



**Reply of the Director-General to the
Programme, Financial and Administrative Committee
292nd Session of the Governing Body**

Geneva

17 March 2005

Mr. Philippe Séguin, Chairperson of the Governing Body,
Mr. Marc Blondel, spokesperson for the Workers' group,
Mr. Bokkie Botha, spokesperson for the Employers' group,
Representatives of Government delegations members of the Governing Body,

Dear friends,

Last week we had a guiding discussion on my Programme and Budget proposals for 2006-07. It was the arrival point of a long process of consultation that began almost two years ago, that intensified during and after the November session of the Governing Body last year and leads us to today's meeting.

The discussions and consultations have been invaluable in charting the course of our Organization for the next biennium, within the framework of decent work as a global goal. I believe we can all agree that we have come a long way towards reaching a balanced programme and budget, responding to the needs of our constituents and the aspirations of everyone touched by the world of work.

There was much support for the strategic direction of the proposals I submitted to you, and I would like to thank you for that support.

I gave my response to your general discussion last week. I will now address financial issues.

In the discussions, many of you approved and urged acceptance of my proposal including a real growth of 4.3 per cent in the budget; among them, the Workers' group, African government group and several members from the Americas and Europe. The Employers' group did not appear averse, provided it was well explained. Others asked that the proposals in Part IV be trimmed and prioritized, but supported the idea of real growth where it was fully justified.

Often this support implied a real economic sacrifice on your part and I am touched by your confidence in the value of our Organization's work and your disposition to take on a greater financial burden. Thank you for your commitment.

In the process, a generalized demand by developing countries, supported by many others, to protect the regional budgets was expressed, strong general support was given to decent work for youth, as well as the need to ensure the holding of the Maritime Session of the International Labour Conference.

At the same time, the largest contributors, made clear that their national economic situations did not permit them to support the proposed level of the budget.

They repeatedly called for substantial cuts. But, even in these cases, the comments on the work of our Organization were supportive, and the proposals that were made were directed at protecting and even strengthening our core substantive programmes.

I understand the financial difficulties and I value the positive approach taken and I would like to preserve it to the greatest possible extent.

As you know, savings and increased efficiency has been a constant theme during my time as Director-General. We have consistently moved substantial resources from administrative work to the technical sectors and regions that provide direct services to constituents. This has continued in the proposals I presented to you, with savings in a variety of areas, totalling US\$18.3 million.

I have engaged in intense consultations both with constituents and within the Office to find the appropriate balance between the demand to protect and increase resources for certain activities and the demand for substantial cuts. As you can imagine, this has not been an easy exercise. I hope that you all appreciate the honest effort the Office has made to present to you a workable proposal.

Responding to your priorities

Let me turn first to positive adjustments that respond to major priorities you identified.

The key decision before you is to re-establish the funding for the regions at 100 per cent. I will not elaborate on this point which has been a constant priority on my part. We are again ensuring that, even within a tight budgetary situation, the resources available to service our constituents at the national and regional levels are not affected.

I take note of the breadth of support in your discussions for employment issues and, in particular, youth employment. I therefore propose that the increase for regions of US\$1.9 million of regular budget funds to reach 100 per cent funding be targeted to a programme of tripartite initiatives of decent work for young people. Elaborating the details of this tripartite initiative, including a results-based framework, would lend a very concrete follow-up dimension to the discussion of promoting youth employment at the International Labour Conference this year. Together with reflecting constituents' demands, it would also respond to that key Millennium Development Goal that is squarely within our mandate and will be reviewed by the General Assembly of the United Nations in September.

Another central demand was the need to ensure the funding of the Maritime Session of the Conference. Again, I totally agree. The preparatory work undertaken, although with complex problems yet outstanding, shows the potentially historical meaning of this normative endeavour. The consolidation of maritime Conventions is a path-breaking exercise in both social dialogue and modern approach to standard setting.

I have therefore proposed to you that we include in the regular budget US\$2.4 million in order to hold the Maritime Session of the Conference at a reduced cost. We will continue to seek extra-budgetary resources that would permit the fully funded Conference that this important subject merits, and that would contribute to its follow-up.

There was also strong support for the three proposed InFocus Initiatives on export processing zones, corporate social responsibility and the informal economy. Some of you have queried why there are no resources attached to them.

As is explained in the programme and budget and my own preface, the management of each of the initiatives will be the responsibility of a technical sector – but they will be implemented in an integrated way with the participation of resources of all relevant parts of the ILO, at headquarters and the regions.

This will be organized in the course of this year and become fully operational when this budget is implemented. All this information will be available to you when the Office reports on programme implementation. Let me highlight in particular the importance that the Workers' group has given to our work on export processing zones. Their comments on developing this initiative have been fully taken into account.

Some concern was expressed about the elimination of the *Provisional Record's* coverage of plenary debate at the International Labour Conference. In view of the budgetary situation, I have not restored the entire allocation, but I do propose a digital record of the Conference debates, available both during the session and afterwards on DVD, at a cost of US\$250,000. If this experiment is unsuccessful, we can reconsider the existing system at a later stage.

I would like to point out that two items of our budget have not been reduced despite the pressures: the allocations for regular budget technical cooperation and for the Turin Centre.

Finally, let me say that I see the decent work country programmes as a means for us to continue the dialogue about priorities at the national level. Constituents in each country will be able to influence the actual work done as we implement the programme and budget. We will then report back to you on the strategic use of resources.

Finding savings in a tight budget

I now must come to the difficult issue of how we can reduce the budget level. In making my proposals in this area, I have been guided by many of your ideas for savings, by our exchange on the relative feasibility of them at this stage and your request to prioritize. All of this while protecting and, where possible, enhancing our core capacities to serve our constituents. But, above all, I have tried to respond in a significant way to the request by major funders for “a substantial reduction” of the budget level.

Consequently, I have reduced Part IV of the budget by US\$15.9 million. Only US\$5.8 million remains to cover the most essential elements. It now includes:

- Security at US\$2,670,000. In addition to this, the existing contribution from regional budgets will remain at US\$1.1 million of the DSS (formerly UNSECOORD) costs. This means that the allocation for minimum security standards is fully preserved, although – as I said in my previous response – this is an expanding and unforeseen area of costs.
- Accommodation at US\$600,000. This will permit a full study of our needs both at headquarters and in the field, as well as a number of emergency repairs. The Building Subcommittee is discussing the most appropriate way to find the resources needed.
- Information technology at US\$1,040,000. This will allow us to propose to the new Information and Communications Technology Subcommittee, if you decide to establish it, that we meet the most urgent ongoing expenditure, but it includes no provision to rebuild the Information Technology Systems Fund to finance future needs.

-
- A contribution to the Maritime Session of the International Labour Conference at US\$1.5 million. This funding, together with a redeployment of resources in Part I amounting to US\$900,000, will permit an allocation of US\$2.4 million for a minimum-cost session.
 - A reduction of US\$1.6 million from staff capacity building in units at headquarters.
 - Maintenance of the US\$4.5 million reduction for staff turnover. As a result, budgets for programmes will be adjusted correspondingly as in other years.

I have also made adjustments in Part I of the budget. These are:

- Reservation of US\$400,000 within the budget for the International Labour Conference, corresponding to suspending the Resolutions Committee in 2006, to contribute to the cost of the Maritime Session. Let me emphasize that there is a procedure for emergency resolutions that will be available if needed, and that we can return to this Committee when resources permit. This reserve will not be needed if the Conference can be held at a lower cost or with the support of extra-budgetary resources.
- Reservation of US\$500,000 within the technical meetings reserve, also to contribute to the cost of the Maritime Session.
- A reduction of one Professional position in the budget of the Policy Integration Department.
- A reduction of one Professional position in the budget of the Sectoral Activities Department.
- Elimination of the subsidy to the International School of Geneva of some US\$66,000.

The provision for unforeseen expenditure has been reduced to its 2004-05 level of US\$875,000.

Finally, I have made adjustments to the provision for cost increases.

In essence, I have eliminated or sharply decreased all cost increase provisions which constitute real costs, but do not result from obligations under the Staff Regulations, General Assembly decisions or other contractual or constitutional obligations. In practice, this means that we will absorb cost increases of US\$6.1 million, although we had fully justified them through prudent consideration of inflation and related factors. We will seek efficiency gains in order to deliver the same quantity and quality of services to constituents.

I would like to draw your attention to one particular change in cost increases relating to travel expenditure. I have removed amounts relating to the supplements on daily subsistence allowance paid to high-level officials and meeting delegates. From 1 January 2006, the maximum supplement for senior officials and delegates will be 15 per cent, which is within the limits set by the International Civil Service Commission. The total amount of reductions in cost increases from this measure is some US\$500,000.

Other budgetary considerations

In my original proposals, and in your discussions, there were a number of additional suggestions for savings, adjustments and investments.

You have been informed that we are committed to ensuring that, as soon as IRIS is fully operational and stable in headquarters, we will turn to a progressive field roll-out and savings as the two most urgent priorities. As you know, where more efficient procedures imply reductions in staff positions, it can take time to realize savings. I will work with the Staff Union to minimize impacts on individuals through retraining and redeployment. We will report regularly to the proposed Information and Communications Technology Subcommittee, if you decide to establish it, on the costs, savings and benefits of IRIS.

Several of you felt that substantial savings could result from a comprehensive review of the field structure. As stated in my proposals, I will initiate a review of ILO representation in developed countries with a savings target of US\$1 million for the 2006-07 biennium.

In relation to this review, we will actively examine all options, including alternative financing arrangements with the host country, reducing the size and staffing levels of offices and the possibility of closure of offices. As appropriate, some or all of these savings will be redeployed to improve services within the region where the savings are realized.

A full review, covering all the regions, will take time. I am ready to embark on this process but it can only yield real results if there is a clear consensus in the Governing Body on this need. Also, clear guidance to the Office on the criteria and priorities which you would like to follow will be necessary. Given the complexity of the issues involved and the need for extensive consultation and for consensus on the decisions to be taken, I would welcome your orientation on this matter.

The proposed study on our accommodation needs will provide further independent, professional and detailed information as a basis for further discussions on a maintenance plan and financing options. We will also explore possibilities for financing in the Building Subcommittee.

Another set of strategic issues relates to human resources. As proposed by the External Auditor, we need to invest more in staff development, even if we cannot afford a full allocation next biennium. The November discussion of the full proposals for a revised Human Resources Strategy, including clear targets and indicators for rebalancing the grade structure, will permit us to set a course for the future.

Let me add that I am committed to streamlining management and to ensuring that all vacancies are seen as opportunities to open positions at lower grades. However, we need to strengthen our human resources at a time when we are losing institutional memory and experience at an accelerating rate. We need to set aside resources for incentives and training to support a proper initiative on young professionals. Future savings from regrading should be devoted to these priorities.

There have been several suggestions that savings can be found in meetings, including the Governing Body and the International Labour Conference. Let me first point out that I am proposing adjustments and savings in this area: for example, a less costly solution to the *Provisional Record*, or reallocation of resources to the Maritime Session from the technical meetings reserve. Improvements in the functioning of the Governing Body and the Conference have been part of a long-term dialogue, and you have a paper before the Governing Body this session.

However, these discussions have not led to the identification of savings. The Office is in your hands on this matter. Consultations on regional and sectoral meetings have shown that these are highly valued, and that any proposal for cuts would require an important degree of common understanding.

For many of these issues and others, in particular information and communications technology and building refurbishment, a capital expenditure budget is essential. I am disappointed that we are not able, in such a tight budgetary situation, to begin to build capital investment funding for future needs. I will come back to you on this issue before the next budget debate. Some of you hope that a part of the budget can be found in voluntary contributions.

I very much appreciate the generosity of donors to our extra-budgetary programme. I hope that we can expand this important complement to our action under the regular budget.

At the same time, I am conscious that extra-budgetary resources, for good reasons, are concentrated on direct action with constituents. We are unlikely to receive extra-budgetary resources for investing in the infrastructure that permits the ILO to operate, however essential those investments might be. What I therefore ask is four things:

- First, that donors clearly establish the Decent Work Agenda as part of their development cooperation priorities, with a view to a balanced increase in resources under all four strategic objectives;
- Second, that donors work with us to design projects and programmes that include more of the necessary managerial, technical and administrative resources necessary to project execution;
- Third, in response to the many calls here for strengthened evaluation, that donors provide dedicated resources for programme and project evaluation within their contribution; and
- Fourth, most importantly, that you follow in your support the priorities set by the Governing Body for our programme activities.

A plea for consensus

Let me summarize my proposals.

The regions, the employment and the social dialogue strategic objectives have been reinforced through tripartite initiatives on decent work for youth. The Maritime Session of the International Labour Conference has been funded to reinforce our standard-setting strategic objective. We have added a lower cost response to the question of the *Provisional Record*. Investments have been sharply reduced for accommodation and information technology. Allocations have been modestly reduced in all headquarters departments due to a reduction in resources for staff development. Wherever we are already coping with provisions and requirements, as in the case of staff turnover and a part of security, they have been fully absorbed. We have eliminated or slashed most cost increase provisions not based on statutory or contractual obligations. We have found reductions in travel costs, in the Policy Integration Department and the Sectoral Activities Department. This is in addition to the 24 per cent reduction in travel costs already included in the budget.

The net result of these changes is that my proposals are now US\$23.2 million below the total in GB.292/PFA/8. We have preserved real growth of 1.1 per cent, but only by absorbing US\$6.1 million of cost increases. Cost increases are now at a 6.2 per cent level. The recosted budget proposal now amounts to US\$568.6 million. Document GB.292/PFA/8/1, which has already been distributed, provides financial details of these revised proposals.

Monsieur le Président, dear friends,

These proposals are, for differing reasons, difficult for all of us. I can assure you that it is not easy to find such savings in a budget like ours. I am concerned that we will not invest prudently in our future and that we will respond to even less of the total demand for our services. At the same time, I cannot ignore the difficult economic situation in many of your countries.

I must confess that it is not without a certain level of frustration that I observe so much support for our programmes and such difficulty to find the resources to respond to the increasing demand for our services.

I can well understand those of you who may feel disappointed.

I genuinely hope that each and every member of this Governing Body can support these proposals. They result from an exceptional level of consultation. They offer, I am convinced, a balanced response to the need for consensus in difficult circumstances. They are also, I believe, difficult to compress further.

The way forward is in your hands. This proposal is an honest effort to respond to your conflicting demands. I hope that the spirit that produced such a high level of consensus around our programme activities can express itself now on financial issues by accepting these proposals.

Thank you for your attention.

* * *