phenomenon. Nearly all issues dealt with concern a much wider universe and, in most cases, the G30 democracies provide a stepping stone to that universe, it being the only G Group with a permanent professional Secretariat of established expertise in all disciplines.

This brings me to my central point.

If we are to meet the challenges of the 21st century, as we should, it is again time for a serious reflection on the current international architecture. Proposals for change would undoubtedly be evolutionary and not revolutionary to receive broad international consensus, no one at the moment arguing for any kind of authoritative global governance. We need better international policy coherence amongst the world’s true democracies. The terrorist attack in the United States of September 11 underlines the importance of democratic solidarity and unity of purpose. Global norms for co-operation and development and the protection of human rights must be established by the people through their elected representatives and not by dictatorships, nor by non elected despots, enlightened or otherwise. Launching such an undertaking requires the political will of the world’s democratic leadership at the highest level. With that in mind I have included the following recommendation in my Strategic Paper addressed to member governments:

The Right Honourable Jean Chrétien
Prime Minister of Canada
"I recommend that the G7/8 take up this question.
The G7/8 could mandate an international task force of respected former statesmen and stateswomen
drawn from democratic countries to undertake this important work and report to the Summit leaders in
2003. The task force could be supported by a Secretariat drawn from a number of existing international
organisations. International co-operation among governments and peoples is so important, its
organisation should not be left to hazard or the politics of the organisations themselves."

There has been a long search for international order based on democratic principles, and it would
be a great contribution to the future of global democracy were the 2002 G7/8 Summit to launch such a
process with adequate resources and political will to carry it forward.

I would indeed look forward to discussing the potential of this approach with Canada’s sherpa,
Robert Fowler. I will also assure him of the willingness of the OECD Secretariat to place the capacity and
work program of this Organisation at your disposal to help prepare for next year’s Summit as we have
done with respect to others Summits in recent years.

With kind personal regards,

Yours sincerely,

Donald J. Johnston