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IMPLEMENTATION OF THE 2008 MCM RESOLUTION ON THE FINANCING OF THE ORGANISATION: DECISION ON THE 2008 PRINCIPLES AND RULES FOR DETERMINING THE ASSESSED CONTRIBUTIONS BY MEMBERS TO THE PART I BUDGET OF THE ORGANISATION AND MODIFICATIONS TO THE 2004 PRINCIPLES AND RULES

(Note by the Secretary-General)

This revision of document C(2008)144 incorporates the changes agreed in the Executive Committee on 23 October 2008. Please note that proposed conclusions b) and c) (see page 5) have been modified to provide for the declassification of the Decisions concerned.

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INTRODUCTORY NOTE

1. On 5th June 2008, Council meeting at ministerial level (MCM) agreed the *Resolution of the Council on the financing of Part I of the Budget of the Organisation* (hereinafter the "2008 MCM Resolution").[1] This Resolution has set up a new financing scheme for the Part I Budget that aims at providing the OECD with a strong and sustainable financial foundation in the long term and records the undertaking of Members in this respect.

2. The MCM noted that the *Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation*[2], adopted in 2004, needed to be amended to reflect the changes to the methodology for calculating the assessed contributions of Members to the Part I Budget agreed in the 2008 MCM Resolution. It invited the Executive Committee to submit these draft amendments for Council's approval so as to ensure that they are in place in time for implementation in determining these contributions for the financial year 2009.[3]

3. The main change brought about by the MCM Resolution is the separation of the assessed contributions of Members to the Part I Budget into two elements: a principal contribution mostly reflecting relative national income data and a base fee reflecting an equal share in a determined proportion of the Part I Budget. The Resolution also provides for a number of mitigation measures as well as provisional measures to smooth out the transition from the current to the new system over a number of years.

4. Annex I to the present document sets out a draft of the *Decision on the 2008 Principles and rules for determining the assessed contributions by Members to the Part I Budget* which integrates into the 2004 Principles the changes agreed by the MCM. Apart from the changes expressly decided upon by the MCM, it has also been necessary to adapt some of the concepts drawn from the 2004 Principles to ensure coherence throughout the text or to improve precision due, in particular, to the introduction of the base fee/principal contribution elements and the various provisional measures.

5. In an effort to streamline and simplify the text in the long term, the draft decision presented in Annex I is organised around a main body and three annexes. The main body describes the principles and rules reflecting the fully implemented financing scheme. Annex A describes the provisional measures applicable during a 10 year phase-in period and Annex B those applicable during a 5 year phase-out period. Thus, as each set of provisional measures ceases to be applicable, the relevant Annex would be repealed. Annex C and its Appendices set out, in a more detailed manner, the methodology for implementing those principles and rules.

6. Finally, Annex II to this document sets out a proposed revision of the current 2004 Principles in order to keep them updated. Indeed, it should be clarified that the scope of application of the 2004 Principles will no longer apply as such to the Part I Budget. Limiting the scope of the 2004 Principles requires a few adaptations to the current text to ensure coherence in terminology but also allows for a

1 C/MIN(2008)6/FINAL. The related conclusions of the MCM are set out in document C/MIN(2008)6/REV2.

2 The current 2004 Principles are set out in Annex I to document C(2003)263.

3 See paragraphs d) and e) of document C/MIN(2008)6/REV2.

simplification of the current structure of the text as the principles can now be merged into a single sequence.[4]

7. The 2008 MCM conclusions on financing – that will be reproduced in the summary record of the MCM – and the 2008 MCM Resolution are set out in Annex III.

Proposed Action

8. In the light of the preceding, the Secretary-General invites the Council to adopt the following draft conclusions:

THE COUNCIL

a) noted document C(2008)144/REV1;

b) adopted the draft Decision on the 2008 Principles and Rules for determining the assessed contributions by Members to the Part I Budget of the Organisation, as set out in Annex I to document C(2008)144/REV1 and agreed to its declassification;

c) adopted the draft Decision on the Revised 2004 Principles and Rules for determining the scales of contributions by Members other than for Part I of the Budget of the Organisation, as set out in Annex II to document C(2008)144/REV1 and agreed to its declassification.

4 The 2004 Principles are currently organised as follows: a first section that sets out the principles applicable to the determination of scales of contributions to all parts of the Budget, a second section that sets out principles specific to determining the scale for the Part I Budget and a last section that sets out principles specific to the determination of scales other than for the Part I Budget.

ANNEX I

Draft Decision on the 2008 Principles and rules for determining the assessed contributions by Members to the Part I Budget of the Organisation

DRAFT DECISION ON THE 2008 PRINCIPLES AND RULES FOR DETERMINING THE ASSESSED CONTRIBUTIONS BY MEMBERS TO THE PART I BUDGET OF THE ORGANISATION

THE COUNCIL,

Having regard to the *Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation* adopted by Council on 15 January 2004, confirmed on 22 April 2004 [Annex I to document C(2003)263; C/M(2004)1/PROV, C/M(2004)10/PROV] (hereafter "2004 Principles");

Having regard to the *Resolution of the Council on the financing of Part I of the Budget of the Organisation* [C/MIN(2008)6/FINAL] (hereafter "2008 MCM Resolution") and its related conclusions [C/MIN(2008)6/REV2], adopted on 5 June 2008 by Council meeting at ministerial level;

DECIDES that, in accordance with the 2008 MCM Resolution, Members' assessed contributions to the Part I Budget shall be determined in accordance with the principles and rules set out below (hereafter "2008 Part I Principles") as from financial period 2009.

Section I - General framework

1. Members' assessed contributions to the Part I Budget shall be determined annually. They shall be composed of an element taking into account capacity to pay (hereafter the "principal contribution") and a base fee.

2. The base fee shall be determined in accordance with Section II and the principal contribution in accordance with Section III. These elements shall be adjusted to take into account the mitigation measures set out in Section IV and the provisional measures set out in Annexes A and B.

Section II - Base fee

3. The base fee for each Member shall result from the equal sharing among all Members of 30% of the Part I Budget to be financed by Members' assessed contributions.

Section III - Principal contribution

4. The total amount to be paid as base fees by Members shall be deducted from the Part I Budget to be financed by assessed contributions in order to determine the amount of the Part I Budget to be financed by the principal contributions.

5. The principal contribution of each Member to the Part I Budget as identified in the preceding paragraph 4 shall be determined as follows:

   a. The principal contributions by Members shall be assessed according to their capacity to pay, as determined by reference to national income statistics;

   b. National income shall be calculated on the basis of "gross national product at factor cost" less a deduction of 10% for depreciation. In the cases of countries for which no gross national product data are available, direct use of national income data shall be made;

c. "Gross national product at factor cost" shall be equal to "Gross national income at market prices" less "Taxes less subsidies on production and imports paid to general government" as defined and published in "System of National Accounts 1993." The Secretariat shall, whenever necessary, so adjust the official data as to bring them into line with these standard definitions;

d. For this purpose, there shall be determined the estimated average national income for the three latest calendar years for which figures for all Members are available;

e. The conversion of national income and gross national product data shall be made on the basis of a common currency unit according to the average current official exchange rates for these years;

f. "Taxable incomes" shall be determined by deducting a fixed amount of $875 per capita from the national income of each Member up to a population of 110 million inhabitants. A Member's percentage share shall be equal to the proportion that its "taxable income" bears to the total "taxable income" for all Members;

g. Until a new Member accedes to the Organisation, no Member shall pay more than 24.975% of the total principal contributions. When a new Member accedes to the Organisation and participates in the scale used to determine the principal contributions, the share of all prior Members in this scale shall be adjusted proportionately. The maximum share in the scale used to determine principal contributions (hereafter "principal contribution cap") for all Members shall be modified accordingly but shall not be adjusted below a floor of 24.250%;

h. The principal contribution cap percentage shall also apply as the maximum share (hereafter "redistribution cap") in the scale for redistribution resulting from the principal contribution cap. In addition, no Member's share shall increase by more than 2.5 % in absolute terms as a result of such redistribution (hereafter "redistribution limit");

i. The share of any Member in the scale for principal contributions cannot be increased by more than 10% year on year in relative terms, or by more than 0.75% in absolute terms.[1]

Section IV – Mitigation measures

6. The base fees and principal contributions, as calculated under Sections II and III above shall be subject to the following further adjustments :

a) The total assessed contribution of any Member shall not increase by more than 15% year on year. Each Member shall have the possibility to forego this mitigation measure at any time;

b) The total assessed contribution of any Member which was a Member on 5 June 2008 shall not increase by more than 300% as a result of this reform, compared to the amount of its contribution in 2008 adjusted in line with the nominal increase in the Part I Budget to be

[1] Until the minimum share adjustment is phased out (see Annex B to this Decision), these limits shall apply to increases in the relative taxable income of Members, a calculation which includes the per capita abatement and the application of the principal contribution cap, rather than to the share resulting from the application of the minimum share adjustment, the redistribution cap and redistribution limit. Once the minimum share adjustment has been phased out, these limits shall be applied as the final step in the calculation of this scale.

financed by assessed contributions[2]. Should this limit be reached by any such Member, its assessed contribution will however continue to be adjusted in line with the nominal increase in the Part I Budget to be financed by assessed contributions. The amount of any abatement in the assessed contribution of a Member resulting from this sub-paragraph shall not result in an additional increase of the total assessed contributions of other Members but shall be absorbed by the Organisation.

Section V – Methodology

7. The principles and rules set out above shall be implemented following the detailed methodology set out in Annex C.

[2] For the purpose of this comparison, the Part I Budget considered shall exclude, in any given financial period, the amount of the assessed contribution due in the first full financial period of its membership by a country which became a Member of the Organisation as from 2009.

Annex A

Provisional measures applicable during a 10 year phase-in period

Timeframe

1. The following provisional measures shall apply to the determination of the assessed contributions of Members during a phase-in period of ten financial periods, as from 2009 (hereafter "phase-in period").

Base fees of 2008 Members

2. During the phase-in period, the base fee for countries which were Members of the Organisation on 5 June 2008 (hereafter "2008 Members") shall be determined as follows:

   a. the 30% share of the Part I Budget to be financed by assessed contributions referred to in paragraph 3 of the main body of this Decision shall be phased-in in ten annual equal steps so that, subject to mitigation, the fully implemented base fee is achieved in financial period 2018;

   b. in any given financial period, the share resulting from this sub-paragraph a) shall be divided by the total number of Members on 1 January of that period.

3. The phasing-in of the base fees shall be suspended, and the phase-in period consequently extended by the length of the suspension period, if, in any given financial period, the growth of the agreed Part I Budget falls short of the rate of inflation in the host country as described in paragraph 2 of Section III of the 2008 MCM Resolution.

4. Should there be a suspension in the phasing-in, the base fee shall be fixed at the level it achieved in the preceding financial period. Its progression shall resume in the financial period in which the Part I Budget grows at a rate at least equal to host country inflation, as described in paragraph 2 of Section III of the 2008 MCM Resolution.

Assessed contributions of 2008 Members

5. During the phase-in period, the determination of the assessed contributions of 2008 Members shall further be subject to the following provisions:

   a. The total assessed contribution of any such Member shall increase by at least 0.3% compared with its previous year's total assessed contribution (hereafter "minimum increase"). This minimum increase shall be abated where there is a relative decrease in a Member's share in the scale used for determining the principal contributions due to a decline in a Member's share of total Members' gross national product at factor cost;

   b. For those countries which are subject to this minimum increase, the preceding sub-paragraph 5 a. shall continue to apply, notwithstanding paragraph 1 of this Annex, until the complement thereby generated in their respect reaches zero.

Assessed contributions of Chile, Estonia, Israel, the Russian Federation and Slovenia

6. Upon their joining the Organisation and throughout the phase-in period:

a. The total assessed contributions of Chile, Estonia, Israel, and Slovenia shall be fixed at MEUR 2.4 each and that of the Russian Federation at MEUR 4.6 and the Part I Budget shall be increased accordingly.

b. These assessed contributions shall be adjusted to take into account nominal increases in the Part I Budget over the phase-in period.[1]

7. During the phase-in period, the total assessed contributions from the Members referred to in paragraph 6.a. of this Annex shall be added to the total amount of base fees used in calculating the amount of the Part I Budget to be financed by the principal contributions of the 2008 Members, as referred to in paragraph 4 (Section III) of the main body of this Decision.

Repeal

8. This Annex shall be deemed to be repealed at the end of the phase-in period and of the period of application of sub-paragraph 5.b. of this Annex.

1 For the purpose of determining this adjustment, the Part I Budget considered shall exclude, in any given financial period, the amount of the assessed contributions due by Chile, Estonia, Israel, the Russian Federation and Slovenia in the first full financial period of their membership.

Annex B

Provisional measures applicable during a 5 year phase-out period

Timeframe

1. The following provisional measures shall apply to the determination of the principal contributions of countries which were Members of the Organisation on 5 June 2008 (hereafter "2008 Members") during a phase-out period of five financial periods, as from 2009 (hereafter the "phase-out period").

Minimum share adjustment

2. In addition to the provisions set out in the main body of this Decision, the calculation of the scale used to determine the principal contributions of 2008 Members shall be subject, during the phase-out period, to the following provisions:

   a. A minimum share adjustment (hereafter "MSA") of 0.128% shall be added, in financial period 2009, to the shares of 2008 Members, up to an adjusted share limit of 1.5%;[1]

   b. This MSA shall be reduced annually by 20%, starting from financial period 2010;

   c. The total MSA shall be applied to reduce uncapped contribution shares[2] which exceed 1.5%.[3]

3. The phasing-out of the MSA shall be suspended, and the phase-out period consequently extended by the length of the suspension period, if, in any given financial period, the growth of the agreed Part I Budget falls short of the rate of inflation in the host country as described in paragraph 2 of Section III of the 2008 MCM Resolution.

4. Should there be a suspension in the phasing-out, the level of the MSA shall be fixed at the level it achieved in the preceding financial period. Its reduction shall resume in the financial period in which the Part I Budget grows at a rate at least equal to host country inflation as described in paragraph 2 of Section III of the 2008 MCM Resolution.

Repeal

5. This Annex shall be deemed to be repealed at the end of the phase-out period.

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1 If as a result of the application of the MSA, Luxembourg's share in the scale used to determine the principal contributions exceeds 0.216%, its share in that scale shall be limited to 0.216%.

2 Uncapped contribution shares are all shares that have not been limited as a result of the application of the principal contribution cap, the redistribution cap, the redistribution limit or the year-on-year increase limit in the scale used to determine principal contributions. Redistribution of the total MSA shall not result in a share above 1.5% going below that level.

3 Before being applied to reduce uncapped contribution shares which exceed 1.5%, the MSA shall be applied to offset net share increases resulting from the introduction of the redistribution cap and redistribution limit in 2004 and the changes to the per capita abatement in 2004 and 2008, namely the increase of that abatement from $450 to $875 and the introduction of a population cap.

Annex C

DETAILED METHODOLOGY

This Annex describes in more detail the principles and rules which reflect the fully implemented financing scheme. Where necessary, reference is made to provisional measures which are described in its appendices.

Calculation of the base fees[1]

1. The Part I Budget to be financed by Members' assessed contributions is first multiplied by 30% and then divided by the total number of Members to determine the base fee of each Member.

Calculation of the principal contributions[2]

2. The total base fees payable by Members is deducted from the Part I Budget to be financed by assessed contributions to derive the Part I Budget to be financed by principal contributions.

3. The principal contribution of each Member is determined by reference to national income statistics and after applying a scale calculated according to the following formula:

   a) the national income is calculated on the basis of "gross national product at factor cost" less a deduction of 10% for depreciation. In the cases of countries for which no gross national product data are available, direct use is made of national income data;

   b) "Gross national product at factor cost" shall be equal to "Gross national income at market prices" less "Taxes less subsidies on production and imports paid to general government" as defined and published in "System of National Accounts 1993." The Secretariat shall, whenever necessary, so adjust the official data as to bring them into line with these standard definitions;

   c) the national income data for the three latest calendar years for which figures for all Members are available is converted into a common currency unit (USD) at official exchange rates for each relevant year published by the IMF;

   d) the estimated average national income is determined for these three latest calendar years;

   e) a $875 per capita abatement (PCA) is calculated based on the estimated average national population for the three relevant years up to a population of 110million inhabitants;

   f) the taxable income is calculated by deducting the per capita abatement resulting from step e) from the average national income derived from step d);

[1] Appendix C.1 describes provisional measures which apply to the calculation of the base fees.

[2] Appendices C.1 and C.2 describe provisional measures which apply to the calculation of the principal contributions.

g) the relative taxable income is calculated in proportion to the total taxable income resulting from step f). (hereafter "initial relative taxable income");

h) the principal contribution cap is applied[3] resulting in an excess to be redistributed (hereafter the "excess to be redistributed") and relative taxable incomes are recalculated by reference to total taxable income, excluding the taxable income of any Member benefiting from the principal contribution cap (hereafter the "recalculated relative taxable income");

i) the share of the excess to be redistributed borne by each Member not benefiting from the principal contribution cap is calculated by deducting from the recalculated relative taxable incomes resulting from step h) the initial relative taxable income resulting from step g) (hereafter the absolute share of the excess");

j) the absolute share of the excess borne by each Member resulting from the application of step i) is converted into a relative share by dividing the absolute share of each Member by the excess to be redistributed identified in step h) (hereafter "relative redistribution percentage");

k) the relative redistribution percentage resulting from step j) is itself capped at 24.975%[4] ("hereafter "redistribution cap"), and if necessary, the remainder is redistributed using the relative redistribution percentages resulting from step j), excluding Members having benefited from caps as a result of this or a previous step (hereafter "recalculated redistribution percentage");

l) a revised share of the excess is calculated in absolute terms by multiplying the excess to be redistributed identified in step h) by the relative redistribution percentage resulting from step j) or, if applicable, the recalculated redistribution percentage resulting from step k) (hereafter the "revised share of the excess");

m) the revised share of the excess resulting from step l) is itself capped at 2.5 % in absolute terms (hereafter "redistribution limit") and, if necessary, the remainder is redistributed to all Members in proportion to the shares calculated in step l), excluding Members having benefited from the principal contribution cap, the redistribution cap or the redistribution limit (hereafter "final share of the excess");

n) an adjusted scale is calculated by adding Members' initial relative taxable income resulting from step g) and their final share of the excess resulting from step m), except for Members benefiting from the principal contribution cap whose share in the scale is fixed at the principal contribution cap (hereafter "adjusted scale");

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3 The principal contribution cap is currently fixed at 24.975%. When a new Member accedes to the Organisation and participates in the scale used to determine principal contributions (i.e. after the phase-in period), this cap is adjusted in proportion to the new Member's share, but shall not be adjusted below a floor of 24.250%. The adjustment to the cap is calculated by multiplying the cap by the new Member's share in the scale and, subject to the floor, is deducted from the principal contribution cap to determine the new principal contribution cap.

4 The redistribution percentage cap is modified in line with footnote 3 of this Annex.

o) the adjusted scale resulting from step n) is compared to the adjusted scale for the prior financial period. If the increase in a Member's share resulting from the adjusted scale exceeds 10% in relative terms or 0.75% in absolute terms, its share is adjusted to correspond to its share in the adjusted scale for the prior financial period plus either 10% in relative terms or 0.75% in absolute terms, as applicable. The remainder is redistributed using the adjusted scale, excluding Members having benefited from a cap or limit pursuant to this or a previous step;[5]

p) the resulting scale is rounded to three decimal places to determine the final scale of principal contributions (hereafter "final scale").

4. The interim principal contribution of each Member is calculated by applying the final scale to the Part I Budget to be financed by principal contributions.

Calculation of Members' assessed contributions[6]

5. The base fee and interim principal contribution are added for each Member (hereafter "interim assessed contributions").

6. The interim assessed contributions resulting from step 5 are compared to the assessed contributions for the prior financial period. If the increase in a Member's interim assessed contribution exceeds 15% in relative terms, the assessed contribution of that Member is abated to ensure that its assessed contribution is limited to its assessed contribution for the prior financial period plus 15% in relative terms. The amount of the abatement resulting from the application of this mitigation measure is redistributed using the final scale resulting from step 3 p).

7. The 300% cap on increases in assessed contributions is calculated as described in Appendix C.4.

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5 Until the MSA is phased out (see Appendix C.2), this step will be performed after step h).

6 Appendices C.1 and C.3 describe provisional measures which apply to the calculation of the total assessed contributions of 2008 Members. Appendix C.1 also describes the provisional measure which applies to the determination of the assessed contributions of Chile, Estonia, Israel, the Russian Federation and Slovenia;

Appendix C.1

Provisional measures applicable during a 10 year phase-in period

For any given financial period within the phase-in period described in Annex A, the detailed methodology shall involve the following steps to determine the assessed contributions of Members:

I - Assessed contributions of 2008 Members

Base fees calculation

1. Step 1 of Annex C shall be replaced by the following methodology to determine the base fees of 2008 Members :

   a) The Part I Budget to be financed by assessed contributions is multiplied by 30% and divided by 10 to derive the value of each annual base fee step. The resulting first 3% is applied in 2009, and further increments of 3% are added each year for the remaining 9 years; [1]

   b) The result of this step 1 a) is divided by the total number of Members (2008 Members and, as they join, Chile, Estonia, Israel, the Russian Federation and Slovenia);

Principal contributions

2. The total amount of assessed contributions from Chile, Estonia, Israel, the Russian Federation and Slovenia (see steps 5 and 6 of this Appendix) is also deducted from the Part I Budget in step 2 of Annex C to determine the Part I Budget to be financed by principal contributions.

Minimum increase

3. Step 6 of Annex C shall take into account the following additional adjustment: [2]

   a) The sum of the base fee and the principal contribution of any 2008 Member is compared to its assessed contribution for the prior financial period. In the event that there is less than a 0.3% increase, a complement is added to its assessed contribution for the financial period at stake to ensure a minimum increase of 0.3%.

   b) The complement resulting from this step 3 a) is abated if there is a relative decrease in the Member's share in the final scale resulting from step 3 p) of Annex C due to a decline in its share of total Members' gross national product at factor cost. The calculation of this abatement is set out in Appendix C.3.

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[1] Should there be a suspension in the phasing-in, the base fee shall be fixed at the level it achieved in the preceding financial period. Its progression shall resume in the financial period in which the Part I Budget grows at a rate at least equal to host country inflation as described in paragraph 2 of Section III of the 2008 MCM Resolution.

[2] The application of this provision may be extended as a result of the application of sub-paragraph 5 b. of Annex A.

4. The complement calculated under step 3 of this Appendix is deducted from any shortfall resulting from the application of 15% maximum increase identified in step 6 of Annex C. The net amount is then redistributed according to the final scale resulting from step 3 p) of Annex C

II - Assessed contributions of Chile, Estonia, Israel, the Russian Federation and Slovenia

5. The total annual assessed contributions of Chile, Estonia, Israel, and Slovenia are fixed at MEUR 2.4 each and that of the Russian Federation at MEUR 4.6 and the Part I Budget to be financed by assessed contributions will be increased accordingly.

6. These contributions are adjusted over the phase-in period to take into account nominal increases in the Part I Budget to be financed by assessed contributions compared to the Part I Budget financed by assessed contributions for financial period 2008.

7. The cumulative nominal increases in the Part I Budget to be financed by assessed contributions are calculated in the following way:

a) In order to exclude increases due the accession of Chile, Estonia, Israel, the Russian Federation and Slovenia, deduct from the Part I Budget to be financed by assessed contributions for the financial period at stake, the amount of the assessed contribution due by any of these countries in the first full year of their membership;
b) Calculate the difference between the result of this step 7 a) and the Part I Budget financed by assessed contributions for 2008.

8. The cumulative percentage increase is determined by dividing the result of step 7 b) of this Appendix by the Part I Budget financed by assessed contributions for 2008.

9. The adjusted 2008 assessed contributions of Chile, Estonia, Israel, the Russian Federation and Slovenia are determined by applying this cumulative percentage increase to assessed contributions set out in step 5 of this Appendix.

Appendix C.2

Provisional measures applicable during a 5 year phase-out period

For any given financial period within the phase-out period described in Annex B, the detailed methodology shall involve the following steps to determine the scale of principal contributions applicable to 2008 Members:

1. If the share of a 2008 Member in the adjusted scale resulting from step 3 n) of Annex C is less than 1.5%, a minimum share adjustment (MSA) of 0.128% is added to its share in the adjusted scale in financial period 2009.

2. This 0.128% adjustment is reduced annually by 20%, starting from 2010 and ultimately eliminated in 2014[1].

3. The amount yielded by the MSA is applied to the benefit of Members with a share in the adjusted scale above 1.5% as follows:

   a) To offset increases in their shares in this scale resulting from the reforms decided in 2004 and 2008 (excluding any Member benefiting from the principal contribution cap)[2]. This is calculated by comparing the adjusted scale resulting from step 3 n) of Annex C with the scale that would result from the application of the scale principles and rules which applied to the Part I Budget prior to 2004;[3]

   b) If there is a remainder, it is used to reduce their shares (excluding Members benefiting from any cap or limitation provided for under step 3 of Annex C), in proportion to their share in the adjusted scale resulting from step 3 n) of Annex C.

4. The adjustments resulting from the steps 1 to 3 of this Appendix are applied to the adjusted scale resulting from step 3 n) of Annex C.

5. Before applying the final rounding step as described under step 3 p) of Annex C, the following final adjustments are made to the scale resulting from step 4 of this Appendix :

   a) If Luxembourg's share in this scale is greater than 0.216%, Luxembourg's principal contribution is limited to 0.216%;
   b) If a Member's share goes above 1.5% due to the application of the MSA, its share is limited to 1.5%;
   c) If a Member is a recipient of the amount yielded by the MSA, the benefit of the MSA cannot bring its share below 1.5%;

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1 The MSA reduction period may be extended as a result of the application of Section III, paragraph 2 of the 2008 MCM Resolution.

2 See footnote 3 of Annex B.

3 These Principles and rules are still applicable for determining the scales of contributions by Members to the Budget of the Organisation other than the Part I Budget and are compiled in the *Revised 2004 Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation other than the Part I Budget* (reproduced in Annex II of this document).

d) The remainder resulting from steps 5 a) to c) of this Appendix is redistributed to Members whose share in the scale resulting from step 4 of this Appendix is in excess of 1.5% (excluding Members benefiting from any cap or limit resulting from the step 3 of Annex C or steps 5 a) to c) of this Appendix).

Appendix C.3

Calculation of the abatement to the 0.3% minimum increase

The abatement of the complement resulting from application of the 0.3% minimum increase to 2008 Members (referred to in step 3.b) of Appendix C.1) is calculated as follows:

1. A theoretical share in the final scale for the previous financial period is calculated by replacing the input data[1] of 2008 Members for the financial period at stake by their input data for the previous financial period into the calculations model for determining the scale for the principal contributions for the financial period at stake.

2. The Member's share in the final scale for the financial period at stake is compared to its theoretical share for the previous financial period resulting from step 1 of this Appendix.

3. If the Member's share in the final scale for the financial period at stake is :

   a) more than its theoretical share for the previous financial period, the complement is applied in full without abatement.;

   b) less than its theoretical share for the previous financial period, the abatement is calculated as follows:

      i. the Part I Budget to be financed by principal contributions is multiplied by the difference in percentage terms between the Member's share in the final scale for the financial period at stake and its theoretical share for the previous financial period;

      ii. if the result from the application of step 3.b)i. of this Appendix is greater than the complement resulting from step 3.a) of Appendix C.1, the abatement is equal to the complement resulting from step 3.a) of Appendix C.1;

      iii. if the result from the application of the preceding step 3.b)i. of this Appendix is less than the complement resulting from step 3.a) of Appendix C.1, the abatement is equal to the result of step 3.b)i. of this Appendix.

[1] This input data includes the gross national product at factor cost, the population data and exchange rates for the corresponding 3 year period.

Appendix C.4

Calculation of the 300% cap on increases in assessed contributions

The 300% cap on increases in assessed contributions of 2008 Members due to the 2008 reform (referred to in step 7 of Annex C) is calculated as follows:

1. Adjust the 2008 assessed contributions in line with the cumulative nominal increases in the Part I Budget to be financed by assessed contributions in the following way:

    a) In order to exclude increases due the accession of Chile, Estonia, Israel, the Russian Federation and Slovenia, deduct from the Part I Budget to be financed by assessed contributions for the financial period at stake, the amount of the assessed contribution due by any of these countries in the first full year of their membership;

    b) Calculate the difference between the Part I Budget resulting from step 1.a) of this Appendix and the Part I Budget financed by assessed contributions for 2008.

    c) The cumulative percentage increase is determined by dividing the result of step 1.b) of this Appendix by the Part I Budget financed by assessed contributions for 2008.

    d) The adjusted 2008 assessed contributions are determined by applying this cumulative percentage increase to each Member's 2008 assessed contributions.

2. The impact of 2008 reform on the 2008 Members assessed contributions for the financial period at stake is isolated by calculating theoretical assessed contributions for 2008 Members. These theoretical assessed contributions are calculated by replacing the input data[1] of 2008 Members for the financial period at stake by their input data for financial period 2008 into the calculations model for determining the assessed contributions for the financial period at stake.

3. The difference between Members' theoretical assessed contributions for the financial period at stake resulting from step 2 this Appendix and their adjusted 2008 assessed contributions resulting from step 1.d) of this Appendix is divided by their adjusted 2008 assessed contributions to determine the cumulative percentage increase borne by each 2008 Member resulting from the 2008 reform.

4. If this cumulative percentage increase is greater than 300% for any 2008 Member, the increase in that Member's share is abated to bring this increase down to 300% and the amount of this abatement is deducted from the assessed contributions of that Member resulting from step 6 of Annex C.[2]

1 This input data includes the gross national product at factor cost, the population data and exchange rates for the corresponding 3 year period.

2 The amount of this abatement is not redistributed to other Members but is absorbed in the Part I Budget of the Organisation.

5. Should any 2008 Member benefit from 300% cap on increases in assessed contributions, its assessed contribution shall however continue to be adjusted in following financial periods in line with the nominal increases in the Part I Budget to be financed by assessed contributions.

ANNEX II

Draft Decision on Revised 2004 Principles and rules for determining the scales of contributions by Members other than for Part I of the Budget of the Organisation

DRAFT DECISION ON THE REVISED 2004 PRINCIPLES AND RULES FOR DETERMINING THE SCALES OF CONTRIBUTIONS BY MEMBERS OTHER THAN FOR PART I OF THE BUDGET OF THE ORGANISATION[1]

THE COUNCIL

Having regard to the *Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation* adopted by Council on 15 January 2004, confirmed on 22 April 2004 [Annex I to document C(2003)263; C/M(2004)1/PROV, C/M(2004)10/PROV] (hereinafter the "2004 Principles");

Having regard to the *Resolution of the Council on the financing of Part I of the Budget of the Organisation* [C/MIN(2008)6/FINAL] (hereinafter the "2008 MCM Resolution") and its related conclusions [C/MIN(2008)6/REV2], adopted on 5 June 2008 by the Council meeting at ministerial level which provide specific principles and rules for determining the scale of contributions by Members to the Part I Budget of the Organisation;

DECIDES that the 2004 Principles are revised as set out below**:**

1. The scales of contributions other than for Part I of the Budget shall normally be determined according to the following principles and rules:

   a. The scales of contributions by Members shall be determined annually;

   b. Contributions by Members shall be assessed according to their capacity to pay, as determined by reference to national income statistics;

   c. National income shall be calculated on the basis of "gross national product at factor cost" less a deduction of 10% for depreciation. In the cases of countries for which no gross national product data are available, direct use of national income data shall be made;

   d. "Gross national product at factor cost" shall be equal to "Gross national income at market prices" less "Taxes less subsidies on production and imports paid to general government" as

[1] As of 23 October 2008, the following Part II programmes are governed by specific decisions which provide, in whole or in part, for different principles and rules to determine the assessed contributions to these programmes: Development Centre, Shipbuilding, Programme for International Student Assessment (PISA), Programme for International Assessment of Adult Competencies (PIAAC), Programme on International Management in Higher Education (IMHE), Programme on Educational Building (PEB), Programme on Local Economic and Employment Development (LEED), Sahel and West Africa Club, German and Italian Linguistic Sections, Network on Fiscal Relations across Levels of Government and the Agricultural Codes and Schemes for International Trade. This list can vary in the future.

defined and published in "System of National Accounts 1993." The Secretariat shall, whenever necessary, so adjust the official data as to bring them into line with these standard definitions;

e. For this purpose, there shall be determined the estimated average national income for the three latest calendar years for which figures for all Members are available;

f. The conversion of national income and gross national product data shall be made on the basis of a common currency unit according to the average current official exchange rates for these years;

g. A scale of "taxable incomes" shall be determined by deducting a fixed amount of $450 per capita from the national income of each Member. Subject to adjustments ensuing from the application of sub-paragraphs h. and i. , a Member's percentage contribution shall be equal to the proportion that its "taxable income" bears to the total "taxable income" for all Members;

h. Until a new Member accedes to the Organisation and participates in the scale used to determine the principal contributions of Members to the Part I Budget, no Member shall pay more than 24.975% nor less than 0.10% of that total budget. When a new Member accedes to the Organisation, the scale of contributions, *i.e.* the share of all prior Members, will be adjusted proportionately. The maximum and the minimum contributions for all Members shall be modified accordingly but shall not be adjusted below a floor of 24.250% and 0.097%;

i. Under these rules, the rate of contribution of any Member cannot be increased by more than 10% year on year in relative terms, or by more than 0.75% in absolute terms.

2. These revised 2004 Principles shall apply to the determination of scales of contributions to the Budget other than for Part I of the Budget as from financial period 2009.

ANNEX III

The 2008 MCM conclusions on financing and the 2008 MCM Resolution

The 2008 MCM conclusions on financing

THE COUNCIL

a) noted document C/MIN(2008)6/REV2;

b) adopted the *draft Resolution of the Council on the financing of Part I of the Budget of the Organisation* annexed to document C/MIN(2008)6/REV2 [1];

c) noted that the impact of the application of paragraph 7 of Section I shall not result in an additional increase of the total assessed contributions of other Members but shall be absorbed by the Organisation;

d) noted that the Decision of Council on the *Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation* of 2004 [Annex I to C(2003)263] will need to be amended to reflect the Resolution referred to in paragraph b) above;

e) invited the Executive Committee to submit these draft amendments for Council's approval so as to ensure that they are in place in time for implementation in determining Members' assessed contributions starting in financial year 2009.

1 The Resolution was subsequently issued under the reference C/MIN(2008)6/FINAL, unclassified, and is reproduced in pages 30 to 32 hereafter.

2008 MCM Resolution

Having regard to paragraph 2 of Article 20 of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Having regard to the *Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation* [Annex I to C(2003)263];

Recalling the conclusions of the Council meeting at ministerial level of 16 May 2007 [C/MIN(2007)4/FINAL] and those of Council at its meeting of 15 October 2007 [C/M(2007)14];

Recognising that the underlying goals of the reform are, in the context of enlargement, to provide a lasting solution for the financing of Part I of the Budget and to create a strong and sustainable financial foundation for the Organisation;

Recognising that such a foundation is needed to support the Organisation's influence, relevance and excellence, to ensure a continued delivery of its core activities, to permit a broader and deeper engagement with major non-Members and to allow the Organisation to continue to address emerging priorities;

Recognising that, in order to establish such a foundation, the Organisation will need to continue its efforts to achieve efficiency gains and the Members will need to prioritise outputs;

Recognising that all Members should contribute to achieving this strong and sustainable financial foundation;

Recognising however that the contributions of some current Members will be within the limits of paragraph 7 of Section I;

Recognising that the new financing system should be sustainable in the long term;

Recognising that the Council decides the level of the Part I Budget of the Organisation as part of the biennial Programme of Work and Budget process;

THE COUNCIL

I - AGREES to the following general principles:

1. Members undertake to provide a strong and sustainable financial foundation for the Organisation, both now and in the long term, that will allow it to maintain at least the quality and volume of outputs, while adapting to changing priorities. This will require strict prioritisation by Members, budget transparency, efficiency savings by the Organisation and maintenance of the real level of Part I Budget resources taking into account the rate of inflation[1].

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1. Zero real growth in the OECD Budget is generally regarded as zero nominal growth adjusted for host country inflation.

2. Members' assessed contributions to the Part I Budget will be determined annually and be composed of an element taking into account capacity to pay (hereafter the "principal contribution") and a base fee.

3. The base fee for each Member will result from the equal sharing among all Members of 30% of the Part I Budget funded by Members' assessed contributions.

4. The total amount to be paid as base fees by all Members will be deducted from the Part I Budget in order to determine the amount of the Part I Budget to be financed by the principal contributions.

5. The principal contribution of each Member to Part I of the Budget will be determined using the current formula,[2] modified as follows:

   a. The $875 per capita abatement (PCA) will be capped at a population of 110 million inhabitants;

   b. The minimum share adjustment (MSA) will be reduced annually by 20%, starting from 2010.

6. The total assessed contribution of any Member will not increase by more than 15% year on year. Each Member will have the possibility to forego this mitigation measure at any time.

7. The total assessed contribution of any Member which was a Member on the date of adoption of this Resolution will not increase by more than 300% as a result of this reform, compared to the amount of its contribution in 2008 adjusted in line with nominal increase in the Part I Budget. Should this limit be reached by any such Member, its assessed contribution will however continue to be adjusted in line with the nominal increase in the Part I Budget.

II – AGREES that there will be a phase-in period of 10 years which will start on January 2009 (hereinafter the "phase-in period") during which the following provisional measures will apply:

2. For countries which were Members on the date of adoption of this Resolution:

   a. The phasing-in of the base fee will be implemented in 10 annual equal steps, so that, subject to mitigation, the fully implemented base fee is achieved in January 2018.

   b. The total assessed contribution of any such Member will increase by at least 0.3% compared with its previous year's total assessed contribution. This 0.3% minimum increase would be abated where there is a relative decrease in a Member's share in the scale used for determining the principal contributions due to a decline in a Member's share of total Members' GNP.

3. Upon their joining the Organisation and throughout the phase-in period:

   a. The total assessed contributions of Chile, Estonia, Israel, and Slovenia will be fixed at MEUR 2.4 each and that of the Russian Federation at MEUR 4.6 and the Part I Budget will be increased accordingly.

   b. These contributions will be adjusted to take into account nominal increases in the Part I Budget over this phase-in period.

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2. See the *Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation* [Annex I to C(2003)263].

These contributions will be added to the total amount of base fees used in calculating the amount of the Part I Budget to be financed by the principal contributions, as referred to in paragraph 4 of Section I above.

III - FURTHERMORE AGREES to the following additional elements:

1. No further changes to the financing system for Part I of the Budget will be introduced for at least the 10 year phase-in period.
2. In the context of the undertaking set out in paragraph 1 of Section I regarding the maintenance of real levels of resources, if in any given year, the growth in the agreed Part I Budget falls short of the rate of inflation in the host country,[3] all varying components[4] will be fixed at the level they achieved in the preceding year. Their progression would resume in the year in which the Part I Budget grows at a rate at least equal to host country inflation[5]. The phase-in period will be extended by the length of the suspension period.
3. At the end of the phase-in period, the new financing system will apply in full except:
   a. For those countries still subject to mitigation under paragraph 6 of Section I, this measure will continue until the mitigation amount reaches zero.
   b. For those countries which are affected by the minimum increase under paragraph 1.b of Section II, this provision will continue to apply until their complement reaches zero.
4. Given the uniqueness of the OECD, the reform of the financing of the Part I Budget agreed to under the Resolution shall not be considered as a precedent in the context of the financing arrangements for other international organisations.
5. The application of this Resolution is confined to the Part I Budget only.

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3. Measured as a three-year moving average of inflation defined under footnote 1, comprising the two preceding years and the projection for the current year.

4. These are the MSA and the base fee.

5 . See footnote 3.