The Centre for International Governance Innovation

WORKING PAPER

International Institutions

# Reform and Modernization of the OECD

JOCELYNE BOURGON

Working Paper No. 42
May 2009



Addressing International Governance Challenges

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## John English

EXECUTIVE DIRECTOR, CIGI

On behalf of The Centre for International Governance Innovation (CIGI), it gives me great pleasure to introduce our working paper series. CIGI was founded in 2002 to provide solutions to some of the world's most pressing governance challenges – strategies which often require inter-institutional cooperation. CIGI strives to find and develop ideas for global change by studying, advising and networking with scholars, practitioners and governments on the character and desired reforms of multilateral governance.

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Thank you for your interest,

John English

## About the Author

The Honourable Jocelyne Bourgon is a distinguished fellow at CIGI and a visiting professor of Public Administration at the University of Waterloo as well as president emeritus of the Canada School of Public Service and special advisor to the Privy Council Office. She was appointed to the rank of deputy minister in 1989 and served in various departments: Transport, the Canadian International Development Agency, Consumer and Corporate Affairs, and the Canadian Center for Management Development.

In 1994, she was appointed clerk of the Privy Council and secretary to the Cabinet. She became the seventeenth clerk and the first woman to hold this position. From 1994 to 1999, she led the Public Service of Canada through some of its most important reforms since the 1940s. In December 1998, she was summoned to the Queen's Privy Council for Canada in recognition of her contribution to her country. From 2003-2007, she served as ambassador to the Organisation for Economic Co-operation and Development (OECD).

## Abstract

Since the early 1990s, the Organisation for Economic Co-operation and Development (OECD) has undergone a series of reforms. It undertook structural reforms, including consolidating organizational structures, introducing “clusters” to address cross-cutting issues, and reviewing its committees. It introduced management system reforms, including a results-based budgeting process. It pursued governance reforms to improve decision making and deal with the issue of enlarging its membership. It undertook reforms for enhancing relations with non-members. It also introduced financial reforms to redistribute the burden among members and place the organization on a sound footing. Some of these reforms were more successful than others, but the experience offers several insights for those leading reforms in other multilateral organizations. The reforms have given the organization greater value to its stakeholders and greater relevance to the world. While its journey towards being a more global player is not yet complete, the organization’s record of implementing a series of successful reforms suggests it can continue to reform in the years ahead.

# 1. Introduction*

Since the early 1990s the Organisation for Economic Co-operation and Development (OECD) has undergone a series of reforms to enhance its relevance and responsiveness to the rapidly changing circumstances of the twenty-first century. The reform agenda was driven by the realization that the issues confronting member countries were increasingly global in scope and required policy dialogue and concerted approaches that reached beyond the current membership.

These reforms transformed the OECD from an organization that largely focussed on improving the domestic policies of member countries to one that increasingly involves non-member countries in addressing transnational challenges brought by an interdependent global economy. As a result, the OECD is better positioned to deal with these challenges, is a more credible organization and has a stronger voice.

The objective of this paper is to review the OECD's achievements in this area and to explore the lessons learned that may be relevant to its ongoing reform effort and those of other international organizations.

This paper is based largely on three sources of information and insight:

- a number of OECD reports, publications and other documents related to various reforms, some of which are publicly available, others which are internal†;

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* The author would like to acknowledge the contribution of David Chatterson and Ashleigh Searle from the OECD in Paris as well as Peter Milley, PhD, Ashley Pereira and Marian Gure from the Canada School of Public Service.

† Access to internal documents was gained through the author's private files and personal network, established during her service as Canadian ambassador to the OECD.

- semi-structured interviews with four senior officials each from the Secretariat and Council, who were closely involved in reform initiatives during the period analyzed in this paper;‡ and
- the personal knowledge of the author who served as the Canadian ambassador to the OECD from 2003 to 2007 and who was intimately involved in some of the reforms discussed.

## 2. What is the OECD?

The OECD is an intergovernmental organization that promotes sustainable economic growth by improving the economic and social policies of its members and partners, and developing global norms to support the smooth functioning of the world economy. The OECD is active in all areas of government policy except culture and defence.

Among the several attributes that set the OECD apart from other international organizations is its limited and selective membership. Candidates must be invited by the Council, undergo a rigorous evaluation process and adhere to OECD instruments. Of its 30 members, 23 are European, three are North American and four are Asian.

The OECD's defining characteristics are its professional Secretariat, based in Paris, its working methods and its committee structure. The Secretariat collects data on a wide variety of public policy areas to report on emerging trends. These reports

‡ Various drafts of this paper were reviewed by some of the interviewees, who confirmed many facts and interpretations, and suggested important revisions, which we have been largely incorporated.

are considered and discussed by experienced governmental policy practitioners in some 150 committees and subcommittees. A significant part of committee work is the peer-review process in which member countries subject their government's policies to review and critique by other members.

The OECD has long been a source of ideas, principles, standards and norms that shape public policies and strengthen the functioning of the global economy. Since its inception, it has provided a venue for policy makers of advanced economies to solve common public policy challenges, thereby making an important contribution to the evolution of global governance. In the 1970s, the OECD mitigated the fallout from the collapse of the Bretton Woods fixed exchange rate system. In the 1990s, it played a central role in assisting the former communist countries of Eastern Europe in their transition to market-oriented economies. It has developed norms and guidelines that have shaped international commercial and economic relations in such areas as trade, investment, competition and the environment.

The governance structure of the OECD is set out in its Convention. The OECD is led and managed by a secretary general who, more through persuasion than vested authority, sets its overall direction. The OECD's Council, comprised of ambassadors from each member country and a representative from the European Commission (EC), functions as a board of governors. The Council is supported by standing committees that focus on management, the budget and external relations.

Most decisions in the substantive committees and in the Council are made by consensus, which is facilitated by the relative homogeneity of members. The fact that recommendations and guidelines are adopted by consensus enhances their credibility and broadens their acceptance. Unlike the World

Bank and the International Monetary Fund (IMF), the OECD does not provide direct financial or technical assistance to its members or partners. Apart from moral suasion and consensual decision making, it has no means to compel compliance. The OECD is a unique international organization that governs through deliberation, persuasion, surveillance, peer review and self-regulation.

The OECD has long been a source of common ideas, principles, standards and norms for governing global economic, social and political activity, making it an important contributor to the evolution of global governance. In spite of this, however, it is arguably the least researched and understood of all the mainstream multilateral economic organizations (Woodward, 2007).

Standards established by the OECD are generally held in high regard (Marcussen, 2004). Many are subsequently adopted as best practice by states, international organizations and the private sector. The OECD's overwhelming reliance on informal mechanisms (moral suasion exerted through surveillance and peer review) to ensure compliance is testament to the importance of its normative role. Countries observe the standards of the OECD not because of the threat of formal sanctions but because of the loss of reputation among their peers that would result from departures from agreed and accepted practice. Even non-member countries frequently voluntarily submit to OECD regulations and obey them as if they were members (Woodward, 2007: 234).

## 3. What Led to Reform?

For the first 30 years of its existence, the OECD's mandate, role and relevance were clear and unambiguous. Throughout the Cold War, it was a key crucible and proponent of market-based capitalist economic policy on behalf of the Western Alliance, a kind of economic equivalent of NATO. Although the Organisation lost its central political imperative with the end of the Cold War, it demonstrated its continued value by guiding the transition of some Eastern European countries from centrally planned economies to market-oriented economies and by building a professional working relationship with post-communist Russia. In the mid-1990s, four Eastern European countries – the Czech Republic, Hungary, Poland and the Slovak Republic – began the accession process and a cooperation agreement was signed with Russia.

During this time, the most important challenge the OECD faced was its declining "economic weight." As China, India, Brazil and other developing countries grew and became more integrated into the global economy, the balance of economic power shifted, with the economics of OECD member countries accounting for a smaller percentage of global GDP over time. The Organisation's declining economic weight threatened its ability to set international norms and guidelines; moreover, in an increasingly interconnected global economy, the policy decisions of the emerging economic players were having a greater impact on member countries, most notably in the areas of investment, intellectual property, energy, environment and development assistance.

Another challenge was the increasing overlap with other international entities, especially the EU/EC. As the European Commission expanded its coverage of domestic policy areas and EU members sought greater policy convergence in preparation for creating and expanding the euro zone, the European OECD members increasingly turned to Brussels for policy advice. This period also saw the growing influence of other sources of policy advice: the World Bank, the International Monetary

Fund, the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation, the G20 Finance Ministers and a wide range of private-sector think tanks.

These circumstances led to declining interest in the OECD by some of its larger members and most important financial contributors. While experts continued to attend the meetings of the substantive committees, by the mid-1990s, these concerns were sufficiently serious that the annual Ministerial Meeting in 1995 requested that the OECD "accelerate the process of change with a view to further enhancing the relevance, efficiency and effectiveness of the Organisation" (OECD, 1995). That same year, the newly appointed secretary general, Donald Johnston, was asked to reduce expenditures by 10 percent over three years. These financial pressures continued for a decade during which assessed contributions by members declined by 20 percent in real terms. Taken together, these pressures gave the OECD a strong incentive to reassess its purpose and priorities; streamline and modernize its practices; demonstrate value for money; and identify and achieve a role that would allow it to regain its previous stature, influence and credibility as an international agent of multilateral cooperation.

## 4. What Reforms Did the OECD Make?

Under Donald Johnston's leadership, the OECD initiated an ambitious reform agenda designed to modernize and reposition the Organisation (OECD, 1997). The initial focus was the internal workings of the OECD, including streamlining the committee system, financial and budgetary reforms, and placing a greater focus on results (OECD, 2003a). These reforms resulted in member countries becoming more involved in setting priorities and allocating resources, and more modern management practices such as results-based management systems and significant reductions in expenditures.

These reforms, however, did not address the fundamental issue of the OECD's ongoing relevance to its member countries in the context of the global economy; thus, a second cycle of reform was launched, focussing on the need to open up the organization and to work more closely with a broad diversity of non-member countries.

## Structural Reforms

The process began with reforms designed to improve the efficiency, effectiveness and accountability of the organizational structure. This included changes to the structure of the Secretariat to consolidate various activities, the creation of "clusters" to encourage multidisciplinary work on cross-cutting issues, and a review of the policy committees to reduce their number.

*Organizational Structure: Consolidation*

In 1996, Mr. Johnston regrouped all support services under a new Executive Directorate to improve services and reduce costs. In 1997, he created the Centre for Co-operation with Non-Members to achieve greater coherence and better coordination of rapidly expanding relations with non-member countries, regional organizations and other international organizations. He also established the Directorate for Public Affairs and Communications in 1997 to raise the OECD's visibility and enhance its engagement with civil societies.

By 2003, operating costs were reduced 20 percent by simplifying internal management and administrative processes, improving the efficiency of support services and outsourcing some functions (OECD, 2003b: 5). These efficiencies and savings, however, were more a consequence of reduced budgets than organizational realignment.

One rule of thumb to evaluate the success of structural reforms is whether the new structures transcend a change in leadership. All three directorates remain in place today, even after a change of secretary general. This indicates that the reforms proved to be generally beneficial and have contributed to the Organisation's overall performance.

Based on the interviews conducted for this paper, while structural reforms played a useful role, they had less impact than some other reform initiatives. This is not surprising. Most structural reforms are labour-intensive, take time, create resistance and often produce tactical behaviour that drains organizational energy. Many member countries learned this lesson during the same period. That said, in the case of the OECD, structural reforms served to build momentum towards further reform. They also demonstrated that reforming multilateral organizations is possible, albeit modestly, and that reforms are necessary to sustain the support of member countries and ensure a well-functioning multilateral system.

*The Creation of Clusters: Addressing Cross-Cutting Issues*

Most complex public policy issues today cut across bureaucratic boundaries; policy solutions involve a mix of instruments that extend across several ministries. At the same time, the nature of bureaucratic organizations does not naturally lend itself to high levels of cooperation and coordination. This is true at the national and international levels.

To address this challenge, the OECD introduced the concept of "clusters." This reform was shepherded by a group of ambassadors led by Ambassador S. Hurtubise of Canada. The group concluded that all OECD committees and subsidiary bodies should be assembled around six strategic objectives or clusters:

1. Promoting sustainable economic growth, financial stability and structural adjustment;
2. Providing employment opportunities for all, improving human capital and social cohesion and promoting a sustainable environment;
3. Contributing to shaping globalization that benefits all through the expansion of trade and investment;
4. Enhancing public- and private-sector governance;
5. Contributing to the development of non-member economies; and
6. Providing effective and efficient corporate management.

Clusters were intended to facilitate cooperation between units in complementary areas of work and to encourage an interdisciplinary approach. The concept was also reflected in the Secretariat's management structure as each cluster fell under the general direction of one of the four deputy secretary generals.

While clusters did provide some improvements, policy issues did not align neatly with the clusters and clustering directorates did not noticeably improve the Organisation's ability to address cross-cutting issues. The lesson learned is that while structural reforms may help to reconcile conflicting objectives, by themselves they are insufficient to address cross-cutting issues.

The most important change is to create a culture that encourages and rewards teamwork and cooperation between a broad range of units or organizations as needs arise. A number of member countries came to this conclusion during the same period as they experimented with various measures such as a whole-of-government approach to policy work, horizontal management, integrated service delivery or single windows.

## Committee Review: Streamlining and Priority-setting

The OECD extensively reviewed its 172 substantive committees and subcommittees in an attempt to increase the impact and relevance of OECD work on policy making in member countries (OECD, 1998: 15). An external consultant conducted the review and recommended the OECD reduce its bodies by 16 percent, develop evaluation procedures to assess the performance of committees (OECD, 2003c) and introduce a sunset clause on the work of subject committees.

Most committees attract senior policy makers, engage in fruitful debate and provide strong direction to the Secretariat. Others, however, pursue their work beyond its useful life and produce reports of limited interest to the majority of member countries. This tendency is encouraged by the fact that most committee or working group participants are not from ministries that provide the OECD's core funding (OECD, 2001: 8).

All those interviewed for this paper agreed that the committee review was the most costly and least successful reform. In fact, most of the consultant's recommendations were not implemented since it proved impossible to achieve the necessary "consensus" to abolish committees or working groups. Put simply, for some member countries, the cost of keeping a committee alive beyond its useful life was less than the political cost of supporting its abolition in the face of strong external lobby groups.

The other measures proved more successful: new evaluation processes focused the attention of committees to improve their impacts and the sunset clause allowed the Council to probe the ongoing relevance of committees.

The review exercise revealed two important lessons.

- Reforms have a political dimension that must be factored into the design of the reform process.
- The emphasis on *consensus* is generally beneficial to the OECD's policy work because it guarantees broad-based support for implementation, but it can be a serious barrier to efficient management decisions.

Both lessons pushed reformers to reflect on decision-making processes in the OECD and led to further reforms, this time focusing on management systems and governance.

## Management System Reforms

Before reforming its management systems, the OECD lacked effective means to set priorities and evaluate the work of the Secretariat. The financial restraints imposed on the Organisation in the mid-1990s, and that continued over the next decade, led to a series of reforms designed to establish priorities that responded to members' interests and to demonstrate that the Organisation was delivering value for money. Taken together, these reforms resulted in the OECD's Integrated Management Cycle: a biennial framework that allows member countries to identify medium-term priorities, incorporates results-based budgeting and enables the Secretariat's work to be monitored and evaluated.

The centrepiece of the reforms was the implementation of the Program of Work and Budget (PWB), based on systems developed by many member countries over the past decade, that is, results-based budgeting. The PWB created a new framework for planning, budgeting and management that focused on output, results and identifying lower priority work from which resources could be reallocated (OECD, 2004a). Implementation of the PWB for 2003/04 saw an unprecedented shift of resources towards high priority areas, including work on supporting the Doha Round of WTO negotiations, corporate governance, anti-corruption, taxation, steel, shipbuilding and competition (OECD, 2003b: 2).

The Program Implementation Report (PIR) was introduced in 2003 as a companion to the PWB to hold the Secretariat accountable for results. The Secretariat reports on the extent to which intended results have been achieved, and members rate the quality and impact of the Organisation's products (OECD, 2006).

The third element of the PWB was introduced in 2005: the Medium-Term Orientation Survey (MTO), the purpose of which is to identify whole-of-government medium-term priorities across the OECD's entire substantive work program and to guide the secretary general in developing the biennial budget proposal.

As confirmed by the interviews conducted for this paper, the PIR and MTO exhibit a number of weaknesses. In the case of the PIR, the weaknesses are methodological. For the MTO, they are political. The implementation of the PIR and MTO highlighted the difficulty most member countries face in speaking with one voice when it comes to setting the OECD's priorities.

Notwithstanding the drawbacks of the PIR and MTO, all the interviewees described the PWB as the most important and successful internal reform. The PWB modernized the organization, transformed the role of the Council in its oversight of planning and budgeting, and changed the nature of budget discussions within the Secretariat (that is, between the divisions) and between the Secretariat and the Council.

Three factors contributed to the success of the PWB:

- A small number of experts in the Secretariat had prior experience in results-based budgeting in their own countries, and contributed their insight and capabilities to the reform;
- Ambassador Forsythe, chair of the Budget Committee, dedicated much time and energy to championing the reform; and
- a number of ambassadors showed strong support for the reform, most notably the dean (the name given to the longest serving ambassador) from Switzerland and ambassadors from Japan, Canada, New Zealand, the US, and UK.

The PWB serves as an important reminder that successful reforms are frequently initiated by a small group of dedicated people who create a broader circle of supporters over time.

In late 2008, members finalized the 2009/10 PWB. The development of the PWB revealed several shortcomings in the budgeting process and working methods. Members agreed to review and reform these shortcomings in the first half of 2009 in order to further improve their ability to set priorities and to reassign resources from lower to higher priorities.

## Governance Reforms

The OECD's governance structure has seen little change since its inception in 1961. All members strongly support consensus-based decision making – which serves to strengthen the credibility and acceptance of policy decisions and instruments – in the substantive committees. In the Council, the foundation of consensus-based decision making is tempered by the informal recognition that the larger members and most important financial contributors, like the US and Japan, have a stronger voice.

The need to reform the OECD's overall governance, while maintaining consensus-based decision making within committees, became more apparent as the Organisation improved its processes for establishing priorities. The need for greater flexibility in setting priorities led to demands for more effective decision making, demands that grew stronger as the OECD began to consider enlarging its membership in the early part of the millennium decade.

The people interviewed for this paper identified the most significant governance reform in the last decade as the introduction of an alternative voting mechanism – Qualitative Majority Voting (QMV) – that was sought by the larger members. In 2004, the Council agreed to a QMV formula that allows certain decisions to be made if supported by 60 percent of members, unless opposed by three or more members who represent at least 25 percent of the Part I scale of contributions (based on the core funding provided by member countries, which is different from the voluntary contributions members may make in support of specific projects and activities). This was a huge departure from the past practice of consensus.

A Working Party on the Implications of Future Enlargement on OECD Governance was established in 2005 as a result of US insistence on governance reforms before considering the possibility of enlarging the Organisation, as strongly sought by some EU members. The Working Party was given two objectives: to ensure that the Council had time to focus on a strategic direction by removing non-essential issues from its agenda, and to improve responsiveness, flexibility, effectiveness and efficiency by delegating responsibilities and significantly expanding the use of QMV (OECD, 2006: 8).

While the introduction of QMV was greeted with considerable enthusiasm, the results of this effort were mixed. On the one hand, authority for several operational issues was delegated to the three standing committees and the potential application of QMV expanded significantly and led to more thoughtful, effective and efficient consideration and decision making by the professional bureaucrats who serve on them. At the same time, some of the country representatives do not have as much authority and flexibility as their ambassadors, and they end up taking inflexible positions. However, even if QMV is not used extensively, the option of using it is already transforming the culture of the Organisation. Since consensus is no longer guaranteed for some decisions, members take the decision-making processes more seriously. They are encouraged to build early support and search for constructive solutions. The QMV process does not reward unproductive behaviour whereby members veto decisions at the last minute. QMV gave the OECD the power to transform itself.

The combined benefit of the PWB and the QMV increased the focus on results and enhanced the flexibility of management decisions.

One governance challenge that continues to elude the OECD is the role of the Council. Between members, sectoral committees, subsidiary bodies and the Secretariat, it is not always easy for the Council to find its niche. In a results-based management system and with delegation to subsidiary committees, it should focus on the strategic issues of greatest significance for the future. It remains to be seen if it will rise to the challenge or seek comfort in the easier task of micro-managing decisions.

To consolidate progress, further governance reforms will be needed to better clarify the respective roles of the Council, subsidiary committees, the secretary general and the Secretariat to provide strategic guidance and the necessary management flexibility for results-based accountability.

### Reforms for Enhancing Relations with Non-Members

Perhaps the single most important challenge the OECD has faced since the 1990s is to its relations with non-members. At the centre of this challenge is the issue of how the Organisation can sustain its relevance and extend its influence in an increasingly integrated global economy featuring new major players, including China, Russia, India and Brazil and a significantly altered geopolitical context that includes, among other developments, the break-up of the Soviet Union and the expansion of the European Union.

While these economic and political changes emerged in the 1980s, by the 1990s it became clear that the most pressing international issues were global, stretching well beyond the reach and scale of the existing membership. Many changes in the global economy were occurring in areas where the OECD had played a key role, including trade, investment, corporate behaviour and financial relations. In these and other areas, members realized that, unless a much larger proportion of the world economy was represented "around the table," the Organisation would be unable to formulate or influence global policy. Over time, it was feared, the relevance of the Organisation's contribution to the world would decline.

Within this context, the OECD initiated reforms aimed at strengthening its relations with non-member countries. Reform proceeded on two main paths. One focussed on persuading the membership that this engagement was desirable and suggested the way it might be accomplished. The other focussed on encouraging the larger non-member countries to engage.

The debate about how to proceed focussed on expanding membership. Unlike other international organizations, the OECD's Convention is based on a "select" membership. New members are invited to join based on a number of criteria that evolved over time. New members must be prepared to adhere to the Organisation's norms, standards and conventions.

In recent times, "likemindedness" – a term that loosely encompasses common values and principles – has emerged as an important requirement for membership. Among the most likeminded countries with an interest in membership, however, were a number of small economies unlikely to increase the Organisation's global influence. On the other hand, the major developing countries of fast-growing influence were not necessarily likeminded. Some were not interested in pursuing membership at the time, although they sought a closer relationship with the OECD that would allow them to learn from and influence the policy decisions of the most developed countries.

Some of the smaller European members supported extending membership to their neighbours. However, they were concerned that closer relations with non-likeminded major developing countries could make it difficult to achieve policy consensus and may displace work they valued. Large- and middle-size members saw engagement with countries such as China, India and Brazil as essential to the future relevance of the OECD.

The mix of constraints and competing interests made enlarging membership a difficult avenue to pursue, politically and practically, as a core strategy for enhancing overall relations with non-members. Reformers have continuously had to disentangle the debate about membership from discussions about ways of engaging important non-member countries in ways that did not require membership or foreclose this avenue for the future. This would allow the Organisation to pursue discussions towards enlarging membership on a parallel track to other initiatives for enhancing external relations.

At least three important phases can be discerned in the way the OECD broadened and deepened its relationship with non-member countries:

- the launch of Global Forums that opened up dialogue with non-members;
- the greater participation of non-members on substantive policy committees; and
- the approval by the Council of a policy framework on enhanced engagement with non-member countries.

The first two steps provided a practical means for expanding relations without engaging in discussions about membership. They were successful because they were pursued gradually and pragmatically. The third step was a central element of the Organisation's strategic plan (OECD, 2005).

These three steps are discussed in greater detail below. All the insiders interviewed in the context of this paper viewed outreach, enhanced engagement and the opening up of the OECD to the world as the most significant reform since the 1990s.

*Global Forums*

Established in 2001, Global Forums are one of the pillars of the OECD's strategy for global relations with non-members.

The core objective of Global Forums is to address issues that "defy solution in individual countries or regions and where the relevance of OECD work is dependent on or can be enhanced by interaction and policy dialogue with a wide range of relevant actors from various regions of the world"(OECD, 2007a: 4). The function of the Global Forums is to develop stable networks of policy makers in member and non-member countries.

Global Forums cover ten policy areas in which the OECD has a particular expertise: agriculture, competition, development, education, governance, international investment, knowledge economy, taxation and trade, and sustainable development.

Global Forums have no formal role in the decision making process of the Organisation. They are platforms for evidence-based policy exchanges among peers that contribute to the debates and eventually influence the decisions of the substantive committees to which they are linked. The outcomes of the Global Forum meetings are reported to committees that decide whether any follow-up is required. Flexibility, informality and inclusiveness are great assets to the Global Forums. Their broader composition makes them more inclined than committees to "think outside the box," making them ideal vehicles within which to discuss broad principles.

Global Forums provide an alternative venue for systematic engagement with non-members. They promote multidisciplinary and horizontal approaches beyond the scope of any single committee and foster partnerships with other intergovernmental organizations. They are an important recognition that it is possible to bring together those who share a common interest without traditional membership. Global Forums introduced the practice of global knowledge networks management at the OECD before the practice came into vogue in countries.

The secretary general and the Secretariat were the main drivers in introducing these reforms at the OECD. They deserve the credit for initiating the process of opening the OECD to world.

*The Participation of Non-Members in the Work of Committees*

Over time it became clear that more formal arrangements were also needed. The capacity of the sectoral committees to accommodate non-members was limited. There was considerable unfulfilled demand from non-members who had important contributions to make to the work of committees and who were not seeking membership.

In 2004, the Council approved a resolution governing the participation of non-members in the work of OECD bodies. Substantive committees were given guidelines to proactively determine how they should engage with non-member countries. In particular, committees were directed to bring in non-member countries if such a move were to "facilitate appreciably the achievement of the mandate of your committee" (OECD, 2004b: 5), if their contribution would benefit the mandate of the Organisation as a whole, and if their policy orientations would affect the economic growth and welfare of members.

This important step demonstrated that members and non-members could share knowledge; work cooperatively in area of mutual interests; and develop, endorse and enforce common standards. It paved the way to a more ambitious step in the reform process.

*Framework for Relations with Non-Members*

In the absence of an organizational framework for pursuing relations with non-members, activities related to this objective were mostly developed from the "bottom-up." However, in the last ten years, the Council became more interested in the OECD's relations with non-member countries. Success on practical actions, such as the Global Forums and opening up the committees to non-members, encouraged some member countries to engage more broadly and deeply with a wide range of non-members. Indeed, in 2005, the Council approved a framework for the Organisation's relations with non-members, thus institutionalizing its ongoing commitment in this area.

This framework, articulated in relation to the main goals of the OECD, proposed that it could meet these goals by working with non-members in ways such as:

- involving major economic players and significant actors in specific policy fields, taking into account their desire and capacity to cooperate and to benefit from relevant policy dialogue and related activities;
- drawing from experiences beyond OECD membership to anticipate significant new issues relevant to its mission; and
- capturing and disseminating good practices relevant to its mission beyond its membership.

The framework explicitly acknowledges that non-member countries fulfill an important role in enhancing the quality of the Organisation's work and its influence in shaping the international economic order and thus its capacity to fulfill its mandate.

The framework represents an important milestone in that it signals an emerging acceptance of the "variable geometry" of relationships required to transform the OECD from an international to a truly global organization. This change took shape over many years. The leadership of the Secretariat and the secretary general was complemented by the sustained effort of some ambassadors who championed each phase of the process: Italy (F. Olivery) for the proactive role of sectoral committees; Canada (J. Bourgon) for the policy framework; Netherlands (J. Boer) for the parallel tracks for enhancing engagement and membership. And the work continues.

The Organisation learned three important lessons.

- In matters of reform, people make the difference.
- Traditional avenues are not always the most promising for the future: in a global and interdependent world, new approaches and creative ideas are needed.
- Membership is not a panacea: a single mechanism cannot solve all the challenges the OECD faces – and in some cases, it is not even the preferred course of action.

Deep, respectful and fruitful relationships anchored in the mutual understanding of global economic interdependence may prove to be a modern and efficient approach to reducing friction and contributing to the harmonious functioning of the global economy. Disentangling the issues of membership and engagement made it possible for the OECD to open its doors to new members. It is also pursuing the parallel track of enlarging membership. In 2007, the Council agreed to open up membership discussions with Chile, Estonia, Israel, the Russian Federation and Slovenia, and to enhance its engagement with China, Brazil, India, Indonesia and South Africa – countries of global and regional importance (OECD, 2007b: 2).

## Financial Reforms

The OECD is funded by assessed and voluntary contributions from member countries within the framework of the biennial Program of Work and Budget. Through its approval of the budget, the Council authorizes the necessary commitments and makes the necessary appropriations for the Organisation to function and deliver its agreed output. The Council determines the amount of assessed contributions members must pay after taking into account the Organisation's other resources.

All member countries fund the Part I Budget (€170 million in 2008), which accounts for about 50 percent of the overall budget (€350 million in 2008). Their contributions are proportional to the size of their economies with a cap of 24.975 percent. Some Part II programs (approximately €75 million in 2008) include a significant number of non-member participants as well as members. Part II programs are funded according to a scale of contributions or other agreements among the participating countries. The other key budget items are pensions (€88 million in 2008) and publications (€12 million).

Between 1995 and 2005, assessed contributions declined 20 percent in real terms. This was addressed by cost savings, program reductions and increased voluntary contributions by some members to fund work of particular interest to them. By 2005, however, the Organisation again faced severe financial pressure, and the larger members were not prepared to increase their contributions.

A key element of the 2006 decision to pursue enlarging membership and enhanced engagement was the agreement to redistribute the financial burden. While the US covered 25 percent of the budget and Japan about 20 percent, two-thirds of the members contributed less than 2 percent each and one-third less than one percent each. And yet, each was eligible for the same overall benefits of membership, and their participation gave rise to essentially the same level of costs. While agreement was reached in 2007 on which countries would be offered membership or enhanced engagement, the only agreement reached on financing was that new members would contribute at levels that would cover all the cost of their membership (substantially more than current members of similar size).

Smaller members were faced with the prospect of zero nominal growth (and the reduction of programs of particular interest to them), that new members (their neighbours) would pay considerably more than they were required to pay, or with agreeing to a substantial reform. A complication was the concern among some members that a successful reform would inspire similar reforms in other international organizations. A small core of members made considerable (and successful) efforts to demonstrate the need for reform, to address spill-over concerns and to develop a compelling rationale to gain the support of capitals. At the 2008 Ministerial Conference, it was agreed that one-third of the budget would be shared equally (phased in over ten years) and the balance would still be determined by a combination of economic size and wealth. In return, the larger members would support zero real growth in their contributions.

While the result was not ideal in the minds of some, the reform obtained a substantial rebalancing of financial contributions and thereby provided the Organisation with a strong and stable financial foundation until 2019. The lesson here is that even when one can prepare strong arguments, align motivations and link one reform to another, reformers must often compromise.

## 5. Conclusion

Despite a widely held view that international organizations are unable to undertake significant reforms, the OECD has done just that over the past ten years.

- Internal restructuring has streamlined and simplified the Organisation's processes and debureaucratized how the Secretariat and the Council manage and conduct business. This has enabled the Secretariat to launch a continuing series of reforms and provided much-needed efficiency gains and cost savings.
- The introduction of modern management processes for establishing priorities, allocating resources and measuring results was a significant achievement driven by the Organisation's need to demonstrate to its members that it was providing value for money and responding to their political and policy priorities.
- Changes to its governance, and most notably the shift from consensus to Qualified Majority Voting in some areas, altered the decision-making culture of the Organisation, reduced tactical behaviour and encouraged greater dialogue and collaboration in advance of decisions.
- The shift towards global engagement was the most important reform since the early 1990s and represented a significant change in the OECD's role and strategic focus. While this remains a work-in-progress, it reflects the ability of members to overcome tradition and entrenched interests and values to prepare the Organisation for the future.

- Reforming the financial structure and redistributing the burden more equitably across the membership was negotiated and agreed upon among the members themselves, something most international organizations have not been able to achieve.

Part of the OECD's reform agenda was driven by financial restraint and the Organisation's need to demonstrate to its members that it was delivering value for money. The most important part was driven by members' realization that changes in orientation and focus were needed if the OECD was to continue being relevant.

The process of reform offers several insights for those leading reforms in other multilateral organizations.

- Despite claims to the opposite, reforms can be successfully undertaken in multilateral organizations. It requires aligning the motivations of the institution and member governments towards a common goal – but it is possible.
- Clear and present problems such as financial pressures or political indifference or declining influence can be effective catalysts for change.
- A small group of people can initiate reforms in multilateral organizations. At the right time and place and working with clarity of purpose, a core group of champions can, with sustained commitment, build a large coalition of supporters. Each of the major reforms noted above was launched by a small number of individuals who demonstrated initiative, persistence and a clear sense of the problem or opportunity. They had the diplomatic skills necessary to bring others to a similar view.

- Linking and sequencing issues can be an effective means to advance reform. In the examples above, governance reform was a precondition for enhancing global relations, which in turn depended on financial reforms.
- Taking an incremental approach to reform is quite acceptable. Small successes can build momentum. Small changes can alter behaviour and shift organizational culture. The cumulative learning that occurs with each cycle of reform increases the individual and collective capacity to pursue subsequent reforms.

The OECD's reforms have given the multilateral organization greater value to its community of stakeholders and greater relevance to the world. Its record of implementing a series of successful reforms strongly suggests that it can continue to reform itself in the years ahead.

The overall purpose of any reform is to sustain/increase the relevance and impact of the Organisation's work and to achieve results of higher value. In this regard, the OECD's journey towards being a more global player is not yet complete. It will likely need to further disentangle issues related to enlarging membership with select countries from initiatives associated with expanding and enhancing relationships with many nations. It will also probably need to devise ways to manage the increasing diversity of perspectives and interests as it continues to evolve into a global organization. The OECD is also likely to continue modernizing its internal management and governance practices, focussing on results, and implementing the kinds of management and governance practices its members value and expect. It still needs to further refine and clarify the roles of all players and to keep the Council working at a strategic level while the Secretariat takes care of operational matters.

The success of this continuing reform effort will be reflected in the Organisation's influence and impact; by the extent to which it becomes the table where significant economies, member and non-member, meet to discuss, deliberate and develop convergence on policy approaches; and by the willingness of members to financially support the work they want the OECD to do. There is every reason to believe that these outcomes will be realized in ten years time.

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