Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

08-Jul-2016

English - Or. English

COUNCIL

Council

PWB 2017-18: DRAFT BUDGET PARAMETERS BY THE SECRETARY-GENERAL

(Note by the Secretary-General)

This document has been revised to take account of the latest figures on host country inflation released on 30 June 2016, which impact the calculation of the Zero Real Growth adjustment and figures appearing in the text throughout, particularly in tables 3, 4, 5 and Annex I. Following the Budget Committee discussions, the revision also includes changes to paragraph 11 and an update of Table 6.

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INTRODUCTION

1. The preparation of the OECD's biennial Programme of Work and Budget involves presenting in mid-year an overview paper that:

- explains the main budget assumptions for the next two years and provides the estimated Part I budget adjustment; and
- informs Members about the planned orientations of the forthcoming Programme of Work and of the proposed priority funding allocations.

2. Subsequent discussions will permit Members to comment on the orientations and content of the Programme of Work before I present my formal PWB submission in October. At this stage, and consistent with the conclusions of the 2009 Council Working Party on Priorities [C(2009)111/REV1], Members are required to formally confirm the budget adjustment for Part I, based on the 2008 Financing Reform agreement,[1] and the recent decision on the accession of Latvia.[2] If Members agree to this, the related decision will be submitted to the Council on 13 July, following a recommendation from the Budget Committee.

SECTION 1: THE OECD'S BUDGET FOR 2017-18: AN OVERVIEW

3. The expected features of the budget environment for 2017-18 may be summarised as follows:

- **a flat budget in real terms for a further two years for Part I,** reflecting the continued implementation of the 2008 Financing Reform agreement, and adjusted for the accession of Latvia;
- **a similar budget outlook for around half the Part II programmes**, with the other programmes subject to continued additional constraints (*i.e.* at, or close to, an unchanged budget in nominal terms);
- **sustained and urgent demand for outputs across policy sectors**, as underscored by the recent Ministerial Council Meeting (MCM), my Strategic Orientations, the Ambassadors' Informal Convergence Paper, and PWB proposals from Committees;
- **increased demands by Members and Partners for targeted policy advice in the context of continued sluggish growth**, and the need to develop policy options on emerging issues, like migration, skills, inclusive growth, low carbon economy, digitalisation, and anti-microbial resistance, as well as renewed demands in the field of anti-corruption.
- **the beginning of my third mandate as Secretary-General,** a renewal that was informed by the 21x21 agenda that I presented to members, aiming to increase the relevance and impact of the Organization, build a growth narrative around well-being and inclusive growth, and deliver on the global agendas (SDG, COP21, and G7/G20, including the leveraging of our standards on taxation, corporate governance, and Responsible Business Conduct (RBC), among others). In this context, members have also confirmed their request for a continuous engagement with key partners and major emerging economies.
- **Substantial time-bound reallocation proposals**, made possible through the unique and expanded Central Priorities Fund (CPF), which will be leveraged to a significant extent by additional financing;

1 C/MIN(2008)6/FINAL and C(2008)144/REV1.

2 C(2016)77/FINAL.

- **further Long-Term Reallocations (LTR) to 'top-down' priorities**;
- **a number of long-term allocations to finance the recurring costs of the membership of Latvia**;
- **preliminary indications of voluntary contributions flows** that provide a clear indicator of the high demand for outputs by Members and reinforces our assumptions (based on past experience) of continued growth of this source of financing;
- **significant pressure on budgets across the Organisation**:
  - given the very low ZRG adjustment, there is a risk that a positive 2017 salary adjustment will generate a budget pressure across Part I;
  - significant pressure on corporate service budgets in 2017-18, as a result of the need to finance major change programmes; infrastructure and IT system renewals; additional unavoidable spending on security; and the continued commitment to fund the Multi-Year Investment Plan for the replacement of fixed assets;
  - a challenging environment for the Publications Annex Budget following the successful implementation of the 2011 Council decision to make all OECD data "open, accessible and free", which has created pressures to generate sufficient income from sales and other sources to compensate for data sales revenue loss, balance operating costs, and provide sufficient resources to maintain investments.

SECTION 2: STRATEGIC PRIORITIES

4. The priorities for the OECD's PWB 2017-18 reflect the strong convergence of Members' views around the OECD's priorities, and their broad agreement on where and how the Organisation can contribute most effectively to help Members' best design and implement policies to address today's very challenging policy environment.

5. The identification of priorities is the result of a comprehensive iterative consultation process with Members. The 'top-down' priorities emerge from the Ambassadors' Informal Convergence Paper; my Strategic Orientations to Ministers [C/MIN(2016)1]; the 21x21 proposal for the renewal of my mandate; the Medium-Term Orientations (MTO) Survey for 2017-18 [C(2015)149]; my preliminary views to HODs on the policy environment and priorities of the Organisation; and my conversations with Leaders, Ministers and senior officials in OECD Member and Key Partner countries. Each Committee and Programme has translated these 'top-down' priorities into their own PWB proposals and integrated them with specific 'bottom-up' priorities identified and agreed for each policy area.

6. The Ministerial Council Statement [C/MIN(2016)8], the Declaration on Enhancing Productivity for Inclusive Growth [C/MIN(2016)7] and the MCM Chair's Summary [C/MIN(2016)9] have also further informed us about Members' priorities, including: i) the urgency to focus on the nexus of low productivity growth and increased inequalities of income, wealth, and opportunities, including by reaping the benefits of digitalisation and innovation, reshaping structural, competition, social and educational policies, and enhancing trade and investment; ii) the growing importance of global issues such as the need to reinforce the global tax system, to strengthen anti-corruption, and to integrate migrants better, on which the OECD is already playing a central role and is invited to further its actions; iii) the important role of the OECD in supporting members' and the international community's commitments on the SDGs and climate change.

7. As set out in my Strategic Orientations and following the consultation process and discussions at the 2016 MCM, the Organisation's top priorities for the next biennium are to:

- **Sustain and deepen efforts to "go national" with targeted policy advice as we enhance the usefulness and relevance of the Organisation to Members and Key Partners.** This includes further strengthening the Organisation's work in support of policy design and implementation at the national level, and grounding these efforts in upgraded multidisciplinary tools and approaches. Examples include national skills strategies, labour market policies, tax policies, agricultural policies, regulatory reforms to promote competition and reduce administrative burdens, effective and transparent governance and anti-corruption.

- **Continue our efforts to build a new growth narrative that focuses on the well-being of people, and on sharing the benefits of growth across the population, building on the inclusive growth initiative.** This involves continuing our efforts to quantify the impact of reforms on growth and well-being, fully taking into consideration environmental concerns, and to address the twin challenges of declining productivity growth and increased inequalities of income and opportunities (the productivity-inclusiveness nexus). Particular attention will need to be paid to responding to the call by Ministers in the 2016 MCM Declaration on Enhancing Productivity for Inclusive Growth to identify policies to foster productivity growth while considering its possible impact on inclusive and sustainable growth, promoting synergies and identifying possible interactions, as well as to strengthen our understanding of the relationships between skills, productivity and inclusive growth. The work will also involve continuing maximising the impact of our work on gender, youth and ageing policies, and strengthening OECD policy advice on how to support people over the life cycle. This will involve in particular further coordinated analysis on children in the areas of education, health and social policies. It will also require enhancing the Organisation's work on migrants' integration and related policies, and continuous focus on the most vulnerable groups.

- **Continue to strengthen our work on how to boost quality jobs and expand opportunities for training and education. This will require enhancing our tools** on skills, quality of education, lifelong learning and broader social policies ─ including active labour market policies ─ to support productivity growth, foster social inclusion and build on the possibilities created by digitalisation and innovation. It will also involve broadening the definition of skills, aiming at developing global competencies. Finally, with the update of the OECD Jobs Strategy, the OECD will need to extend its work to address how governments can simultaneously build more resilient and adaptable labour markets, increase labour market participation and job creation, improve the quality of jobs and promote a fair distribution of opportunities and outcomes.

- **Further develop our productivity and competitiveness agenda.** This includes efforts to advance policy-focused research on productivity, and promote measures to ensure a level playing field for business, focusing on incumbents and new entrants, including on market openness, competition, and access to finance, especially for SMEs, and in particular young and innovative firms. This work will also involve better measuring and exploring the contribution of public sector productivity, enhancing the work on good governance, developing territorial strategies that enhance firm-level and local productivity and helping to strengthen efforts to improve the enabling environment for trade and investment. It will also require focusing on improving the implementation of our standards (especially on tax, RBC and anti-corruption).

- **Increase our understanding of how the economy operates, furthering the work on the Next Production Revolution and launching a horizontal Digital Policy Strategy,** to leverage progress in ICT technologies for the benefit of the economy and societies, and assess their impact on both productivity and inclusive growth in the short- and long-term. It also involves advancing the work on GVCs and international investment and furthering the analytical work related to the financial markets and their impact on the real economy.

- **Lead policy debates on emerging issues, while reinforcing our capacity to understand and address them.** This includes sustained efforts to integrate trends and megatrends into the work of the Organisation through a continuous upgrading of our foresight capacities and a better integration of NAEC mainstreaming and foresight work.

- **Advance major elements of the global agenda and support collective policy action.** This includes efforts to leverage the installed capacity of the OECD to implement the *OECD Action Plan on the SDGs* and to further contribute to the effective implementation of the Paris Agreement on Climate Change by building on the work on the transition to a low carbon economy and on climate finance, as well as pursuing the implementation of major agreements on tax in an inclusive manner, and on other major challenges such as international corruption and illicit trade.

- **Continue to support global governance processes, such as G20, G7, APEC, and Pacific Alliance to help leverage OECD standards and policies and make them count on a global scale.** This will include continued delivery on:

  - fostering new sources of growth and jobs, such as innovation, skills and the digital economy, relying on OECD's structural reform analysis;

  - updating and upgrading the international taxation system;

  - promoting our standards in the fields of anti-corruption, corporate governance and RBC as well as further developing the framework for the digital economy;

  - making the world economy more inclusive, more equal, and fairer by focusing on gender, youth, children and RBC;

  - tackling global challenges like anti-microbial resistance; and

  - increasing our efforts to develop more climate-friendly economies.

- **Strengthen the impact of our standards and identify areas in which gaps require that new standards should be developed.** This includes evaluating the validity, relevance and impact of the standards, and the need to revise or consolidate them, or to think of new ones.

- **Consolidate efforts to enhance the effectiveness, inclusiveness and global character of our Organisation.** This includes efforts to engage Key Partners more in the Organisation's work, to maximise the benefits of OECD regional and country programmes, and to further strengthen our partnerships with other international organisations.

- **Maintain the drive towards continuous improvements in the management and operations of the Organisation** so that the OECD is recognised as being a leader in these fields. This includes efforts to advance staff diversity and gender balance in our workforce, continue to strengthen evaluation, value-for-money, audit and to promote horizontal collaboration, as well as sustain our coherent and consistent communication efforts.

8. The Programme of Work and Budget for 2017-18 sets out how we will address these strategic priorities, and how we will finance the Work Programme. Submissions are at a very advanced stage of development. In preparing their PWB proposals, Committees have been asked to fully incorporate the potential for capitalising on the Organisation's unique ability to address cross-cutting, interlinked and complex policy challenges. This is where the OECD's value added is often strongest.

SECTION 3: THE MAIN BUDGET PARAMETERS FOR 2017-18

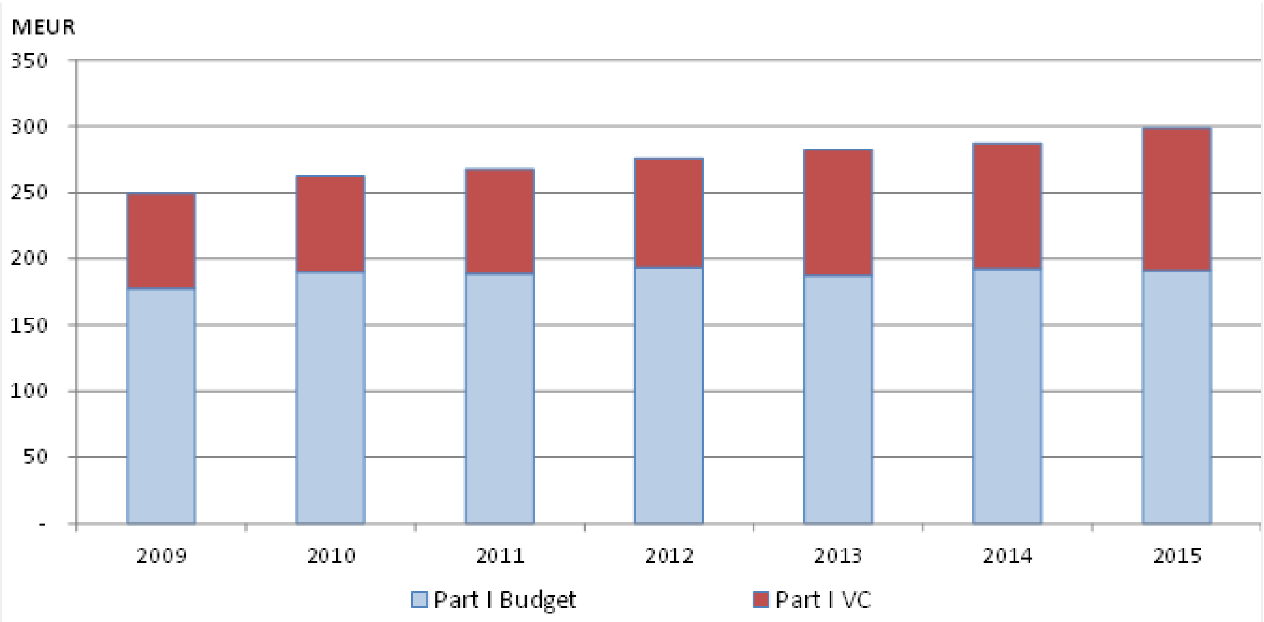
9. At the time of preparation of this paper, neither final data for the reference period in respect of the ZRG calculation, nor information about salary adjustments for 2017 (and therefore 2018), are available. The assumptions set out below may therefore be subject to adjustment during July and September. Nonetheless, the data are reasonable estimates and sufficiently robust to give Members a clear picture of the likely budget level for the coming biennium.

Zero Real Growth

10. The 2008 MCM Resolution on the Financing of Part I of the Budget of the Organisation (the 2008 MCM Resolution) is intended to give the OECD "a strong and sustainable financial foundation that will allow it to maintain at least the quality and volume of outputs, while adapting to changing priorities" [C/MIN(2008)6/FINAL]. The 2008 MCM Resolution called for strict prioritisation by Members, budget transparency, efficiencies and a Zero Real Growth (ZRG) Part I Budget. It acknowledged that the real budget cuts experienced by the Organisation for more than a decade prior to 2008 were unsustainable and harmed our ability to deliver.

11. The ten-year phase-in period of the 2008 MCM Resolution has been implemented as planned since 2009. Thus, for 2017-18, it will operate for the ninth and tenth years, which are also the last years of the phase-in period. The 2008 MCM Resolution provided for the Part I Budget to be adjusted by ZRG. To-date, the approved budgets have not exceeded ZRG and thus have remained flat in real terms. My assumption for the coming biennium is that this will continue to be the case. In the context of a flat Part I Budget in real terms, it is worth noting that the expansion of the Programme of Work and Budget over time is due to the support to the work programme from increasing flows of voluntary contributions. This source of financing currently represents around 36% of total expenditure in Part I.

Chart 1. Part I Expenditure Evolution (2009-2015)



12. Annex I sets out the calculation of ZRG for the coming biennium. On this basis, therefore, and applying the data available to the formula agreed by the Council, the expected adjustment for Part I is currently:

- **+ 0.4% in 2017;** and
- **+ 0.8% in 2018.**

13. Table 1 below shows the annual Part I Budget increases since the 2008 MCM Resolution that have resulted from the application of the agreed formula. The increases projected for 2017 and 2018 are both lower than for any preceding year since 2009. The average growth over the biennium is well below that of the preceding biennium.

Table 1. Part I Budget Increases: 2009-2018

Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Evolution (%)	2.6	3.0	0.7	1.5	2.2	2.1	0.9	1.0	**0.4**	**0.8**

The Accession of Latvia

14. Following the completion of the accession process in line with the Accession Roadmap adopted in 2013, the Council invited the Republic of Latvia to accede to the OECD Convention on 11 May 2016.[3] This major historic achievement was highlighted at our recent MCM, with the signing of the Accession Agreement. As part of its decision, upon the advice of the Budget Committee, the Council agreed the amount of the contribution that Latvia will pay to the Organisation and to increase the Part I Budget by the level of the contribution. This treatment is consistent with that for the Members that joined the

3 C(2016)77/REV1 and C/M(2016)8, *forthcoming*.

Organisation in 2010 (Chile, Estonia, Israel and Slovenia), and in accordance with the spirit of the 2008 MCM Resolution and its implementing Decision on the 2008 Principles and Rules for Determining the Assessed Contributions by Members to the Part I Budget.[4]

15. Following the application of the nominal increase for the contributions for other Members, Latvia will pay MEUR 2.8 in 2017 and 2018 to the Part I Budget. See Table 5.

16. Continuing V4M efforts means continued pressure on all areas to hold down costs. In keeping with this approach, I am proposing that the contribution of Latvia be used to cover the recurring costs of membership, but will ask Directorates to seek further efficiencies to allow for Latvia's contribution to also be used to bolster the Central Priorities Fund and to finance Long-Term Reallocations.

17. **I am therefore proposing allocations amounting to MEUR 1.904 to cover the recurring costs generated by the membership of Latvia.** The distribution of this allocation, and information on the work content, will be included in the Directors presentations and related detailed budget tables that will be provided to the Budget Committee. In broad terms, the costs in substantive areas relates to additional monitoring work, country reviews, follow-up reviews; increased scope of cross-country studies; collecting, verifying, and understanding country data and incorporating it into modelling scenarios, databases, and indicators; and monitoring implementation of various recommendations, etc. In corporate areas, costs relate to managing, supporting and overseeing increased activity (coordination, translation, conferences, accounting, legal, communications, and media events, etc.) and supporting and accommodating the additional staff.

18. The Central Priorities Fund is a unique, powerful budget allocation mechanism that facilitates the alignment of resources to top-down priorities. It currently represents just over 4% of the substantive Part I Budget. Recognising its importance to the PWB, I have continued to expand the CPF as opportunities arise, with ongoing support from Members, as clearly expressed most recently in the report of the Chair of the Council Working Group on Governance [C(2014)90/REV2, paragraph 27 vii)], and in the "Budget Issues" section of the Ambassadors' Informal Convergence Paper of 1 March 2016. The accession of Latvia provides an important opportunity to do so, and **I propose to use part of the balance of the contributions of Latvia to increase the Central Priorities Fund by KEUR 753, or 15.7%, to MEUR 5.553 in each year of the biennium**. My proposal for the use of these funds is set out in Section 4.

Budget Pressures

Financing Long-Term Reallocations

19. While the CPF is an effective and flexible tool to support time-bound priority outputs, pressures for long-term structural adjustments have naturally grown over time. In the past, long-term reallocations were often managed by means of transfers from corporate areas. However, the pressure on corporates areas is such that I have chosen to limit such a measure this biennium, and place a greater focus on reallocating between substantive areas.

20. **Given the sustained high level of demand for OECD outputs by Members, I propose to implement <u>three</u> measures to provide MEUR 1.5 financing for Long-Term Reallocations: (a) an across the board reduction of 1.25% in substantive Output Groups, providing MEUR 1.26; (b) to complement this I will once again freeze non-staff budgets in 2017 in Corporate Areas, providing a further KEUR 121; and (c) I propose to apply KEUR 120 from the contribution of Latvia. The first two of these measures have been made possible due to the continuing V4M efforts to contain costs**

[4] C(2008)144/REV1.

across the Organisation. Together they provide a level of ambition for Long-Term Reallocations that is comparable with previous bienniums.

Staff Costs

21. Staff salaries are the main cost component in the PWB, with staff costs comprising around 80 per cent of the Part I Budget.

22. At the time of preparing this document, there is no information on the salary adjustment for 2017. Provisional information is expected in June, with the final data expected to be confirmed when the report of the CCR is provided in September 2016. At the same time, the CCR is engaged in an ongoing process to change the Remuneration Adjustment Methodology, which may be applied for the 2017 salary adjustment.[5]

23. Table 2 shows CCR recommendations, budget assumptions, and information about actual inflation for the period 2009-16. The table shows that salary growth at OECD has not been consistent with inflation in France over the period.

Table 2. Implementation of Salary Adjustments: 2009-2018

Budget Year	***CCR recommendations***		***OECD increases***		***Inflation in France (reference period)***	*OECD increases forecasted in inital budget parameters documents*
	% increase	Dates	% increase	Dates of effect	% increase	
2009	***3.0***	*1.1.2009*	***2.0***	*1.1.2009*	***3.6***	*3.0*
			1.0	*1.8.2009*		
2010	***2.0***	*1.1.2010*	***2.0***	*1.1.2010*	***-0.5***	*3.0*
2011	***-0.2***	*1.1.2011*	***-0.2***	*31.12.2011*	***1.5***	*0.3*
2012	***2.4***	*1.1.2012*	***1.2***	*1.1.2012*	***2.1***	*1.0*
			1.2	*31.12.2012*		
2013	***2.3***	*1.1.2013*	***1.3***	*1.1.2013*	***2.3***	*1.2*
			1.0	*31.12.2013*		
2014	***-0.8***	*1.1.2014*	***-0.8***	*1.1.2014*	***1.0***	*1.6*
2015	***2.1***	*1.1.2015*	***2.1***	*1.1.2015*	***0.6***	*2.3*
2016	***1.7***	*1.1.2016*	***1.7***	*1.1.2016*	***0.3***	*1.1*

5 The current remuneration adjustment method for the staff of the Co-ordinated Organisations is set out in the 211th Report of the Co-ordinating Committee on Remuneration (CCR) [CCR/R(2011)13] and was approved by the Council in October 2011 [C(2011)20]. The CCR 211th Report stipulates that this method is in force until 31 December 2016, with the possibility to extend it for two more years, or to review it upon the recommendation of the CCR. The CCR included such a review in its 2015 Programme of Work and launched the discussion on this complex and sensitive issue at the 2015 March session, with the technical support of the ISRP. On the basis of the discussions held with the CCR and the Committee of Staff Representatives (CRP), the Committee of Representatives of the Secretaries/Directors General (CRSG) proposed a revised method in December 2015. The issue will be next discussed in the CCR at its June 2016 session.

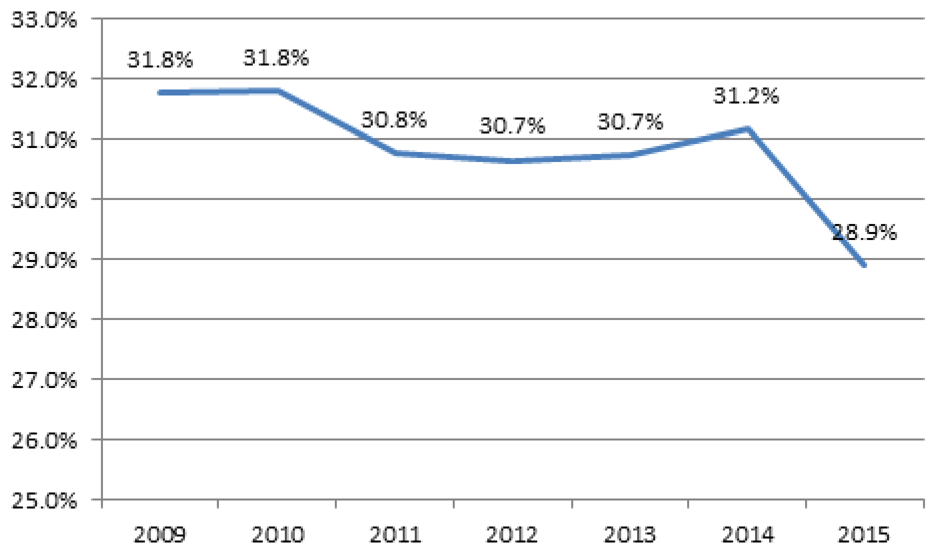
24. Given the very low ZRG adjustment there is a risk of an additional budget pressure should a salary adjustment materialise that is higher than the ZRG adjustment. Each 0.5% difference would represent a budget pressure of around MEUR 0.8. Subject to the final salary adjustment applied, I intend to manage this within the same envelope, identifying over the coming months ways to manage this potential pressure, while maintaining the extensive level of reallocations. Many Members have in the past indicated their strong preference to avoid deferring the implementation of CCR Recommendations. My objective is to increase the Organisation's capacity to respond to the most pressing needs of our Members and to ensure that we address the top priorities identified. Therefore, if necessary, I will propose measures appropriate to address this issue, taking into account the final data on salary adjustments, in my formal draft PWB submission due on 31 October.

Corporate Areas

25. Corporate areas (including Corporate Management, Corporate Services and Publications activities) continue to operate under significant and ongoing pressure to deliver innovative, effective and efficient services in support of an ambitious and growing Organisation, which itself is a consequence of the high demand placed on it by Members. Such pressures mean corporate services are constantly searching for efficiencies and V4M opportunities. Indeed, corporate areas have been at the leading edge of V4M efforts in recent years, as evidenced by progress on the implementation of the V4M Action Plan,[6] to both contain costs of regular business operations through efficiency improvements, and implement reforms and change programmes to permit the same in substantive areas.

26. In addition to V4M progress, the increasing efficiency of corporate areas is demonstrated, for example, by the falling share in corporate areas service expenditure in the total expenditure of the Organisation.

Chart 2. Share of Corporate Management, Corporate Services and Communications in total expenditure



6 The last V4M progress update (Budget Committee EDG No.84 of 22 September 2015) reported that 66 of the 75 V4M Action Plan items were completed or on track for completion.

27. Meeting the expectations of Members to maintain the drive towards continuous improvements in the transparency, management and operations of the Organisation represents an increasing pressure across all Corporate Management functions. Two areas in particular merit specific remarks. The increased impact and relevance of the OECD, that benefits all Members, can be attributed in part to our engagement in international fora that provides unique opportunities to position OECD work to help shape the policy discussion that takes place therein. While this has been done on a best-effort basis so far, as the OECD becomes an established and trusted partner with such groups, there is a need to ensure a better foundation for the coordination and support that is needed to support such engagement to continue to achieve benefits for Members. Members also have increased expectations of the Organisation's audit and evaluation functions which cannot be met with existing resource allocations. I am proposing to address these two issues through my Long-Term Reallocation proposals.

28. Pressures on Corporate Services will be compounded in 2017-18 by the OECD security environment, which will continue to require heightened attention, given ongoing security risks in Paris, which remains in a state of high alert, and beyond. These risks will continue to impact the OECD's activity in Paris, and its missions and conferences abroad. In this regard, priorities in 2017-18 will be to: finalise the strengthening of the main entrance at La Muette, including new accreditation facilities and management of flows of staff, delegates and visitors; reinforce physical security at a variety of points of the La Muette perimeter; develop and implement greater physical security around the Secretary-General's offices within the Chateau; and finalise the implementation of the new policy of an armed presence at La Muette and Boulogne.

29. In financial terms, depending on the outcome of 2016 investments, some additional investment funding will be needed in 2017-18 to complete the reinforcement of physical security, with the detail of the related expenditures included in the multi-year investment plan for 2017-18. Operationally, the additional cost of the provision of the full team of armed and non-armed guards at La Muette and Boulogne represents an annual pressure. The investments and operational costs will be managed within existing resources.

30. Corporate Services will continue to maintain an ambitious reform and improvement agenda in the next biennium, not least with respect to the OECD Digital Strategy, ongoing IT systems renewal programmes and the coordination of the V4M Action Plan.

31. New digital capabilities are changing the nature and way of working and how people interact. To capitalise on this important opportunity, an ambitious whole-of-OECD Digital Strategy is being developed to help make the Organisation more agile, effective and inclusive. The Strategy will help to connect people, integrate and share knowledge, facilitate horizontal work, and ultimately strengthen the relevance, impact and efficiency of the OECD. The effective and secure use of digital technologies will enable the Organisation to reach an even larger range of communities, increase productivity and V4M in developing outputs, and facilitate the dissemination of products. These changes will help improve the quality of what we produce, its impact, and the overall value that the OECD provides to its Members, Key Partners and other stakeholders. The financing for the Digital Strategy will come from existing resources. No additional budget, nor additional assessed contributions from Members, will be sought for this programme.

32. At the same time Corporate Services are committed to concluding the comprehensive V4M Action Plan within existing resources. Combined with security improvements and implementation of the OECD Digital Strategy, the requirement to continue financing Class II asset replacement (see Section 7), the implementation of the PWB for Corporate Services in 2017-18 will be a major challenge that will be achieved through renewed and reinforced V4M efforts, and the deferral of non-essential spending to support these major projects.

33. Publications activities are a further area under significant pressure in 2017-18. As reported previously to Members, the completion of the Delta programme was successfully achieved in 2015, in line with the Council decision to make data Accessible, Open and Free, within the framework of the Publishing Policy [see C(2011)117/REV1]. This was a major achievement. However it is not without financial risk and may place severe pressure on the Publications Annex Budget in the coming biennium and beyond. So far, revenues to the Publications Annex Budget have been sustained, but we may not yet have seen the full effects of the move to free data. At the same time, given the highly dynamic nature of the publishing business, we will need to continue to invest in maintaining dissemination capacity to ensure sustainability of publishing operations. The ongoing review of the Publications Annex Budget will be helpful in this regard.

34. As Members are aware, efficient and effective business and financial management in the Publications Annex Budget is impeded by the continued operation of a cash-based accounting system. This approach, which creates artificial constraints and prevents optimal budget management, has been in place since the creation of this Annex Budget in 2005. In their 2015 performance audit, the external auditor recommended[7] that all income and expenses in the Publications Annex Budget and Part II publication incomes should be recorded on an accruals basis, as per international accounting standards. This would allow for a more transparent reporting to Members on the sales and trends of the publishing activity avoiding cut-off effects that do not reflect the economic activity and protect the Organisation against overspending revenues. Moreover, the budget monitoring of the publishing activity would be improved, as the forecast of the final budget will no longer be dependent on payment timing, not least at the end of the year (for subscriptions starting in the following year). The shift to accruals would however make transparent the current budgetary shortfall that exists and needs to be covered. At end 2015, this shortfall would have amounted to MEUR 3.8 for the Publication Annex Budget, MEUR 2.9 for IEA (including direct sales) and MEUR 0.1 for the other Part II Programmes. This shortfall mainly corresponds to the cash received in 2015 for subscriptions to be delivered in 2016, and increases with each year of cash-accounting operation.

Asset Replacement

35. Asset replacement is an important element in ensuring the long-term capacity to deliver high quality outputs in a sustainable manner. PWB 2017-18 will see the ten-year anniversary of the completion of the major and highly successful project to renovate the La Muette site and the construction of the conference centre, which has had a profound positive impact on our ability to hold numerous events attracting increasing volumes of visitors (more than 115,000 in 2015). The introduction in 2013 of the Multi-Year Investment Plan and the Capital Investment Budget and Reserve Fund provided a medium-term financing strategy, including recurring annual transfers from Corporate Services budgets, to ensure adequate asset replacement without calling for additional contributions from members, and represented an important milestone among the Organisations financial reforms in recent years. However, as the financing of Class III assets was excluded from this reform, this asset class remains largely unfunded and represents a long-term financing challenge for the Organisation.

[7] C(2015)74/PART2, Recommendation No. 13.

Financing the Budget

Assessed Contributions

36. Members' assessed contributions represent around 98.5% of the funding of the Part I Budget. Variations may occur due to the impact of 'other income' (see next item). For 2017-18, the increase in Members' assessed contributions to Part I is currently estimated at:

- **+0.5% for 2017;** and
- **+1.0% for 2018**.

37. Table 3 below shows the annual increases in Members' assessed contributions for the period 2009-2018.

Table 3. Part I Members Contributions: 2009-2018

Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Evolution (%)	2.3	3.0	1.5	1.4	2.1	2.1	0.9	1.0	**0.5**	**1.0**

Other Income

38. **In relation to 'Other income' in the Part I Budget, which offsets Members' assessed contributions, I have reviewed carefully the relevant trends and options for this element of revenue to set a prudent level for these budgets.**

39. 'Other income' in the Part I Budget mainly relates to interest on general treasury as well as rent from Delegations and non-Member participation fees. Interest income levels are impacted by two factors: the prevailing available rates of interest; and the size of the treasury. While treasury balances have remained healthy through 2015 and 2016, due to increasing acceptances of voluntary contributions and improved timeliness of payments of assessed contributions, interest rates continue to decline significantly. As has been reported regularly to Members, it has been increasingly challenging to meet income budget targets, despite an effective short-term investment strategy that consistently outperforms the market rates for short-term investments. Currently a deficit of around KEUR 200-300 is anticipated in 2016. There is no sign that this trend will reverse materially in the next biennium, and I do not want the Organisation to be more speculative or take greater risks with its treasury investments. I therefore propose to maintain the prudent investment strategy. This will translate into a **reduced level of interest income for 2017 to KEUR 1000 and for 2018 to KEUR 700.** The evolution in the budgeted level of interest income for the period 2009 to 2018 is set out in Table 4.

Table 4. Evolution of Interest Income: 2009-2018

Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017***	**2018***
Amount (K€)	1 500	1 500	1 080	1 380	1 500	1 500	1 500	1 500	1 000	700
Actual (K€)	1 063	704	1 709	2 126	1 851	1 747	1 703	1 200*		
**General Treasury Average Return ** **	0.92%	0.56%	1.65%	1.75%	1.42%	1.29%	1.11%	0.86%	0.6%	0.4%

*Proposed for PWB 2017-18 ** Forecast for 2016, 17, 18

40. Concerning non-Member fees, I am assuming a continuation of the positive trend experienced in 2015-16 on average, in line with our efforts to seek greater participation by non-Members in our work. **I therefore propose to increase the budget estimate for this item to KEUR 940 for 2017 and 2018, an increase of around 29% compared to 2016.**

41. More broadly, given the budget pressures the Organisation continually faces in terms of meeting Members' demands for outputs and financing needs in corporate areas, I would question the continuing practice of using Other Income to offset Members contributions to the Budget.

Budget Evolution 2016-2018

42. Table 5 provides a summary of the Expected Budget Evolution from 2016 to 2018, showing the budget increase and its main financing components.

Table 5. Expected Budget Evolution 2016-2018

Part I Budget	2016	2017		2018	
KEUR					
APPROPRIATIONS	**199,248**	**200,050**	**0.4%**	**201,650**	**0.8%**
[Of which LATVIA]	[2,778] *	[2,793]		[2,820]	
FINANCING					
Member Country contributions	196,308	197,350	0.5%	199,250	1.0%
Other Income					
Non-Members Participants fees	730	940	28.8%	940	0.0%
Interest income	1,500	1,000	-33.3%	700	-30.0%
Rental of office and parking	660	660	0.0%	660	0.0%
Sundry income	50	100	100.0%	100	0.0%
Sub-total other income	*2,940*	*2,700*	*-8.2%*	*2,400*	*-11.1%*
TOTAL FINANCING	**199,248**	**200,050**	**0.4%**	**201,650**	**0.8%**

* 2016 contribution on annualised basis

SECTION 4: DELIVERING ON STRATEGIC PRIORITIES

43. The urgent strategic priorities established over the period up to and including the recent MCM require an ambitious and comprehensive response:

- *Priorities are being integrated into the PWB currently in development,* as part of the normal process to prepare the Programme of Work. This will be apparent in both the content of the Preliminary PWB Submissions and the presentations from Directors to the Budget Committee. Moreover, an integral part of the draft PWB submission I will present later in the year will be the analysis of 'Horizontal Themes' that will further demonstrate how strategic, and often cross-cutting, priorities for a given biennium are being pursued across the Programme of Work.

- *The time-bound Central Priorities Fund (CPF) will continue to operate at a significant level*. The CPF is a unique and powerful instrument of 'built-in' budget flexibility. As Table 7

shows, time-bound reallocations financed from the CPF will be at a record level of **KEUR 5 553 for 2017 and 2018, representing almost 5% of the substantive PWB to be reallocated** for the biennium. In addition **a further MEUR 6 each year is leveraged through these allocations, equivalent to a further 5% of the substantive PWB**, when the measures, that require a minimum 30% contribution from existing Part I Budget resources for any CPF proposal are taken into account. This means that time-bound re-allocations for top priorities amount to over **9%** of the Part I Budget **in addition to** the resources being applied to these priorities in the 'regular' Budget.

- *Strategic priorities will also be served by three Horizontal Projects proposed for PWB 2017-18.* Priorities will be supported by the inclusion of work on the productivity-inclusiveness nexus and child well-being in the existing Horizontal Project on Inclusive Growth. New Horizontal Projects will be developed to advance work on migration and refugees ("Ensuring Effective Integration of Vulnerable Migrant Groups"), as well as in the area of digitalisation ("Seizing the Benefits of Digitalisation for Growth and Well-being"), and are proposed to receive time-bound funds from the CPF. As per the procedures set out in document C(2015)187/REV3, information on these Horizontal Projects are set out in Annex III.

- *NAEC will transform itself into a regular feature at the centre of the Organisation to put new ideas on the table and support the mainstreaming of new approaches across the Organisation.* It will play the role of a knowledge platform or policy lab to inform cutting-edge research, share knowledge, and support capacity building in new approaches, *inter alia* regarding behavioural economics, the use of smart data for policymaking, and strategic foresight. The NAEC team will merge with the Strategic Foresight Unit to exploit synergies and join forces in opening spaces for strategic discussions, in reaching out to cutting-edge discussions on megatrends, and in supporting the Secretary-General and Directorates in their forward-looking discussions and exploration of new approaches. This will also allow sharing of support functions in terms of event management and communication.

- *The very ambitious target level of Long Term Reallocations in 2017-18 will reach* around KEUR 1 501, despite the expected budget pressure resulting from a very low ZRG adjustment.

44. The overall level of reallocations and budget flexibility has increased steadily over time and this will be the case again for 2017-18, especially when the 'leveraging' of Part I CPF proposals and the built-in flexibility of my Allocation Fund is taken into account, as shown in Table 6. Within a flat Budget in real terms, this shows re-allocations (and hence budget flexibility) on an increasingly significant scale, with a **total level of reallocations reaching 13% of the substantive PWB,** notwithstanding strong support from Members for all policy areas in the Part I Programme of Work.

Table 6. Summary of Budget Reallocations 2009-2018

Appropriations	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
KEUR									**in 2016 value**	
Part I Budget	171,895	170,715	182,025	184,754	188,820	192,780	194,520	196,470	199,248	199,248
Of which										
Long-term reallocations	1,100	1,400	2,366	3,792	1,210	1,850	2,500	2,500	1,501	1,501
CPF and other short-term reallocations	3,050	3,340	3,792	4,802	4,800	4,800	4,800	4,800	5,553	5,553
Leverage on CPF (amount)					2,050	2,050	7,600	6,650	8,079	7,827
(percentage)					*30%*	*30%*	*61%*	*58%*	*59%*	*58%*
One-off reallocations						1,460				
SGAF	800	800	800	800	800	800	800	800	800	800
Total allocations	**4,950**	**5,540**	**6,958**	**9,394**	**8,860**	**10,960**	**15,700**	**14,750**	**15,933**	**15,681**
% reallocated resources	2.9%	3.2%	3.8%	5.1%	4.7%	5.7%	8.1%	7.5%	8.0%	7.9%
									estimates	
Substantive Part I Budget	96,273	98,709	106,904	108,503	111,860	114,400	115,470	116,550	118,680	118,680
% reallocated resources	5.1%	5.6%	6.5%	8.7%	7.9%	9.6%	13.6%	12.7%	13.4%	13.2%

45. The list **of the proposed CPF and LTR allocations** for 2017-18 are set in table 7, presented by lead Output Area. I consider that these allocations represent the best combination of time-bound and long-term resource allocations to key priorities as expressed by Members. Information on the content of proposals, including contributions from other areas, will be provided in Directors presentations of their Preliminary PWB Submissions to Budget Committee and in separate summary notes also provided to the Budget Committee.

Table 7. Summary CPF Allocations and Long Term Reallocations

Output Group	Output Area	Title	CPF		LTR		TOTAL biennium
			2017	2018	2017	2018	
1.1	1.1.3	OECD 3.0: Modelling to support integrated policy analysis	170	170			340
1.2	1.2.1	Increasing Productivity at the Regional and Local levels (HP2)	100	100			200
	1.2.1	Strengthening Productivity for Inclusive Growth (HP2)	40	40			80
1.3	1.3.1	Seizing the Benefits of Digitalisation for Growth and Well-being (HP1)	755	755			1 510
2.1	2.1.1	Strengthening education systems through high-level peer learning and public policy dialogue			175	175	350
	2.1.4	Inclusive Productivity and Growth: an educational and skills perspective (HP2)	100	100			200
	2.1.4	Skills Outlook			175	175	350
2.2	2.2.1	The New World of Work (HP1, HP2)	250	250			500
	2.2.2	Ensuring the effective integration of vulnerable migrant groups (HP3)	300	300			600
	2.2.3	Enhancing child well-being and promoting equal opportunities among children (HP2)	175	175			350
	2.2.3	Stronger Together: Getting the most out of diverse societies	150	150			300
2.3	2.3.2	A GPS for Climate Mitigation	250	250	120	120	740
	2.3.2	The OECD Centre on Green Finance, Investment and Policy	200	200			400
	2.3.3	Health and Environmental Safety in Genome Editing Applications	50				50
	2.3.4	Resource productivity and the transition to a Circular Economy	150	150			300
3.1	3.1.1	Trade and Investment Interdependencies in GVCs: Towards Greater Policy Coherence and Coordination	175	175			350
	3.1.3	Developing an OECD framework for reforming fossil-fuel support policies	100	100			200
3.3	3.3.1	Delivering the BEPS Implementation Phase—Inclusive Framework	200	200	170	170	740
	3.3.1	Measuring Effective Carbon Rates to Track Implementation of Core Climate Policies	100	100			200
	3.3.1	Stepping up the fight against Illicit Financial Flows	125	125			250
	3.3.1	Supporting the G20's Tax Policy Initiative through new research and analysis	100	100			200
4.1	4.1.1	Enhancing global, progressive financial liberalisation - supporting robust and inclusive OECD Codes of Liberalisation	100	100			200
	4.1.1	Reinforcing the OECD as a leader of change on investment treaties and monitoring of investment policies			50	50	100
	4.1.1	Responsible Business Conduct: Ensuring Leadership	40	40			80
	4.1.2	Leveraging the OECD’s multi-disciplinary integrity and anti-corruption expertise to foster adoption and implementation of OECD standards	250	250			500
	4.1.3	Ensuring G20 leadership in corporate governance	30	30			60
	4.1.3	Linking micro finance and the real economy: capital markets, productivity and long-term investment	75	75			150
4.3	4.3.1	Governance of Flagship/Mega Infrastructure Projects	50	50			100
	4.3.5	New approaches to delivering better policies through behavioural insights	200	200			400
5.1	5.1.1	OECD Global Outlook on Financing for Development	100	100			200
	5.1.3	OECD Multidimensionnal package to countries in situation of conflict and fragility: A methodological pathway to resilience	25	25			50
	5.1.3	OECD support to implementation of the 2030 Gender Agenda	175	175			350
5.2	5.2.1	Leveraging OECD support to the SDGs	125	125			250
	5.2.1	Strategy and co-ordination of the Latin America and the Caribbean Regional Programme	75	75			150
	5.2.1	Towards a more structured, institutionalised and sustainable co-operation with China			90	90	180
6.1	6.1.1	Leveraging standards and policies by investing in Global Governance and Global Relations			270	270	540
	6.1.2	Strengthening In-depth Evaluation and Internal Audit in the OECD			240	240	480
	6.1.3	All on Board: Making Inclusive Growth Happen (HP 2)	270	270			540
	6.1.3	Leveraging New Approaches, Analytical Frameworks and Foresight Methods	108	158	211	211	688
6.2	6.2.1	Better Data and Statistics for monitoring and implementing the SDGs in OECD, emerging and developing countries	140	140			280
	6.2.1	Development and analysis of a database of Multinational Enterprises	200	200			400
	6.2.1	Trustlab – A new innovative, behavioural tool to measure trust and other social norms	100	100			200
TOTALS			**5 553**	**5 553**	**1 501**	**1 501**	**14 108**

HP1: Seizing the Benefits of Digitalisation for Growth and Well-being
HP2: Inclusive Growth Initiative
HP3: Ensuring the effective integration of vulnerable migrant groups

SECTION 5: PART II PROGRAMMES

46. Many Part II Programmes will be entering their ninth and tenth years of frozen nominal budgets (ZNG). The cumulative impact of this is bringing into question the limits of their sustainability, given cumulative inflation over the last years.

47. For Part II programmes not in this situation, the current assumption is that their budgets would increase in line with Part I, subject to specific circumstances requiring their governing bodies to consider higher or lower increases.

48. It is worth highlighting progress regarding two financing reform initiatives in Part II programmes that will come into effect in 2017 subject to agreement by Council.

49. At its session on 9 March 2016, the **Development Centre** Governing Board reached consensus on a funding model based core principles including simplicity, transparency, predictability, capacity to pay, and adequate burden sharing among Members, all of which will allow the Development Centre to effectively plan and carry out its work programme [see C(2016)89, forthcoming]. The proposed funding model maintains differentiated systems for determining OECD Member and non-OECD Member assessed contributions. OECD Members would pay according to a streamlined scale of contributions, with greater convergence towards the standard Part II scale as well as the gradual phasing out exceptions and ad-hoc treatments. Non-OECD Members' contributions would be based on a revised version of the fixed-fee mechanism in place since 1 January 2004.

50. At its session on 12-13 April 2016, the **Centre for Educational Research and Innovation** (CERI) Governing Board reached consensus on a funding model that is fair, inclusive and provides a sustainable and stable funding for the Centre to fulfil its mission and implement its work programme and that results in a manageable and predictable evolution of countries' contributions funding. The proposed funding model is based on a 30% flat fee and the remainder based on the standard Part II scale with a cap on the yearly increase of a participating country of 20% and a cap of 300% on the total increase of a country's contribution compared with 2016.

51. Although each funding model is specific to the nature and needs of these Programmes and do not represent a precedent for financial reform of other Part II Programmes of the Organisation, they are a strong testament to the high value Members place on the work of these Programmes.

52. Annex II sets out the list of Part II programmes with their budgets in nominal terms since 2009, showing negative impact for those programmes that were under pressure either by ZNG policy or by reduction in their membership.

SECTION 6: PRE-ACCESSION BUDGETS

53. The PWB planning makes no assumptions about new Members during the next biennium. A pre-accession budget for 2016 has already been approved for three countries: Colombia (KEUR 3 226), Lithuania (KEUR 3 193) and Costa Rica (KEUR 3 743). Activities related to the accession process of the Russian Federation remain postponed.

SECTION 7: ANNEX BUDGETS

Pensions

54. The Pensions Annex budget receives contributions from Members and staff and is the source of funding of the Pension Budget and Reserve Fund. The Pensions Annex Budget is adjusted according to an

approved mechanism based on a weighted combination of retrospective inflation (20%) and salary adjustments applicable to active staff (80%). The level for the Pensions Annex Budget will be communicated once the final salary adjustment data for 2017 is known.

Publications

55. As mentioned earlier, on 1 July 2015 we succeeded in implementing the Council decision of December 2011 on publishing reform [C(2011)117/REV1] by making 100% of Part I data "open, accessible and free". This was a major achievement, which was made possible by the "Delta" project which implemented a number of important measures to help ensure the sustainability of the Publications Annex Budget. Among these was the introduction of the highly innovative "Freemium" model whereby iLibrary subscribers can choose to pay for value-added services[8] to complement the standard free services.

56. In the 2011 Council decision, Members requested that the Publication Annex Budget and Publications Reserve be reviewed at the end of the implementation of the reform by end-2015. In 2014, the Council extended the implementation period to March 2016 in order to assess better the financial impact of the move to 100% free Part I data, in line with the annual sales and subscription renewal cycle [C(2014)135]. As part of this decision, measures to mitigate the financial risks inherent in the reform were prolonged to end 2016:

- holding the Members' annual contributions to the Publications Annex Budget at 1 443 KEUR;
- maintaining for automatic carry-forward facility in the Publications Annex Budget; and
- maintaining the Publications Reserve to manage the risk of declining revenues, with the authorisation to use it to cover any deficit in the Publications Annex Budget during this period.

57. The review will be completed in June 2016 in time for its recommendations to be taken into consideration for the 2017-18 PWB for Output Group 6.4 Corporate Visibility. The Budget Committee has been kept informed of the scope and progress of the review and is aware of the key issues related to financial sustainability. I will include my proposals for any additional measures at that time; however my assumptions are that the above measures are maintained, with the level of Members' contributions increasing with the membership of Latvia.

58. Regarding the issue of the move to accruals for income accounting, and taking into account the benefits of this measure for Members and for the management of the Publication Annex Budget, I propose that the organisation applies the relevant budgetary accounting standards and make the technical shift to the accrual-based accounting method as of 1 January 2017. This will impact the Part I Publications Annex Budget and a number of Part II programmes, and will create a technical budget deficit. As such I will propose that the estimated shortfall of MEUR 6.8 be managed over a longer period than the 4 years as recommended by the external auditor. Proposals will be brought forward in the course of the PWB.

Investments and Asset Replacement

59. The Resolution of the Council on the Creation of a Capital Investment Budget and Reserve Fund for the Replacement of the Organisation's Fixed Assets [C(2011)144/FINAL] established the Capital Investment Budget and Reserve Fund (CIBRF) to provide for the replacement and renewal of longer-term fixed assets. The Investment Annex budget helps finance the cost of Class 1 assets, via the CIBRF. The Council Resolution calls for the Investment Annex Budget to be increased in line with 'established

8 Such as downloading, copy-pasting or making printed copies for books, or have access to a range of time-saving, ready-to-download tables, training and customer support services for datasets

practice'. This implies that it should be increased in line with the Part I Budget, to safeguard the real value of the funding of the asset replacement plan. **A feature of the current biennium, and of those that follow, is the commitment to transfer MEUR 1.2 each year into the CIBRF to help finance Class 2 asset replacement.** This is being achieved through measures focussed on the corporate service areas.

60. The Multi-Year Investment Plan ("the Plan") sets out investment priorities to be financed by the CIBRF as part of the PWB process. This provides greater visibility for the planning and execution of investments in fixed assets by proposing investment expenditures over a four year period (i.e. two biennia). This first Plan was presented in the 2013-14 PWB. As foreseen in the Council Resolution, at the end of the first biennium covered by the Plan, the planned investments may be updated for the remaining period of the Plan and the following biennium. A revision of the Plan for the period 2017-20 will be provided to the Budget Committee, in the context of Output Group 6.3 Corporate Services.

61. As mentioned earlier, Class III asset replacement remains very largely unfunded and represents a long-term financing issue for the Organisation. In the recent Council decision related to the early termination of the Delta lease [C(2016)63] I noted, subject to prudent and responsible management, my intention to transfer surpluses arising from the implementation of the Office Space Strategy to CIBRF Class III to help finance replacement of assets in this class.

SECTION 8: VOLUNTARY CONTRIBUTIONS

62. Voluntary contributions play an essential role in delivering high-quality outputs that are relevant to all Members. They are fully integrated in the Work Programme and underpin the delivery of its outputs. The cost recovery processes put in place by Members has reduced the cross-subsidisation that existed before 2010. Comprehensive information is provided to Members regularly in the Budget Committee, and is being constantly developed.

63. At the time of preparation of this document, the expected level of new voluntary contributions is not yet settled, however indications are for an overall increase in line with recent trends. Information on the level and use of these funds is provided in the individual preliminary PWB submissions being finalised in each Output Area. Consolidated information will be provided to the Budget Committee when finalised.

SECTION 9: VALUE FOR MONEY

64. The Organisation continues to deliver on its strong record of value for money: OECD outputs are consistently rated highly by end-users in capitals for their quality and impact; the PWB process ensures that outputs respond to Members' policy priorities; outputs are priced on a marginal cost basis as they build on the results of earlier work; and the OECD successfully delivers outcomes to Members that are worth many multiples of the resources they invest in the Organisation.

65. During this biennium, significant progress has been made in enhancing the value for money the Organisation delivers to its Members. Efforts have focussed on laying the foundations for recurring benefits, in terms of an improved capacity to deliver outputs, and a more responsive Organisation to provide more focused, and timely policy analysis and advice, particularly on cross-cutting policy issues, by building on the results of the successful V4M Project that was conducted in 2013-14; and implementing an ambitious "V4M Action Plan" that accompanied "The Secretary-General's V4M Report" in 2014. The Action Plan contains over 70 recommendations that cover strategic, operational and communications initiatives to be implemented over 2014-2016 and is a strong signal of the Organisation's firm commitment to improve its efficiency and effectiveness in a sustainable way. Steady progress has been made in the implementation of the Action Plan that is on track to be fully implemented by the end of the biennium.

66. The Directors' biennial V4M plans result from the implementation of one of the actions in the Action Plan. As part of the biennial PWB preparations, Directors are now required to identify initiatives they plan to implement in the coming biennium, and report on progress in implementing them in the current biennium. These plans set out forward looking initiatives and serve to foster commitment to continuous improvement, and provide members with the reassurance that underlying processes for producing outputs are subject to regular review to ensure they are efficient. The Directors' reports on progress on the implementation of the 72 initiative included in their 2015-16 plans; and the inclusion of an additional 61 initiatives in the Directors' 2017-18 V4M Plans confirm that commitment to enhancing value for money has not waivered and is now embedded in the culture of the Organisation.

67. The OECD's commitment to V4M does not end with the delivery of the 'final' V4M Report in early 2017. We will be making continued efforts to build on a tradition of performance excellence to support and stimulate ongoing performance improvement across the Organisation and ensure optimal use of resources.

CONCLUSION

68. The current Budget assumptions for 2017-18 have been established in accordance with the processes and methods endorsed by the Council and reflect the commitments taken in 2008 to provide a strong and sustainable financial foundation for the Organisation to maintain the quality and volume of outputs, while adapting to changing priorities, ensuring strict prioritisation, efficiency savings, and maintenance of the real level of Part I Budget resources. My key assumptions for the Part I Budget are at this time based on best estimates. Once more, I intend to achieve a very ambitious degree of budget flexibility and a significant scale of reallocations in line with Members' priorities and their urgent call for action and assistance. I am confident that the funding proposals made to allocate priority funds are well-aligned. They will provide a foundation to deliver the sound policy analysis, advice and recommendations that will support the reform efforts of policymakers in Member and Partner countries and respond to their urgent call for action. We will also maintain our strong record of efficient and effective management of Members' resources, notably through savings and reallocations in the corporate services areas. In compliance with the 2009 recommendation from the Working Party on Priorities, I look forward to early agreement on the main budget parameter (ZRG), which is a technical adjustment, as this will establish a sound basis for moving to the final stages of our preparations of the PWB 2017-18.

ANNEX I:
APPLICATION OF THE INFLATION MECHANISM TO THE PART I BUDGET

1. The Resolution of the Council on the Financing of Part I of the Budget of the OECD [C/MIN(2008)6/FINAL] provided in general terms a formula for calculating host country inflation for budgeting purposes, as follows:

"[The rate of inflation in the host country will be] 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."

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

3. In applying this method to the Part I Programme of Work and Budget (PWB) for 2009-10 and beyond the Secretariat and the Budget Committee established:

- the appropriate reference period, taking into account the robustness of input data;
- the input data source; and
- provisions for the second year of the biennium, since the second year calculation was not covered explicitly by the Resolution.

I. The Reference Periods

4. The Reference period runs from July to June, with three advantages:

- It gives relatively greater weight to actual data than projections (two thirds).
- Projections about future inflation are robust since they are sourced from available data in the Organisation.
- It is consistent with the reference period used by the CCR for calculating salary changes, which is appropriate given the importance of remuneration adjustments in total budget pressures.

5. In respect of the PWB 2017-18, four reference periods will be used:

Reference period	Budget 2017	Budget 2018
a) Inflation for July 2014 to June 2015	One third	n/a
b) Inflation for July 2015 to June 2016	One third	One third
c) OECD Projection for July 2016 to June 2017	One third	One third
d) Projection for July 2017 to June 2018	n/a	One third

II. Sources of Data

6. The Secretariat is using OECD data, which is in turn based on Eurostat's harmonised indices of consumer prices. Inflation data at end-June are usually available mid-July.

7. Regarding projections, the OECD produces quarterly information, made available publicly when the Economic Outlook is published. This means that the data used for Budget planning purposes for the first year of the biennium is that which is available in June of the year preceding the biennium.

8. Regarding the last projection, for July 2017 to June 2018, the fourth year of the mechanism, provisions do not exist for the full period. The agreed mechanism was to uses the mid-point between the European Central Bank's medium-term inflation target of 2% and the average of the first two years of the reference period [*i.e.* b) and c) above].

9. The Secretariat underlines that in a reference period of rising inflation, the Budget increases delivered by the mechanism will be less than current inflation. The opposite effect applies in a period of decreasing inflation. In other words, there is a lag effect. Over time, these differences may be expected to even out. Moreover, respect for a stable methodology over years should also provide greater stability in the long-term.

10. The current provisional outcome, using data available (inflation at end-April 2016), can be summarised as follows:

Budget 2017		**Budget 2018**	
July 2014 to June 2015	0.3	July 2015 to June 2016*	0.3
July 2015 to June 2016*	0.3	July 2016 to June 2017*	0.7
July 2016 to June 2017*	0.7	July 2017 to June 2018*	1.3
Average	**0.4**	**Average**	**0.8**

* Data subject to confirmation in July 2016.

11. Once finalised, these averages will be applied to the Base Budget for 2017 and 2018.

12. Simulation of PWB 2017-18 with current provisional data:

Budget Year	**Base KEUR**
Part I Budget base 2016	**199 248**
Adjustment: + 0.4 %	+ 802
Part I Budget 2017	**200 050**
Adjustment: + 0.8 %	+1 600
Part I Budget 2018	**201 650**

ANNEX II:
PART II PROGRAMMES: BUDGET APPROPRIATIONS OVER LAST BIENNIUMS

Fund	Programmes	2009	2010	2011	2012	2013	2014	2015	2016
	KEUR								
30	- International Energy Agency (IEA)	25,702	26,612	26,612	26,612	26,612	26,626	27,190	27,462
31	- Development Centre (DEV)	5,638	5,932	5,958	5,970	6,037	6,150	6,250	6,267
32	- The Sahel and West Africa Club (SWAC)	2,194	2,173	2,153	1,862	1,600	1,600	1,800	1,800
33	- OECD Nuclear Energy Agency (NEA)	10,407	10,407	10,407	10,407	11,113	11,113	11,050	11,160
34	- NEA Data bank (NEA DB)	2,954	2,954	2,954	2,954	3,099	3,109	3,149	3,149
35	- Centre for Educational Research and Innovation (CERI)	3,530	3,530	3,559	3,532	3,534	3,534	3,534	3,534
36	- Joint OECD/ITF Transport Research Centre (JTRC)	1,074	1,114	1,114	1,114	1,114	1,114	1,118	1,138
37	- International Transport Forum (ITF)	4,850	4,997	4,997	4,997	4,750	4,750	5,165	5,205
38	- Chemicals Management Programme (CHEM) (new name as from 2017)	1,822	1,830	1,841	1,841	1,826	1,826	1,827	1,828
39	- Steel	678	678	678	672	678	676	676	676
40	- Biological Resource Management (BIO)	770	770	771	759	703	703	695	695
41	- Co-operative Action Programme on Local Economic and Employment Development (LEED)	1,322	1,390	1,415	1,435	1,270	1,247	1,261	1,302
42	- Programme for International Assessment of Aduslt Competencies (PIAAC)	4,080	4,100	4,254	5,432	4,574	2,455	4,119	4,221
43	- Financial Action Task Force on Money Laundering (FATF)	2,774	3,087	3,265	3,372	3,447	3,511	4,043	4,094
44	- OECD Global Science Forum (GSF)	556	558	561	561	561	561	561	561
45	- Agricultural Codes and Schemes for International Trade (CODES)	1,031	1,052	1,075	1,095	1,119	1,142	1,136	1,169
46	- Network on Fiscal Relations accross levels of Government (NFR)	329	338	340	319	353	339	342	346
47	- Shipbuilding	371	380	383	389	363	371	353	356
48	- Global Forum on Transparency and Exchange of Information for Tax purpose (GFTEI)	-	2,930	3,258	3,445	3,574	3,610	3,940	4,022
49	- Programme for Teaching and Learning International Survey (TALIS)	-	-	-	-	-	-	-	1,675
62	- German Linguistic Section	1,626	1,675	1,687	1,712	1,750	1,786	1,803	1,822
63	- Italian Linguistic Section	480	475	350	350	335	335	320	320
64	- International Service for Remunerations and Pensions (previously IOS and JPAS)	5,440	5,440	5,500	5,056	5,253	5,466	5,532	5,773
65	- Reimbursable Posts	1,575	1,692	1,520	1,631	1,845	1,885	2,222	2,306
67	- Programme for International Student Assessment (PISA)	5,375	4,957	5,440	5,965	5,504	5,410	5,983	5,846
68	- Programme on Institutional Management in Higher Education (IMHE)	874	1,026	1,038	1,121	910	1,065	745	756
69	- Centre for Effective Learning Environments (CELE)	540	546	443	329	-	-	-	-
74	- Management of the OECD Medical Care System (OMESYS)	740	760	1,030	1,047	1,050	1,070	1,180	1,240
	Total Part II	**86,731**	**91,404**	**92,603**	**93,980**	**92,975**	**91,453**	**95,995**	**98,723**
	TOTAL BUDGET	**320,268**	**330,971**	**343,678**	**348,236**	**353,649**	**357,057**	**364,632**	**369,610**

ANNEX III: SUMMARY INFORMATION ON HORIZONTAL PROJECTS FOR PWB 2017-18

HP1: SEIZING THE BENEFITS OF DIGITALISATION FOR GROWTH AND WELL-BEING

Context

The ongoing digitalisation of the economy and society presents opportunities to spur innovation, generate efficiencies, and improve services in a wide range of areas, from health to agriculture, public governance, tax, transport, international trade and investment, the financial system, education and the environment. Digital technologies enable a wider community to become involved in economic and social activities, while digital products can be delivered with almost zero marginal costs anywhere and anytime in the world, opening up new possibilities for consumers across all countries. At the same time, digitalisation can be disruptive or its benefits unevenly distributed. It transforms the structure of organisations and tests our existing approaches to issues from privacy and security, to consumer policy, competition and taxation, to innovation and finance, and to jobs and skills, to name but a few.

The combination of scope, scale, and speed fuelled by digitalisation raises new challenges for policymakers, not only in terms of system-wide transformations but also in responding to rapid and frequent changes. To-date, policy reactions have been uneven, with some countries starting to develop a thorough, whole-of-government approach while others have made reactive decisions that seek to roll-back or limit the transformation.

A coherent policy approach is necessary to harness the benefits of digitalisation to reach new horizons, with improvements to productivity, inclusive growth and well-being, and new solutions to global challenges. The multidisciplinary and cross-cutting project on *Seizing the Benefits of Digitalisation for Growth and Well-being* aims to address this challenge by bringing together the wide-ranging policy and analytical expertise of the OECD. It builds on an initial proposal by the Chairs of the four STI Committees (CDEP, CSTP, CCP and CIIE) and its working parties, first discussed in the autumn of 2015 [DSTI/IND/STP/ICCP/CP(2015)1] and further elaborated in 2016 [DSTI/IND/STP/ICCP/CP(2016)1].

This proposal responds to the outcomes and conclusions of the 2016 MCM, the SG's 21x21 strategy, guidance by the Secretary-General and Heads of Delegation for the PWB 2017-2018, the priorities from several sector-specific Ministerial meetings (e.g., in the areas of science and technology policy, labour and the digital economy), as well as interests from the current and future G20 (China and Germany) and G7 (Japan, Italy) Presidencies, and the EU and the Small Advanced Innovative Economies (SAIE) initiative.

Objectives and Expected Outcomes

The overall objective of the project is to identify the policy options that will ensure the benefits of the digital economy are widespread and address the challenges accompanying digitalisation. The main outcome from the project will be a whole-of-OECD perspective that assesses the state and effects, expected benefits, and issues raised by digitalisation in different sectors and policy areas. It will also examine how, and to what extent, policies are addressing this transformation, and offer guidance for countries to capitalise on digitalisation to meet their ultimate goals of inclusive growth and better lives.

A key expected benefit of the project will be pulling together the collective wisdom of OECD bodies to address one of the most fundamental challenges facing our economies and societies. The OECD has long been working on issues related to the digitalisation of economy and society, with analysis and insight across multiple dimensions. This project will now take the next step, to deliver an integrated policy approach, strategic vision and strategy. It will provide state-of-the-art guidance on how to respond to digitalisation in a proactive manner and seize its benefits for growth and wellbeing. In doing so, it will establish the OECD as the "go-to" organisation for guidance on whole-of-government policies related to

digitalisation. It would therefore provide high value for money, by proving a coherent and integrated approach to an issue that is rapidly becoming a major challenge in almost every area of OECD work.

Main Activities

To develop a truly cross-cutting approach to digitalisation, the work will explore the underlying features of digitalisation and how these affect policy development. Many OECD Committees have expressed a strong interest in engaging in the project and are including outputs in their 2017-18 PWBs. This diversity will support a multidisciplinary approach for addressing policy challenges, notably:

- ***Digitalisation and jobs***: The world of work is expected to be substantially transformed as a result of digitalisation. The question is how labour market, training and social policy will have to be adapted to address the challenges and grasp the opportunities emerging from digitalisation. Work on this topic will be undertaken in close co-operation with the Future of Work project.

- ***Skills for the future***: Digitalisation will also require people to upgrade their existing skills, ranging from basic skills for all to engage in the digital economy and society, to more general digital skills for all workers, and to specialist skills for those who develop infrastructure and applications.

- ***Access and inclusion:*** While access to digital technologies has increased enormously over the past decade, there is a risk of new digital divides linked to a lack of adequate skills and a lack of use and access to digital technologies at work or in education.

- ***Ensuring trust – privacy, security, and consumer protection***: As online marketplaces grow, new regulatory and consumer protection challenges are emerging. Moreover, privacy and security concerns are more prevalent than ever.

- ***Regulatory incumbency and the political economy of reform***: Digital technologies enable new entrants, challenging incumbents and existing business models. Reviewing existing policies and regulations is important to ensure they facilitate innovation and structural change in the economy.

- ***The future of productivity growth:*** The current wave of digital technologies is not yet being mirrored in strong and sustained productivity growth. Understanding why this is the case, and ensuring that digitalisation does result in sustained productivity is an important challenge.

- ***Addressing social and environmental challenges***: The increasing application of digital technologies creates new opportunities to address global challenges, including in how policies can be designed to address these challenges.

- ***Public sector digitalisation:*** A data-driven public sector can improve the design and delivery of public services, help improve policies and regulations, enhance accountability and transparency, and create more equitable relationships between governments and citizens.

- ***Measurement, evidence and evaluation***: Designing better policies for the digital economy and society will require improved measurement, including on the spread of digital technologies themselves. Digitalisation also raises challenges for the measurement of growth and productivity.

Governance Arrangements

The leading committee will be the Committee on Digital Economy Policy (CDEP). Participating committees include ELSAC, the EDPC, the Trade Committee, CFA, the Competition Committee, the

Committee on Financial Markets, the Public Governance Committee, and the EPC. Several other Committees and streams of work in the OECD at the sectoral level may also be involved in the project, adding insight into the nature of structural change and specific policy implications in areas like health (Health Committee), agriculture (Committee on Agriculture) and transport (International Transport Forum). This broad engagement will help ensure holistic coverage of policy issues and yield more relevant analysis for Member and Partner countries alike. The management arrangements, including the Project Leader and Project Manager, are in the process of being defined.

HP 2: INCLUSIVE GROWTH INITIATIVE

Context

The OECD's *All on Board for Inclusive Growth* Initiative was set up in 2012 in response to the Ministerial mandate for a New Approaches to Economic Challenges (NAEC) initiative to "develop a strategic policy agenda for Inclusive Growth". The initial two-year effort produced a multidimensional approach to assess, promote and monitor inclusive growth, which delivered the OECD Framework for Inclusive Growth, *All on Board: Making Inclusive Growth Happen.*

Over 2015-16, the Initiative pursued work along four main pillars: methodological, sectoral, national and regional. In this context, the multidimensional living standards metric (MDLS) was refined and extended to provide broader geographical coverage; sectoral analysis was carried out in several areas, including innovation, education, finance, governance, regional development, and a regional consultation was conducted in Southeast Asia; a report on *The Productivity-Inclusiveness Nexus* was produced for the MCM 2016; the Group of Ambassadors "Friends of Inclusive Growth" was established; and the Inclusive Growth in Cities Campaign was launched, bringing a coalition of 47 mayors engaged to foster inclusive growth.

Objective and Expected Outcomes

Building on the strong foundations put in place in 2015-16, the project will design a broad multidisciplinary policy agenda that ensures a more inclusive approach to output and productivity growth that puts people's well-being at the centre of the policy agenda. As part of a broader multidisciplinary agenda, the project will build upon the 2016 MCM discussions and mandates, and the Secretary-General's *Strategic Orientations*.

Work to measure inclusive growth, improve measurement tools, and identify policy determinants will continue, along with analysis of income inequality, social inclusion and mobility, including work on inter-generational social mobility and the evolution of the middle class. The project will seek to further mainstream and embed inclusive growth in sectoral work, and to increase its relevance, impact and dissemination through national case studies, regional consultations, and other stakeholder consultations and engagement. In line with the discussions programme of the Group of Friends of Inclusive Growth, work will be undertaken to incorporate the mayor and business perspectives.

Building on a request by Ministers at the MCM 2016 to deepen understanding of the *Inclusiveness-Productivity Nexus*, the project will explore the link between productivity and inclusiveness. This will include analysis to improve understanding of the micro- and macro-economic underpinnings of aggregate productivity growth, and identify possible connections with firm-level productivity, the allocation of resources, and social income and regional inequalities. This work will also identify policies conducive to enhancing productivity for inclusive growth.

To further the work on the link between productivity and inclusiveness, work will also be undertaken to identify key obstacles to the diffusion of innovation among firms, rent seeking behaviour and its implications for competition policies, and the role of the financial sector in contributing to the misallocation of capital and productivity dispersion among firms through barriers to entry and exit. Benchmarking of policies for stronger SME performance will be another key component. Analysis will be undertaken on the contribution of skills and education to improved productivity and inclusiveness, including on the Future of Work, building more resilient and inclusive labour markets (including for youth and immigrants), and engaging employers in skills development. Analysis will also explore the impact of the digitalisation of the economy on skills and jobs, as well as on productivity. The regional perspective ─

including analysis for effective ways to improve productivity for inclusive growth at the regional and local levels, and measuring income segregation in urban areas ─ will be considered.

Given that children are particularly disadvantaged by inequalities of income, wealth, and opportunity, it is necessary to put this work at a more strategic level. A more comprehensive approach to child well-being will be established, including an in-depth assessment of children’s quality of life, and the development of a roadmap of priority issues and actions to be addressed across policy domains. This work will operationalise the concept of child well-being with a global focus, building on the OECD’s longstanding cooperation with other actors in the field, through a broader strategy which leverages existing OECD work across Directorates and develops policy recommendations. This broader strategy will recognise child well-being as not only influencing an individual’s educational, health and employment outcomes later in life, but also representing a long-term investment in broader societal living standards and inclusive economic growth. Further work will strengthen the existing evidence base, and thereby contribute to the development of more effective policies to achieve inclusive growth.

Main Activities

Key outputs for this HP include (*contingent on receipt of appropriate financing):

1) Advancing and embedding the analytical and policy work

- ***Sectoral studies*** examining how sectoral policies (e.g. education, finance), settings (e.g. institutions and governance) and pro-growth policies (e.g. innovation) can contribute to inclusive growth.*

- A ***Synthesis Report on*** **“**Policies to Promote Inclusive Growth***”***, with a progress report at MCM 2017 and a final report at MCM 2018.

2) Advocacy, impact and dissemination

- A series of workshops and events with high-level stakeholders from different constituencies to get feedback on OECD work, generate advocacy and help disseminate our approach.

- A network of Champion Mayors for Inclusive Growth, through the development of the Inclusive Growth in Cities Campaign, including an annual event and a global portal platform to facilitate knowledge sharing among cities and the adoption of best practices.*****

- A network of business leaders engaged in the debate on inequalities and inclusive growth, who will provide feedback on OECD work and promote the OECD approach.

3) National and regional work

- A number of ***national and regional case studies*** that will apply the IG framework.*

Governance Arrangements

The main committees overseeing this work are CSSP, ELSAC, EPC, and PGC, with input from other Committees depending on the strand of work. This project will be coordinated by the Inclusive Growth Unit in co-operation with the key select directorates, in line with the current management arrangements of the Inclusive Growth Initiative. In addition, the 2017 and 2018 reports mentioned above will be discussed by the NAEC Group and endorsed by the Council. The informal Inclusive Growth Advisory Group of international experts will also inform discussions on methodological issues and policy recommendations.

HP 3: ENSURING THE EFFECTIVE INTEGRATION OF VULNERABLE MIGRANT GROUPS

Context

In 2015, the number of vulnerable migrants entering Europe hit record levels. Over just a few months, more than one million people came to Europe to seek asylum; 4.8 million Syrians are hosted in neighbouring countries, including 2.7 million in Turkey. These numbers are unprecedentedly high. In the first four months of 2016, more than 182,000 people have crossed the Mediterranean Sea to seek asylum in Europe.

2015 was also marked by a record number of arrivals of unaccompanied minors in Europe. The total number reached 77,000 in the EU and about 85,000 for the OECD. The capacity of asylum and integration systems to deal with these groups effectively has reached its limit in many countries.

Europe has both the capacity and the experience to respond. Yet there are great strains, both on the necessary infrastructure and on public opinion where the strong concentration of asylum seekers in a handful of entry points and destination countries is fuelling anxiety. Welcoming and integration systems are under strong pressure. Key building blocks of the migration and asylum framework in OECD countries are challenged, and mutual trust between countries is questioned.

Objectives and Expected Outcomes

The project will further develop a whole-of-organisation approach to cover the multifaceted policy interventions needed to support vulnerable migrants. The OECD is uniquely placed to approach such cross-cutting challenges in a coherent manner by drawing upon its multidisciplinary policy expertise. The primary objective will be to identify good practices in dealing with the current crisis, including how OECD countries can support origin and transit countries to reduce the scale of flows; how to promote resettlement programmes and the use of alternative pathways to at least reduce illegal flows; how best to organise support systems for asylum seekers; how to foster the integration of vulnerable migrants; and how to ensure that refugee children receive the support they need to integrate into the education system and become contributing members of society. The outcome of the work will be to learn lessons on how OECD countries can strengthen their systems to provide effective immediate support to vulnerable migrants and foster the integration of those who are going to stay in the host country. Moreover, the platform will allow countries to learn lessons for the future so that if and when future asylum crises hit, a comprehensive, evidence-based and coherent set of policies is available for implementation.

Four main themes will be covered, building on existing OECD work: fostering the integration of vulnerable migrants in the labour market, education system and society; anticipating possible future developments and fighting human smuggling; monitoring the evolution and assessing the medium- and long-term economic impact of the migration crisis; and improving the economic and social situation of refugees in countries of first asylum.

Main Activities

The project will develop a platform for dialogue framed around a series of meetings, policy dialogues, and formal conferences around the main policy issues of the migration crisis. A series of policy notes and reports will be prepared on the different issues to support policy dialogue among countries and to ensure timely policy advice. These policy notes and reports will be coordinated across the different Directorates, and will become the central international repository of up-to-date policy experience on dealing with the humanitarian crisis. In some areas there is a possibility to develop other products of use to countries, such as helping them identify good practices in proving on-line support to vulnerable migrants about services available to assist in their integration, and to assess their skills.

Governance Arrangements

The project will be led and managed by ELS in coordination with STD, GOV, LEED, EDU, DCD/DEV, and ECO.

The platform ─ supported by the existing Bodies of the OECD, including WPM, ELSAC, EDPC, LEED, RDPC ─ will also serve as a forum where countries at the national and sub-national level can share good practices and views on preparedness across all the different areas affected by the humanitarian migration crises.

Given the number of Committees of relevance to ensuring the effective integration of vulnerable migrants and to ensure the effective co-ordination of the project, a Management Board, consisting of the Directors of the participating Directorates will be established. Each Directorate will also indicate a contact point for the work and regular meetings will be held with the contact points and the management board to co-ordinate work in different parts of the organisation and ensure coherence and effectiveness of the support to countries. The management arrangements, including the Project Leader and Project Manager, are in the process of being defined.