STI Committees are invited, when they prepare their submissions, to take into account the guidance from the OECD Secretary-General on the preparations for the OECD Programme of Work and Budget 2015-2016, as well as the Ambassadors’ Convergence Paper.

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GUIDANCE FROM THE SECRETARY-GENERAL TO DIRECTORS AND HEADS OF PROGRAMMES CONCERNING PREPARATIONS FOR THE PWB 2015-16

Introduction

This note provides guidance on the preparations for the OECD’s Programme of Work and Budget (PWB) for 2015-16.

I. The Policy Environment

1. In my input to the aforementioned HOD’s discussion, I described the Policy Environment for 2015-16 in the following terms:

“In the aftermath of the worst economic and financial crisis of our lifetime, governments and citizens are still struggling with its legacies: slow growth, high unemployment, heightened inequalities, high levels of public debt, loss of public trust, and persisting risks in the financial sector. The downturn eroded people’s confidence in their governments’ ability to meet their needs and demands, but at the same time increased pressure on those governments to deliver. The crisis underlined the need for greater international cooperation in addressing global challenges, whether in dealing with financial risks, development issues, or climate change. However, effective international cooperation still needs to materialize. Recently, there was progress in the multilateral trade agenda, but these achievements have yet to be implemented and additional measures are needed to rollback protectionist policies. The same holds for other sectors where countries could benefit from closer policy coordination. Overall, the international community is more than ever in need of evidence based policy advice that is timely, sound, and well-targeted, and the OECD can fill that need.

Despite signs that the economic recovery is strengthening, the ‘four cylinders’ of the world’s growth engine (Investment, trade, credit, and economic activity in emerging market economies) are still working at half speed. The recovery remains weak, uneven and fragile. Demographic, technological and environmental trends also continue to shape the broader context for policymaking. It is against this background of constrained policy choices that governments must deal with the legacies of the crisis in the years to come.”

2. The OECD will continue to strive to be at the forefront of efforts to address these challenges. Thus, “going structural, social, green, institutional, and national” will remain the pillars of our policy analysis and advice over the next biennium. We will leverage the results of the New Approaches to Economic Challenges (NAEC) project, maintain the innovative approach to the analysis of emerging policy issues that NAEC is fostering, and continue to identify cutting-edge issues that will fit into this approach to generate effective policy solutions. We need to enrich our quantitative analysis with different disciplines and new tools—like behavioural economics or complexity theory.

II. Work Programme Priorities for 2015-16

3. The priorities for the OECD’s PWB for 2015-16 reflect the convergence of views of Members with the OECD’s current and recent outputs and their broad agreement with the Secretariat’s views on
where and how the OECD can contribute most effectively to members’ policy concerns in a challenging policy environment. The development of priorities is the result of an on-going process, building on:

- My Strategic Orientations for 2013 and beyond [C/MIN(2013)1];
- The Heads of Delegation’s Convergence Paper for the PWB 2015-16 (attached).
- My Preliminary Views for the PWB 2015-16 which served as input to the HODs meeting, and was developed following my conversations with leaders, senior government officials, Ambassadors, and other stakeholders, and which will evolve over the coming weeks into my Strategic Orientations paper for the 2014 Ministerial meeting; and
- The results of the Medium-term Orientations (MTO) Survey for 2015-16 which confirmed the high level of satisfaction of Members with the allocation of Budget resources across the PWB1;

4. The relative priorities for the Organisation in 2015-16, based on the different inputs identified above, and on Members’ expectations about the Organisation’s capacity to make meaningful contributions in a broad range of policy areas, are set out below. These efforts build on work that started as horizontal projects (e.g. gender, skills, green growth, innovation) and which the Organisation continues to deliver for the benefit of Member and Partner countries.

i. **Policy analysis and advice to strengthen resilient economic performance and to help ensure inclusive growth:**

- To build a solid path for structural reforms to deliver resilient and inclusive economic growth and well-being, I expect you to leverage the results of the New Approaches to Economic Challenges (NAEC) project and to mainstream and apply these into the work of your Committees. We will need to deepen our understanding and explore the role of counter-cyclical policies in strengthening macroeconomic stability and identify the trade-offs between growth, equity and trust. NAEC has evolved into an organizing concept that can help us identify the most innovative, forward-looking and relevant issues across the work of Committees, and facilitate the mainstreaming of new knowledge. Thus, we should carry on updating our analytical framework, looking at new approaches in policy analysis and systemic developments and exploring ways to better respond to the multi-dimensional and inter-linked nature of the policy challenges faced by our Members and put emphasis in outcomes.

- We will develop an inclusive growth agenda to foster sustainable and more equitable growth, pioneering an innovative multidimensional approach that combines strong growth with a better distribution of income and non-income outcomes. The approach will be policy actionable and focus on progress made across dimensions that matter for people’s well-being, while also looking at the distributional element of growth. The goal will be to enhance policy makers’ understanding of the adverse effects of rising inequality, turning inclusiveness into a driver of economic performance. The initiative and the associated policy tools will also serve to steer the future work of the OECD.

- We will explore policies that generate more and better rewarded jobs and address the needs of the most vulnerable members of society: efforts should centre on training, skills, labour and product market reforms, as well as on complementary policies that promote a competitive environment that favours inclusiveness. This should take into account the impact of long-term demographic

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1 See C(2013)161.
changes, notably in health, pensions and fiscal policies. We will continue to promote labour
target activation strategies to reduce unemployment, especially among young people, through
our *Action Plan for Youth*.

- The search for New Sources of Growth is essential. We should build on the second phase of the
  Knowledge Based Capital (KBC) project; intensify our work around innovation, science and
technology, and the digital economy; and look at how these trends influence employment,
production and productivity patterns.

- In the area of education, we need to leverage further our work on skills building on the OECD’s
tools (PISA and PIAAC) to advance an education agenda that also includes policies that promote
ethical values and foster the development of “soft skills” that generate greater self-confidence,
team work and solidarity.

- We will deepen our understanding of the risks of climate change and how to mitigate and manage
them, by building on the synergies between the environment, Green Growth, energy and other
related areas of OECD work. This will allow us to offer Members solid advice on how to develop
a mix of policy instruments to support a long-term pathway for tackling climate change, in line
with the goal of limiting global warming to 2°C. This will include measures to support the
transition towards low-carbon economies, accelerate technological change and address the
distributional consequences of the needed economic transformation. This work will inform
climate change discussions leading to the COP21 (Paris).

- In the post-Busan context, and based on the Development Strategy outcomes, we will continue to
support the international development agenda and mainstream development across all our work,
focusing on multidimensional country reviews (MDCRs) to build cooperation programs with
developing economies, promoting greater policy coherence for development and inclusive
knowledge sharing, and enhancing our contribution to the global development architecture.

- Our work on resilience will also focus on the risk of poverty and inequality in old age and the
challenges faced by ageing societies. We will explore how the challenges of nutrition and health,
food safety and food chain waste can impact the development of food policies and business
strategies. We will also work with governments to implement comprehensive risk management
and mitigation systems, including developing solutions at the level of cities as hubs in global
trade and innovation networks.

**ii. Restoring trust in public and private institutions:**

- We should support the efforts of national and subnational governments to build more effective,
transparent and open institutions to help restore public trust, enhance the fairness of
policymaking, address the weaknesses of government institutions, and identify innovative
policies and instruments to reinforce the relationship between governments and citizens. We will
also work with governments to upgrade their regulatory and budgetary capacities, and strengthen
the resilience of the related public institutions.

- We will offer guidance to improve not only policy formulation but also its implementation,
closing any gaps in this domain. This will include data gathering activities and the development
of new rules, particularly in policy areas where trust is critical to implementation (i.e. regulation,
tax, public budgeting, justice, education, health, etc.).
• We will launch a more comprehensive effort to promote integrity and anti-corruption measures, starting by delivering on our existing commitments with respect to the Anti-Bribery Convention and giving greater impetus to our work on public sector and business integrity, public procurement, conflict of interests, lobbying, whistle-blower protection, and the criminalization of bribery. Through our CleanGovBiz initiative we will reach out to other stakeholders working on anticorruption issues and further develop our integrity scan toolkit. We should assess our anti-corruption instruments, and explore launching a full-fledged strategy to support our Member and Partner countries deal with corruption.

• We will also support Member countries in strengthening the rule of law and good governance by focusing on the contribution of justice institutions to public policy performance, as well as their role and functionality in contract enforcement and dispute settlement mechanisms. We will also look at the different modalities of financing our democratic institutions and how procedures affect good governance and the policy outcomes. We will take a hard look at the efficiency of the public sector, and its capacity to deliver on the provision of quality services on health, education and others.

• As the OECD increases the impact, relevance, and timelines of its policy advice, I would expect that committees factor in immediate policy needs into their work programs, as well as any additional work required to disseminate best practices and help Member and Partner countries undertake further reforms.

iii. *Enhance OECD relevance and impact, and strengthen our role as a global standard-setter:*

• We must continue increasing our relevance to the global economy and strengthen our role as an international standard-setter. We will leverage this work and our policy analysis in a broad range of areas to contribute to the G8, the G20 and other international cooperation efforts.

• We need to understand better the workings of the international economy, its complexity and interconnectedness. This includes the work on GVC (global value chains) and our analysis of the multilateral trading system, as well as exploring the relationships between value-added, investment (domestic and international), development, innovation and jobs. We will assess investment instruments and promote a better understanding of the economics of investment flows and impact.

• We will build a forward-looking agenda on trade, analysing the shift from tariff removal to behind-the-border non-tariff barriers, and by encouraging greater international cooperation in regulation and competition issues to reduce costs and foster a global level playing field. We will also promote trade and investment through complementary policies and examine scenarios for further services sector reform.

• The international investment environment is undergoing a fundamental change. We have to ensure competitive neutrality whenever state-owned enterprises are involved and analyse how responsible business conduct and corporate governance can achieve a better balance between the rights of investors and the expectations of the societies in which they operate. We will also expand our knowledge about the economics of cross-border investment and the development of disciplines emerging from trade and investment agreements, including shedding light on investor-state dispute settlement systems, constructing new statistics for identifying FDI flows, develop a better understanding of the constrains for long-term investment and how to remove them, and promoting policy frameworks for investment, including green investment.
Finally, in the next biennium, we will see increasing interest in tax policy and tax administration issues as governments face difficult budgetary choices. Our tax work should focus on understanding better the distributional impact of taxation, providing better targeted tax policy advice, completing the Base Erosion and Profit Shifting (BEPS) Action Plan, delivering the Automatic Exchange of Information (AEOI) framework, and developing effective beneficial ownership rules to combat tax evasion. We will also explore the link between tax, trade and investment agreements, and help strengthen international co-operation in fighting tax crimes and other illegal activities.

iv. Increase global relevance and impact, in particular through outreach with Partners and cooperation with key international fora:

Our Members have reaffirmed the importance they attach to relations with partner countries. We should thus increase our efforts to engage in a high level policy dialogue and more effectively integrate our Key Partners into our work. Of particular relevance will be our work with China, further to the release of their new growth path, which offers an opportunity to enhance our cooperation and analysis in support of China’s efforts to build a more inclusive society. We will also strengthen our existing regional programs and initiatives (Eurasia, Latina America, MENA, Africa, South East Europe, Sub-Saharan Africa), with a special focus on the Southeast Asia Regional Programme.

5. We will continue to develop and disseminate tailored policy advice at the highest political level and redouble efforts to bring greater visibility and impact to such analysis and policy advice, building on the success of our Leader’s Programme and through our Better Policy Series publications. We are looking beyond our current strengths in baseline scenarios (exploratory scenarios) to multidimensional transition management and developing skills in integrated and collaborative foresight to strengthen the OECD’s capacity to anticipate, inform and transform the global policy agenda. We will also explore ways to bring together our collective knowledge by launching a virtual ‘OECD Institute’ portal. I expect that all Directorates and Committees will benefit and participate in these activities.

6. Throughout the above, our overarching goal is to continue to increase the relevance and impact of OECD outputs. We have achieved very good results in this regard, as evidenced by the most recent Programme Implementation Report (PIR) Survey results for 2011-12. This was also confirmed by the increased interest by Leaders in the work we do and by the growing number of request from Member and Partner countries for support in the design of their policy reforms. While this offers grounds for satisfaction, it is essential that for the coming biennium Committees redouble their efforts to identify outputs that are most likely to influence policy discussions and decisions.

7. I wish to emphasise the following points concerning the translation of these priorities into your preliminary PWB submissions. You are asked to bring these considerations to the attention of Committees so they can be taken into account during the priority-setting and budget discussions:

- The importance of making adequate provision in the choice and scope of outputs to respond to overall priorities.
- The continued emphasis on working across policy areas, capitalising on the Organisation’s unique ability to address complex and interlinked policy challenges; as well as the need to consolidate the horizontal approach we are increasingly called to deliver in our programme of work.
• The need to ensure that the costing of outputs allows for both the effective follow-up on our overall priorities and the related communication work—developed hand-in-hand with the production of substance—as well as for requests for support material (briefings, papers, speeches) that are fundamental to enhancing their impact and must be considered, therefore, part of the cost of producing the outputs.

• The need to provide tailor-made policy advice and specific policy products. This is an indispensable part of our work. We need to be able to respond to the immediate very targeted requests of our Member and Partner countries, as well as requests to further support the international governance architecture.

• The need to advance Global Relations strategies in each Committee.

III. Resources Assumptions

8. The PWB 2015-16 for Part I will be prepared on the basis of Zero Real Growth (ZRG), in accordance with the 2008 MCM decision on financing reform. Members’ continued support for the financing agreement is an important confirmation of their satisfaction with the performance and outputs of the Organisation, notwithstanding the challenging budgetary constraints facing many of them.

9. For Part II programmes, the situation varies. Some continue to be affected by discussions on financing or pressures to remain under Zero Nominal Growth (ZNG). For others, the general starting assumption should be Zero Real Growth as for Part I.

10. In terms of individual resource allocations, the starting assumption for each Output Group in Part I is the same budget base as 2014: each area will need to adapt its outputs, and their financing, in addressing the priorities set out above. This has been achieved in recent bienniums, and there is no reason to assume that this should not be the case for the coming one. As noted above, Committees will need to give adequate space in their PWB submissions to these overarching priorities. In addition, the Central Priorities Fund (CPF)\(^2\), which represents 5% of the Part I substantive budget, also provides flexibility, within limits, to meet priorities in 2015-16.

11. It should be stressed that these are the starting assumptions. There may be a need to adjust some allocations in light of overall budget pressures that emerge as we proceed through the PWB preparations, including through Long-term Reallocations (LTR).

12. We intend to continue with management improvements in the coming biennium. Our Members look to the OECD to continue to demonstrate convincingly that we are making the most of the resources they provide. In presenting my proposals for the 2013-14 Programme of Work and Budget, I stressed our commitment to enhancing value for money and to reinforce efficiency consciousness across the Organisation, building on actions already in place. These efforts have resulted in the Secretary General’s Value For Money (V4M) initiative, which involves a comprehensive stock-take of costs and processes, and aims to identify potential efficiency gains as well as to encourage innovative ideas and promote the sharing of good practices. The findings of this initiative will be applied in PWB preparations in the form of “Value For Money” plans prepared by each area. Guidance on how to prepare and present V4M plans will be provided by EXD/PBF.

\(^2\) A revolving fund allocated each biennium to new and emerging priorities that are expected to be delivered within the biennium.
13. As usual, management improvements will need to be met within available resources. This places additional strain on the corporate areas, which will maintain their yearly contribution of 1.2 MEUR to the Capital Investment Budget and Reserve Fund (CIBRF) from within operating resources and will also be implementing the decision taken by Council in 2011 to make OECD data accessible, open and free by mid-2015 while continuing to develop an effective and sustainable publishing operation (the Delta programme).

14. Finally I would note the importance of voluntary contributions in the PWB. VCs will again represent a significant part of funding of outputs in the next PWB. Voluntary contributions are crucial to our capacity to deliver outputs to all members. I would ask Directors and Committees to be as realistic as possible in making assumptions about anticipated VCs for the next biennium. As was already the case for 2013-14, there will be clear distinctions between those outputs for which reasonable expectations regarding VCs are made, and those which clearly will only be carried out if and when VCs arrive. This is set out in the more detailed guidance to be provided by EXD/PBF.
The Ambassadors’ Convergence Paper serves as an input to the Secretary-General’s guidance for the OECD’s Programme of Work and Budget (PWB) for 2015-16. The Paper is submitted along with the Secretary-General’s PWB guidance to Directorates and Committees, and informs the Secretary-General in the preparation of his Strategic Orientations.

I. POLICY ENVIRONMENT

The 2015-16 PWB discussions will take place against a background of multiple challenges for the global economy. While there are signs of economic recovery, the global outlook remains fragile. The legacies of the crisis persist and the engines for growth - trade, investment, financing and economic activity in emerging market economies - need to gain speed.

Members generally expressed the view that the OECD continues to be highly relevant to its Members, but in order to remain so, and increase its impact, the Organisation needs to continue to strengthen its global reach, also through high visibility and effective communication. At the same time, the OECD must not dilute its standards.

The OECD should focus on areas where it has a relative comparative advantage, disseminate its standards and promote greater international cooperation.

II. PRIORITIES

There is a broad convergence of views on the priorities of the Organisation for the coming biennium, both among Members and with the Secretary-General’s Preliminary Views on the PWB. These converging priorities can be grouped under the following four areas:

1. Policy analysis and advice to strengthen economic performance and inclusive growth

   a. The Organisation is encouraged to continue to develop and disseminate tailored policy advice at the highest political level to promote structural reform agendas, increase productivity, competitiveness and promote growth that focuses on well-being.

   b. NAEC received strong support as an important initiative of the Organisation, which should be leveraged going forward, including by mainstreaming into the work of the Committees.

   This document is the Informal Convergence Paper, as referred to in C(2009)111/REV1. The Convergence Paper was prepared by the Dean of Council, Ambassador Pawel Wojciechowski, Ambassador Marten Kokk (Budget Committee), Ambassador Chris Barrett (Executive Committee) and Ambassador Pascale Andreani (External Relations Committee), in consultation with the Secretary-General. It reflects Members’ views expressed through written statements, and subsequent discussion at the Heads of Delegation (HoDs) session on 10 February, 2014. This Convergence Paper is a first step in the process to prepare the Organization’s PWB for 2015-2016, and reflects Members’ priorities to the largest possible extent, where convergence exists. The Convergence Paper is drafted without prejudice to positions adopted by Members in subsequent stages of the budget discussion process.
c. As the economic situation remains difficult, **inclusive and sustainable economic growth** should continue to be a strategic objective for substantive work. Reducing youth and long-term unemployment and tackling rising inequalities are very important aspects of that work, as well as jobs, education and skills, social cohesion and migration.

d. **Resilience.** The crisis has highlighted the need to review our thinking about resilience and identify how best to prepare our economies and societies to protect and recover from potential future shocks.

e. A search for **new sources of growth**, through projects such as Knowledge Based Capital, Skills Strategy, and education-related initiatives, should continue, and include new issues such as the digital economy. Increased emphasis should be given to the work in education and skills.

f. The Organisation should continue to support the international **development** agenda in the post-Busan context and further mainstream development across all its work to promote greater policy coherence and inclusive knowledge sharing.

g. Further synergies between work on the **environment**, climate change, Green Growth and other related policy areas, including energy, should be encouraged. Going forward, work on developing a low-carbon economy, water and oceans, should be enhanced. The OECD should continue to support climate change discussions leading to the COP21.

h. Other challenges, such as the impact of long-term **demographic** changes for health, pensions and fiscal policies should be further analysed.

2. **Enhance OECD relevance and impact, and strengthen its role as a global standard-setter**

The OECD should continue increasing its relevance to the global economy, including through its work with the G20 and other formats of international cooperation such as G8. Its role as a global standard setter should also be further enhanced. Projects such as Base Erosion and Profit Shifting/Automatic Exchange of Information in Tax Matters, Global Value Chains/Trade in Value Added, as well as work on new standards on investments, corporate governance, Responsible Business Conduct, Internet governance are among the top priorities. The OECD should continue to promote ‘competitive neutrality’, ensure a ‘level playing field’ and foster greater international cooperation and convergence of international regulations.

3. **Increase global relevance and impact, in particular through outreach with Partners and co-operation with other international fora**

The OECD should increase its outreach efforts, working with Key Partners and through targeted regional programs – with a special focus on South-East Asia. Efforts across all other regional programs and initiatives, such as Eurasia, Latin America, and MENA, should also continue.

4. **Continue to enhance the Organisation’s efficiency and effectiveness**

The OECD needs to continue to enhance its efficiency, transparency and effectiveness. The Secretary-General’s initiative on Value for Money is welcomed and Members encourage further efforts and look forward to its results.

III. **Budget Process**

- The PWB process works well in general. The MTO and PIR surveys are useful for prioritisation, but further refinements should be explored.
• **Horizontal projects** should be better monitored, and integrated to the PWB.

• The PWB must be based on realistic expectations of voluntary contributions.

Other PWB process issues, including those above, should be addressed by the **Budget Committee** and through the **Council Working Group on Governance**.