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December 5, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Midyear Review of Administrative Expenses in FY 1985 and
Budgetary Outlook for FY 1986 Within the Framework of a
Three-Year Projection of Expenses, FY 1986-1988

The attached memorandum by the Managing Director on the midyear review of expenses in FY 1985 and the budgetary outlook for FY 1986, in the framework of a three-year projection of expenses, has been scheduled for Executive Board discussion on Wednesday, December 12, 1984.

Att: (1)

Other Distribution:
Department Heads

December 4, 1984

TO: Members of the Executive Board

FROM: The Managing Director

SUBJECT: Midyear Review of Administrative Expenses in FY 1985 and
Budgetary Outlook for FY 1986 Within the Framework of a
Three-Year Projection of Expenses, FY 1986-1988

Introduction

1. This statement has been prepared to provide basic information for discussion of the above subjects. In particular, the purpose of the statement is to elicit, for the guidance of management in formulating the administrative budget for the new financial year, Executive Directors' views on future work programs and the closely related matter of resources needed to carry them out.

2. The first part of the statement is a review of administrative expenses during FY 1985. As in the past, it is focused on the ten object of expense categories for which expenses are authorized by the Executive Board. Further background information is included in EBS/84/235 which provides revised estimates of the Fund's income position for the current year. This paper is scheduled for discussion on December 17.

3. The second part of the statement provides a preliminary indication of the budget outlook for FY 1986. This part of the statement reviews highlights of the work program anticipated in the coming year in terms of the standard analysis of the budget according to the eight broad areas of Fund activity. It is followed by an indication of the likely impact of such a work program on the administrative budget in FY 1986. This estimate is expressed in terms of the object of expense analysis so as to facilitate comparison with the first part of the statement dealing with developments in FY 1985. In response to interest expressed by several Executive Directors, this preview of the budget for FY 1986 is discussed, for the first time, within the framework of a tentative three-year projection of expenses, FY 1986-1988.

4. In the next three months, the work program of the departments and their budgetary requirements in the next financial year will be reviewed in the light of the views expressed at the meeting on December 12. The result will be summarized at the beginning of March in a tentative outline of the proposed budget for FY 1986, which will be circulated to Executive Directors for informal consideration and individual comment. The formal budget document will be issued at the end of March for review by the Executive Board on April 12, 1985.

Administrative Expenses in FY 1985

5. Overview. The administrative budget for FY 1985, as approved by the Executive Board on April 25, 1984 (EBM/84/66), amounted to \$224,400,000. On July 17, 1984 (EBM/84/109), a \$4,040,000 supplementary appropriation on account of the 1984 general salary adjustment was approved by the Executive Board, resulting in a revised budget ceiling of \$228,440,000. At this time, it is estimated that expenses for the full year may amount to \$226,400,000 which is \$2,040,000 or 0.9 percent less than the revised budget ceiling. The main factor accounting for the underexpenditure is the delay in starting the renovation work on the Concordia/Bond apartments which house participants in the training programs of the Fund and the World Bank. The delay has come about because preparation of working drawings and detailed estimates by the architect has taken longer than expected. The revised FY 1985 estimate takes account of a number of new developments, including the start-up costs of the Fund study on the statistical discrepancy in global external current account balances, which was approved by the Executive Board on August 1, 1984 (EBM/84/119). On the other hand, it should be noted that the revised FY 1985 estimate does not include \$1,630,000 which the Executive Board approved at EBM/84/109 on July 17, 1984 as a contingent liability to be set aside for adjustments to salaries in connection with the career streams study; nor does it take account of a proposal which is to be made to the Executive Board, as noted at the Executive Board discussion of the Administrative Budget on April 25, 1984 to purchase an IBM compatible mainframe computer, to hire additional staff to supervise its operation, and to upgrade, expand, and relocate the computing facility. Discussion of these proposals is scheduled for January, 1985.

6. Salaries. It is now estimated that expenses in this category will be \$100,000 (0.1 percent) less than the amended budget of \$90,950,000. Most of the estimated underexpenditure is on account of the following factors: higher than estimated receivables from the Bank under the Fund-sponsored sharing agreements due to a somewhat greater volume of Fund services provided under these agreements than anticipated; more vacancies than estimated in offices of Executive Directors; and lower than estimated supplementary payments for staff in the Paris and Geneva offices resulting from the continued strength of the U.S. dollar. Partially offsetting the decrease identified above is an addition of \$420,000 to the Salaries category resulting from the net effect of (i) charging \$720,000 to Salaries instead of to the Data Processing category because temporary contractual staff have been employed instead of the services of corporations; and (ii) charging \$300,000 to the Other Personnel Expenses category instead of the Salaries category so as to improve accounting consistency with regard to the cost of annual leave payments to experts terminating employment.

7. Other Personnel Expenses. The revised estimate for expenses in this category is \$350,000 (0.6 percent) higher than the approved budget of \$59,580,000. One factor contributing to the increase is the inter-category transfer of \$300,000 from the Salaries category to the settlement allowances account mentioned in paragraph 6. Another is higher claims costs and lower contributions income for the Medical Benefits Plan than expected (+\$400,000). Partially offsetting these increases are decreases in the estimated costs of (a) retirement contributions (-\$320,000) associated with a lower salary estimate and savings expected in the cost of parity exchange rate differential payments due to the continued strength of the U.S. dollar; and (b) the Group Life Plan because of good claims experience (-\$130,000).

8. Business Travel. Expenses for business travel are expected to be as budgeted (\$14,450,000). The budget provided for a 2 percent expansion in the volume of staff business travel and an average increase in airfares of about 3 percent. The cost of travel is running at a slightly higher level than anticipated but this is offset by a slightly lower volume of business travel and travel associated with the Annual Meeting.

9. Other Travel. It is expected that expenses in this category will be about as budgeted (\$11,650,000). Expenses for rest and recuperation travel for experts are expected to be less than budgeted but this saving will be offset by an overexpenditure of about the same amount in the miscellaneous travel account due to a higher than estimated volume of travel by consultants.

10. Communications. It is expected that the approved budget for this category (\$6,090,000) will be exceeded by \$880,000 (14.4 percent). The estimated overexpenditure is in the telephone account and arises from (a) a need to improve and expand the central telephone processing unit so that it can better handle the needs of the Fund; (b) a consequent delay in terminating the joint service with the World Bank; and (c) a greater volume of long distance calls than anticipated.

11. Building Occupancy. The midyear review of expenses in this category indicates that the approved budget of \$14,860,000 will be underspent by \$3,120,000 or (21.0 percent). The most important deviation from the original budget is the revised estimate for the renovation of the Concordia/Bond apartment complex. Due to a longer than expected investigation and definition of the scope of work, actual construction is now scheduled to begin not before late March, 1985. Consequently, estimated costs for FY 1985 (including provision for alternative accommodation for participants in Fund and Bank training courses), have been reduced from an original \$3.9 million to \$1.1 million. There are also reduced estimates for headquarters renovation projects, building

maintenance, operations, and utilities. Partially offsetting these reductions is an increase in the estimated costs of rentals on account of extra space at International Square as approved by the Executive Board on June 29, 1984 (EBM/84/102).

12. Books and Printing. It is estimated that the budget for this category (\$1,855,000) will be underspent by \$115,000 or 6.2 percent. Preliminary indications are that expenditures in this category will be less than expected due to higher than projected revenues for Fund publications and a lower than projected production costs. The new estimate makes provision for a first issue of a regular Chinese edition of Finance and Development which is to be published in March, 1985.

13. Supplies and Equipment. Expenditures in this category are now expected to be about \$250,000 (4.6 percent) more than the approved budget of \$5,420,000. This is largely on account of (a) a substantial increase in the usage of office supplies associated with an expanded inventory of automation equipment; (b) higher rental costs for copying machines and other equipment than anticipated; and (c) the cost of refurbishing the private dining rooms which was underestimated in the budget.

14. Data Processing Services. The budget for this category (\$18,620,000) will be reduced to \$17,900,000 due to a transfer of \$720,000 from contractual support services to the Salaries category, as mentioned in paragraph 6. The remaining expenses in aggregate are expected to be as budgeted; however, the delay in establishing an IBM compatible facility will make it necessary to purchase additional time sharing services from the World Bank, the cost of which will approximately equal the savings in operational costs resulting from the delay in acquiring the new computer.

15. Miscellaneous. The revised estimate for expenses in this category is \$535,000 (10.8 percent) more than the approved budget of \$4,965,000. Most of the increase is attributable to higher costs of investment and custody fees for the Staff Retirement Plan (+\$200,000) and studies of staff compensation, job evaluation, and the Staff Retirement Plan (+\$240,000). The increase is also augmented by a reduced estimate of income from interest-bearing salary advances and discounts taken on purchases of supplies and equipment (+\$100,000).

16. A recapitulation of the above estimates is shown in Table 1. This analysis shows that there will be a need to request inter-category transfers of appropriations before the end of the financial year. As has been the practice in past years, such a request will be postponed until February, 1985 when the third quarterly review of expenses will make available more accurate estimates for each category than is now possible.

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Table 1. Midyear Revised Estimate for FY 1985 Compared with the Approved Budget

Object of Expense Category	Approved Budget 1/	Mid-Year Revised Estimate	Estimate compared with Budget	
			Increase + Decrease -	Index Budget=100
(Value figures in thousands of U.S. dollars)				
<u>Personnel Services</u>				
Salaries	90,950	90,850	- 100	99.9
Other personnel expenses	<u>59,580</u>	<u>59,930</u>	<u>+ 350</u>	<u>100.6</u>
Subtotal	150,530	150,780	+ 250	100.2
<u>Travel</u>				
Business travel	14,450	14,450	-	100.0
Other travel	<u>11,650</u>	<u>11,650</u>	<u>-</u>	<u>100.0</u>
Subtotal	26,100	26,100	-	100.0
<u>Other Administrative Expenses</u>				
Communications	6,090	6,970	+ 880	114.4
Building occupancy	14,860	11,740	-3,120	79.0
Books and printing	1,855	1,740	- 115	93.8
Supplies and equipment	5,420	5,670	+ 250	104.6
Data processing services	18,620	17,900	- 720	96.1
Miscellaneous	<u>4,965</u>	<u>5,500</u>	<u>+ 535</u>	<u>110.8</u>
Subtotal	<u>51,810</u>	<u>49,520</u>	<u>-2,290</u>	<u>95.6</u>
Total	<u>228,440</u>	<u>226,400</u>	<u>-2,040</u>	<u>99.1</u>

1/ Including supplementary appropriation of \$4,040,000 for the 1984 general salary adjustment.

Highlights of Work Program FY 1986

17. In discussing the budgetary outlook for FY 1986 it is perhaps useful to make a preliminary review of the highlights of the work program, as it is now envisaged, before making an estimate of costs by object of expense which might be compared with the review of expenditures in FY 1985 given in the preceding section. The following paragraphs discuss the FY 1986 work program in terms of the eight standard programs of activity of the Fund. Table 2 provides indications as to the relative share in budget resources of each of the eight activities.

Table 2. Estimated Distribution of Budget Resources in FY 1985
by Program of Activity

Program of Activity	Percent of Total Costs 1/2/	Percent of Total Man-Years 2/	Percent of Total Weighted Man-Years 2/3/
1. Activities of the Board of Governors	2.4	1.9	1.9
2. Activities of the Executive Board	9.7	10.5	10.9
3. General Policy Development and Research	10.4	11.0	11.5
4. Operations and Relations with Member Countries	33.1	31.3	33.2
5. Special Services to Member Countries	16.5	15.0	17.3
6. Information and Statistical Services	10.0	10.0	9.1
7. Relations with Interna- tional Organizations	1.9	1.8	1.9
8. General Support Services	<u>16.0</u>	<u>18.5</u>	<u>14.2</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

1/ Based on the approved budget, including the supplementary appropriation for the 1984 general salary adjustment.

2/ In addition to regular staff, these numbers include Executive Directors, their Alternates, Advisors and assistants, technical assistance experts, consultants, and temporary staff as shown on page 17 of the administrative budget document for FY 1985.

3/ Man-years weighted according to average salary to reflect the difference between work undertaken at varying staff levels.

Activities of the Board of Governors

18. This program includes the Annual Meeting of the Board of Governors; the meetings of the Interim and Development Committees; and the Executive Secretary of the Development Committee. As the next Annual Meeting will be held in Seoul, there will be a significant increase in cost over FY 1985, mostly because of additional travel expenses for Executive Directors and staff.

Activities of the Executive Board

19. Activities of the Executive Board are expected to continue at a high level, reflecting the large number of policy issues, country items and administrative matters that will require attention in the coming year. Since FY 1986 is not an election year for Executive Directors, settlement allowances and travel expenses are expected to be lower than in FY 1985 which has been an election year.

General Policy Development and Research

20. This program covers the preparation and review of substantive policy and related papers, the World Economic Outlook and other periodic reports, and research studies directed toward improving knowledge in particular areas of Fund interest. In the first part of the year ahead, the work program in the area of general policy development and research is expected to reflect to some extent follow-up activities arising out of the April, 1985 meetings of the Interim and Development Committees, in particular the discussions of a number of specific issues relating to the possibilities for member countries to overcome their present and prospective financing problems and the required adjustment efforts over the medium term.

21. A closely related area of work will be the implementation of more effective and greater international surveillance in response to the mandate received at the last Annual Meeting. In connection with strengthening the Fund's surveillance activities, the expanded scope of the World Economic Outlook (WEO) is likely to continue in the coming year, with special attention to be given to various aspects of policy interdependence among member countries, and to economic policy issues that arise in the medium term.

22. Another concern will be an in-depth examination of the future role of the SDR in the international monetary system, in particular its role in stabilizing the system and in improving the quality of international reserves. Proposals for enhancing the usability of the SDR will receive further attention, and the valuation basket will need to be reviewed in time so that any changes will come into effect on January 1, 1986. The question of an SDR allocation will continue to be kept under close consideration so that the matter could be put on the agenda in the event that the required broad support develops among the participants.

23. On the larger issues relating to systemic improvements in the functioning of the international monetary system, the work undertaken this year by the Fund in support of the work of the G-10 Deputies is expected to be continued, as alternative approaches to improve the system are considered in that and other concerned organizations.

24. Policy issues in connection with the use of Fund resources in the coming year will include reviews of (a) the enlarged access policy and of the access limits that would be applicable under that policy in 1986; (b) stand-by and extended arrangements; (c) the Fund's policy on overdue payments; and (d) the liquidity position and financing needs of the Fund.

25. Other policy and research activities will include: (a) studies on problems of adjustment experienced by developing and industrial countries; (b) analysis of international banking and external debt matters; (c) the analytic framework underlying Fund programs; (d) the global effects of Fund programs and the impact of individual programs on economic growth and income distribution; (e) the Fund's approach to centrally planned economies; and (f) analyses of public expenditures, including a study examining the likely development of social expenditures through the early part of the next century for the G-7 countries. Regional research activities will include a study on the evolution of financial markets in selected Asian countries and a study of various aspects of the adoption of Islamic banking principles in Middle East countries. In support of the work of the Development Committee there will be continued studies, in close consultation with the World Bank, inter alia, on external indebtedness, international capital flows, trade policy issues and protectionism.

Operations and Relations with Member Countries

26. The program of "Operations and Relations with Member Countries" covers country analyses and regular consultations involving surveillance under Article IV, the negotiations of arrangements for the use of Fund resources, as well as actual financial operations and transactions with member countries. This is the largest of the Fund's eight programs of activity, accounting for about one third of the Administrative Budget as is shown in Table 2.

27. In CY 1984 the work load in connection with this program continued at a high level as indicated by the number of missions and trips undertaken by staff. It is estimated that during CY 1984 the use of Fund resources and Article IV consultations will have involved some 245 missions consisting of some 1,268 staff trips, as compared with 241 missions and 1,258 trips in CY 1983. In addition, it is expected that there will have been about 300 staff trips (297 in 1983) in connection with special consultations, participation in aid coordination meetings, debt negotiations and meetings with commercial bank lenders, and other country-related work.

28. Next year, assuming continued recovery of the world economy, there is an expectation that the number of countries making use of Fund resources will not grow significantly beyond the present level. However, a trend towards more frequent review of existing arrangements will probably

continue, as will the growth in the number of missions to help countries in arrears to the Fund devise policies that will permit them to settle their obligations. Furthermore, in cases where countries have multiyear debt rescheduling arrangements but are no longer using Fund resources, the Fund will need to extend its surveillance activities and provide close monitoring of performance. A related activity is a continuing requirement to improve and intensify collaboration with commercial banks and official creditors. In addition, there will have to be a continuing effort to strengthen surveillance in other areas. In the coming year, this may require a greater number of special consultations and other visits, particularly with respect to the large industrial countries. The number of Article IV consultations is expected to be only slightly above the current level. However, the analytic content of consultation reports is expected to increase as greater emphasis is placed upon a number of areas of concern to the Fund, in particular the assessment of the medium-term outlook of external indebtedness, the problem of protectionism; the evolution of exchange rates, and, most recently, the currentness and coverage of statistics provided by member countries. Operational and country work will also be affected somewhat by this year's increase in membership of two countries and the possibility of a few additional countries joining the Fund.

29. The work load in the area of financial transactions and operations with member countries, which largely falls on the Treasurer's Department, is expected to maintain its present level, if not increase somewhat, during the next year. This forecast is made in view of the high volume of repurchases of, and associated repayments under, the Enlarged Access Resources policy, and in the light of the work load related to handling overdue obligations which is expected to expand.

30. The Administrative Budget for FY 1985 provided for 26 posts (one more than in FY 1984) for resident representatives and advisors who assist with the financial programs related to the use of the Fund resources, give advice and assistance to the host countries and provide the Fund with essential information. During the past few months, one additional position has been approved by the Executive Board increasing the ceiling to 27. Preliminary discussions with the departments indicate that in FY 1986 there may be a need for several additional positions.

Special Services to Member Countries

31. The main components in the "Special Services to Member Countries" program, the second largest in terms of resources used, are the provision of technical assistance by experts and staff, mainly in the central banking, fiscal and statistical fields, and the training of member country officials by the IMF Institute.

32. In FY 1986, the demand for central banking experts is expected to rise by about 10 percent from the estimated level of 103 man-years in FY 1985 which in turn is about 12 percent higher than in FY 1984. The greater demand for central banking experts in part reflects the increasing complexity of research functions carried out by central banks and a greater need for banking supervision to respond to a concern for asset quality and maturity transformation in the wake of financial deregulation in member countries. Requests for staff advisory work to help countries develop and apply monetary policy instruments, assess the adequacy of financial institutions, and assist in drafting legislation in the central banking area which involved 14 missions in CY 1984 are likely to remain at least at present levels.

33. In the fiscal field, the demand for technical assistance in the coming year is expected to show a further small increase (in FY 1985, it is estimated that assistance by experts will amount to about 34 man-years, some 8 percent more than in FY 1984, and 13 man-years of staff time, about the same as in FY 1984). Part of this anticipated increase is attributable to a recent development of advanced countries seeking assistance in the fiscal field. In these cases the effort required to assist a country is more than in the traditional program of assistance because of the greater complexity of the economy of the recipient country and because this work is novel for the staff.

34. During CY 1984, staff from the Bureau of Statistics will have visited 59 member countries and 3 regional organizations to assist in various areas of statistical work in the fields of money and banking, balance of payments, government finance, international banking and external debt, and general economic statistics. The efficacy of this program has been enhanced through greater awareness of the problems underlying the data base used in staff reports and by the Fund-wide efforts at data integration. In FY 1986, the program will be kept at about the present level and will be focused on countries needing statistical advice in connection with the implementation of Fund programs. The practice of scheduling back-to-back country visits will be continued.

35. In CY 1985, the IMF Institute program will encompass 12 courses and 2 seminars at headquarters and 4 seminars overseas, as compared with 11 courses and 2 seminars at headquarters and 3 seminars overseas in CY 1984. The additional course is in Arabic, which will be in lieu of the special arrangements for translation and interpretation offered previously in connection with courses in English. Beginning in CY 1986, it is planned to expand training in Arabic from one course to two courses per year. The new Arabic courses begin a fourth track of training in the Institute, i.e. each will be one of four courses being held simultaneously. Creation of a fourth track will mean that in addition to the usual operating costs, including the time of IMF Institute staff, associated

with a course (\$660,000 for 25 participants for an 8 week course in Arabic), there will be a need to provide additional teaching facilities, including a new lecture room (\$500,000). 1/ Also, preparatory work is underway for a new course on Money and Banking Statistics which would be offered for the first time in CY 1986 following the publication of the Draft Guide to Money and Banking Statistics in IFS. It is estimated that the one time development costs of this course over a two-year period will be \$162,000 per year, and the ongoing annual operating costs will be \$725,000. 2/ It is planned to offset most of these costs, for the initial two years, by reducing the frequency of other statistical courses by one per year over this period, including one on Balance of Payments Methodology in CY 1986. As noted earlier in paragraph 11, the renovation of the Concordia/Bond apartment complex which houses participants in IMF Institute courses has been delayed, and, accordingly, most of the funds budgeted for this project in FY 1985 will be needed in FY 1986.

Information and Statistical Services

36. The information and statistical program includes various information services, such as press conferences, press releases, press briefings, speeches, lectures, and seminars; the Fund's publications; and the development, collection, and maintenance of statistics for the Data Fund.

37. In the coming year, the External Relations Department's program of explaining the role and functions of the Fund will emphasize relationships with nonofficial groups that are particularly concerned with the effects of Fund supported adjustment programs. In addition, the IMF Visitors' Center will be opened which will facilitate contacts with the general public. Other public information activities planned include the seminar program which will continue at about the same level as this year, and the release of an audiovisual presentation about the Fund. It is expected that the publications program will again show an increase in sales, in part resulting from a growing list of book titles and improved distribution arrangements. The statistical publications program will include three further Supplements to International Financial Statistics on selected statistical topics.

38. A major aspect of the Bureau of Statistics' work will be continued development of the integrated Economic Information System (EIS), which will replace the present Data Fund System. The EIS will provide direct access for retrieving the Fund's statistical data, which will be reconciled and integrated with the country data maintained by area departments. It is expected that by the end of FY 1986, statistical reporting systems connected with the project on international banking statistics will have been established for most of the 38 countries included in the system. Methodologies and issues relating to the longer-term effort to develop

1/ The new lecture room will be located in unused office space in the headquarters extension. The cost shown is to cover remodeling expenses.

2/ These estimates are for a course in English. There would be additional translation costs involved for non-English courses.

external debt profiles for individual countries, will be studied at another meeting of international compilers of external debt statistics to be hosted by the Fund. It is expected that a few profiles of key debtor countries will be completed during FY 1986.

39. As noted in paragraph 5, the Fund study on the statistical discrepancy in global current account balances will be launched early in CY 1985 and is expected to be completed before the end of CY 1986. The study will be carried out by a technical staff of up to five full-time consultants assisted by staff from the Research Department and the Bureau of Statistics under the direction of a working party of senior officials from member countries, the OECD, EEC, and the Fund.

Relations with International Organizations

40. This program includes representation at meetings of other international organizations, reporting on the work of these organizations, providing assistance on occasion, and exchanging documents and information. An important aspect of this work is close collaboration with the World Bank, including occasional participation of staff of each organization in missions of the other. In FY 1986 Fund-Bank collaboration will be intensified in several areas to assure greater consistency of the policies of the two institutions, especially as they affect countries having severe adjustment problems. Also, work related to coordinating debt reschedulings will continue to require a great amount of cooperation with the Paris Club. Protectionism in world trade and other matters relating to the GATT will continue to receive intensive attention. Collaboration with the United Nations will include participation by the Bureau of Statistics in the revision of the UN System of National Accounts which will involve hosting a number of meetings of working groups of particular concern to the Fund. Work related to providing regional organizations with advice and assistance will include continued Fund participation in the inter-agency mission in the Eastern Caribbean, and advisory assistance to the Cooperation Council for the Arab States of the Gulf and to the Arab Monetary Fund.

General Support Services

41. General support services include budget, personnel, housekeeping, graphics, transportation, certain automated data processing, documents, archives, communications, payroll and other administrative payments, accounting, audit, the Joint Library, and certain translation and interpretation services.

42. General support services are expected to continue at a high level in the coming financial year. Important elements in the work program will be the annual salary review, and the completion of the development and the implementation of the job evaluation exercise. New developments in the administrative budget area will include the establishment of new departmental budget allocations for four types of expense: discretionary

business travel; long distance telephone calls; cables; and books, newspapers, and periodicals. It is also planned soon to present a paper on implementation of capital budgeting and accounting. In addition it is the intent, when presenting proposals to the Executive Board, to be more systematic in indicating budgetary implications. Other activities in the support area which need to be highlighted are telephones, the Cable Room, and security. Steps are being taken to improve the telephone system by continuing to make improvements in the switch and by generally upgrading the equipment. Abandoning the old Centrex system, which was managed by staff from the World Bank, has necessitated the establishment of a small Fund unit dedicated to the provision of telephone services; a manager with extensive experience in ROLM systems is being appointed to head this unit. The new systems being implemented in the Cable Room by the Secretary's Department involve the use of "nonstop" computers and communications switching devices that will require some staff to be on duty twenty four hours per day and 365 days per year, to carry out both maintenance and operational work. This makes it necessary to introduce an additional shift in the Cable Room. There are several aspects of security which remain a concern, and further improvements in this field may have to be made with regard to both headquarters and employees overseas that may require the establishment of a special security unit.

43. A major development in computing activities is the proposal, presented in a separate paper, to acquire a new IBM compatible computer and to upgrade and expand the computing facility. This will have a significant impact on work of the Bureau of Computing Services in the coming year. Other major computer activities in FY 1986 will include continuing work on development of (a) an Economic Information System to succeed the present Data Fund System in the Bureau of Statistics (as noted in paragraph 38); (b) an integrated financial information system in the Treasurer's Department; (c) a comprehensive administrative budgeting system, incorporating an improved procurement system in the Administration Department; and (d) a document retrieval system in the Secretary's Department. It is also planned to complete the automated cable room system, and, subject to final evaluation of the present pilot projects, to introduce office automation systems in a few additional departments.

Preliminary Estimate for FY 1986 in Context of Three-Year
Projection of Expenses, FY 1986-1988

44. A preliminary estimate is that the work program outlined above will result in an administrative budget in FY 1986 of about \$251.5 million dollars which is \$25.1 million (11.1 percent) higher than the revised estimate of \$226.4 million for FY 1985 ^{1/}. Table 3 compares expenses in

^{1/} It should be noted that the figure for FY 1985 does not include the purchase cost (\$6.1 million) of a new IBM compatible mainframe computer which is to be recommended to the Executive Board in January, 1985. Furthermore, the projections shown for FY 1986 and FY 1987 do not include the capital cost of relocating and expanding the new computer facility (\$9.1 million).

Table 3. Compared Preliminary Projections of Administrative Budget Expense Totals for Next Three Years (FY 1986-1988) 1/ with Experience in Last Three Years (FY 1983-1985)

Financial Year	Administrative Budget Expenses \$ millions	Index 100 = Previous Year	Annual Percent Increase in DC CPI <u>2/</u>	Percent Increase in GSA <u>3/</u>	Increase in Number of Employees				Percent Increase in Travel <u>7/</u>	Other Special Factors
					Staff Ceiling	EP <u>4/</u>	SCF <u>5/</u>	Experts <u>6/</u>		
1983	182.7	110.5	5.1	7.5	33	+7		7	3.3	AM Toronto; Executive Directors' election year; Business travel; building renovation
1984	202.2	110.7	4.5	6.4	51	+4	8	13	10.6	HQ Phase II; New telephone; Business travel; expanded EDP.
1985	226.4	112.0	5.4 <u>8/</u>	3.0	37	-	30	13	1.8	Executive Directors' election year; expanded EDP.
1986	251.5 <u>9/</u>	111.1	4.5	4.5 <u>10/</u>	32	-	20	12	1.0	AM Seoul; Concordia renovation; Arabic course; expanded EDP; improved security; space needs.
1987	262.5 <u>9/</u>	104.4	4.5	4.5 <u>10/</u>	24	-	-	8	1.0	Executive Directors' election year; 2nd Arabic course.
1988	276.0	105.1	4.5	4.5 <u>10/</u>	16	-	-	5	1.0	

1/ The projections for FY 1986-1988 provide for existing programs and known new programs. No contingency provision has been made to cover additional new programs which might be proposed in each of the three budgets for these years.

2/ May thru May of each year.

3/ General Salary Adjustment.

4/ Economist Program.

5/ Staff Contingency Fund.

6/ Technical Assistance Experts.

7/ Staff business travel, calendar year data.

8/ Sept. 83-Sept. 84.

9/ Excludes capital cost of proposal to establish a new computer facility (\$9.1 million).

10/ These figures include provision for any salary drift so that on average staff remain at the same standard of living as at present for these three years.

these two years (FY 1985-1986) with expenses in the previous two years (FY 1983-84) and with projections of expenses in the two succeeding years, (FY 1987-88). The table also lists certain key elements in the expenses of each year including the annual increase in the Consumer Price Index for Washington, D.C. where most expenses are incurred; the percentage increase in salary scales (the general salary adjustment) and staff business travel, and annual increases in the number of regular staff positions, enrollees in the Economist Program, temporary staff charged to the Staff Contingency Fund, and technical assistance experts. As noted earlier, this is the first time that a medium-term projection of administrative costs has been attempted. Indeed, this is the first time that an estimate of costs in the coming year has been made so early in the annual budget cycle. Two important caveats need to be stressed concerning these projections of expenses. First, as there is little accumulated experience on which to base the exercise, these figures must be considered very tentative and subject to comprehensive review in connection with the preparation of the administrative budget for FY 1986. Second, the figures are based on certain assumptions, discussed below, concerning existing programs and new programs already projected for the coming years. No contingency provision has been included to cover additional new programs which might be subsequently proposed in each of the three budgets for FY 1986, FY 1987, and FY 1988. This may partially explain the drop in the percentage increase projected in FY 1987 and FY 1988 as compared with the previous four years. However, it should be noted that in the four earlier years there have been some extraordinary expenses which are not likely to be repeated, i.e., the use of Fund financial resources by member countries which grew rapidly during this period but which may now be slowing down, the major expansion of data processing requirements, and the opening of the new headquarters building. Also, there will be no Annual Meetings overseas during the period, FY 1987-1988.

45. Table 4 gives an analysis of the projected expenses in each of the next three years according to the ten object of expense budget categories. The main assumptions behind projections shown in that table for all three years are as follows: First, it is assumed that there will be a slow down in the need for additional staff positions because: (a) the volume of Fund work after a period of growth is likely, in aggregate, to grow less rapidly, and (b) there will be increased productivity as a result of the program of automation. However, it is possible that both these expectations may not materialize. The projection of work load may not make sufficient allowance for the impact of increased surveillance and the catalytic role of the Fund in countries that no longer are making use of Fund financial resources. Furthermore, the expectation could be made invalid if there were to be increasing demands for more policy papers by the Executive Board. With respect to staff productivity, an important caveat also needs to be made. For many years now the staff has carried a work load which is extraordinary by any standard and which

Table 4. Preliminary Projections of Administrative Expenses by Object of Expense Category for the Next Three Years (FY 1986-1988) Compared with Revised Estimates for FY 1985

Object of Expense	FY 1985 Revised Estimate \$ Millions	FY 1986 Projection		FY 1987 Projection		FY 1988 Projection	
		\$ Mil- lions	Index FY 85=100	\$ Mil- lions	Index FY 86=100	\$ Mil- lions	Index FY 87=100
Personnel Services							
Salaries	90.9	98.5	108.4	103.5	105.1	109.2	105.5
Other Personnel Expenses	59.9	66.3	110.7	69.6	105.0	73.3	105.3
Subtotal	150.8	164.8	109.3	173.1	105.0	182.5	105.4
Travel							
Business travel	14.4	17.3	120.1	17.4	100.6	19.3	110.9
Other travel	11.7	12.5	106.8	14.4	115.2	15.0	104.2
Subtotal	26.1	29.8	114.2	31.8	106.7	34.3	107.9
Other Administrative Expenses							
Communications	7.0	6.5	92.9	6.9	106.2	7.4	107.2
Building occupancy	11.7	16.7 ^{2/}	142.7	16.3 ^{2/}	97.6	15.9	97.5
Books and printing	1.7	1.8	105.9	1.9	105.6	2.1	110.5
Supplies and equipment	5.7	6.7	117.5	6.6	98.5	7.2	109.1
Data processing services	17.9 ^{1/}	20.0	111.7	20.0	100.0	20.0	100.0
Miscellaneous	5.5	5.2	94.5	5.9	113.5	6.6	111.9
Subtotal	49.5	56.9	114.9	57.6	101.2	59.2	102.8
Total	226.4 ^{1/}	251.5	111.1	262.5	104.4	276.0	105.1
Amount of increase over previous year:		25.1		11.0		13.5	
of which (a) Special Factors (para. 46)		9.2		- 2.1		- 1.3	
(b) General Assumptions (para. 45)		15.9		13.1		14.8	

^{1/} Does not include the cost of purchasing an IBM-compatible mainframe computer (\$6.1 million) which is to be recommended to the Executive Board in a separate paper.

^{2/} Does not include the cost of establishing a new computer facility (\$9.1 million) which is to be mentioned in the same paper.

has included massive amounts of unpaid overtime on a routine basis, together with lost leave entitlements. There are signs that the strain is beginning to tell and savings in staff on account of higher productivity associated with automation may have to be partly or wholly offset by the need for additional staff elsewhere just to carry the present work load. For the purposes of this exercise, and bearing in mind these important caveats, it is tentatively assumed that the growth of staff positions will slow down from 2.2 percent in FY 1983, 3.3 percent in FY 1984 and 2.2 percent in FY 1985, to, perhaps, 2.0 percent in FY 1986, 1.5 percent in FY 1987 and 1.0 percent in FY 1988. This would also be reflected in a second assumption that the volume of business travel will slow down to an average annual increase of about one percent. Third, it is assumed that the number of technical assistance experts will grow on average by about 6 percent per annum for the three-year period. Fourth, it is assumed that the rate of inflation will continue to be about 4-5 percent per annum during this period. Within this average it is assumed that there will continue to be variations between different items, i.e., that prices for computer equipment will increase (if at all) at a rate lower than the average and that medical costs will continue to rise at an above average rate. The fifth assumption concerns the annual general adjustment of salaries. It is the established practice not to include provision for general salary adjustments in the budget until approval has been given by the Executive Board. However, for the purposes of making a reasonably meaningful three-year projection, it is necessary to make some assumption concerning such a major factor in the budget. For the purposes of this exercise, and without implying any judgments on an actual outcome, an assumption has been made that the average standard of living of staff with regard to direct remuneration, taking into account both inflation and the net effect of additional costs for merit increases and reduced costs on account of staff turnover, will remain unchanged for this three-year period. The sixth assumption is that the present method of funding the Staff Retirement Plan will continue, and no account is taken of possible changes in some aspects of the Plan including the financial management of the Plan, the formula for determining the gross pensionable base, as well as demographic and economic assumptions. Finally, it is assumed, for the purpose of this exercise, that there will be no significant change in the U.S. tax system.

46. In addition to these general assumptions for all three years, FY 1986-1988, allowance has also been made for special factors affecting each individual year. Those for FY 1986, most of which were referred to in the program section, include the location of the Annual Meeting in Seoul, a non-election year for Executive Directors, an increase in the number of resident representatives, a new IMF Institute course in Arabic, a major renovation of the Concordia/Bond apartments (postponed from FY 1985), the full-year cost of the study of discrepancies in balance of payments accounts, the need to improve security arrangements, and a

further growth in the program of automation in accordance with the three year projection mentioned in the supplement to the FY 1985 Administrative Budget document. There is also a growing concern about availability of office space. The normal margin (about 2 percent of space in use) required by any organization, so that it has sufficient flexibility to be able to handle office moves and short-term additional requirements, is being gradually eroded on account of above normal demands for space for consultants and contractual employees hired for the automation program and for various working groups such as the joint committee on staff remuneration, the job evaluation committee, and the group studying balance of payments discrepancies. Accordingly, even allowing for the space which will become available on the concourse level if the Computing Facility is moved, it may be necessary to acquire more office space in FY 1986 and in subsequent years. In FY 1987, it is expected that there will be additional costs on account of a second IMF Institute course in Arabic and settlement expenses associated with an election year for Executive Directors. No special factors have been included in the projection for FY 1988.

47. Some of the assumptions made above concern factors which are determined outside the Fund, e.g. most obviously, inflation and certain aspects of work on major policy matters and in connection with operations and relations with member countries. On the other hand, certain of the assumptions relate to matters which can be controlled to a large degree by decisions taken within the Fund, e.g. size and frequency of certain types of missions, certain research activities, the level of special services to member countries, the publications program, and internal administrative functions. It would be particularly helpful to management to have the views of Executive Directors on some of these discretionary areas, and to help focus on them, the Executive Board may wish to consider, inter alia, the following points:

(a) What can be done to relieve the pressure on staff involved in operations and relations with member countries? What steps can be taken to ensure that countries are adequately prepared to receive missions so that preparation and other staff time and travel expenses are not wasted? Could greater use be made of smaller missions in order to assess the willingness of authorities to enter into serious negotiations before sending full scale negotiating missions?

(b) Should there be a formal ceiling on the number of expert man-years provided by the Fund for technical assistance as there is for staff? In this connection it should be noted that in the past five years the number of expert man-years has increased by 30 percent (from 100 man-years in 1979 to 130 man-years in 1984) compared with an increase of 16 percent in the number of staff positions over the same period. Should the portion of the cost borne by the recipient country for an expert provided by the Fund be increased?

(c) Should there be a limit set on the number of tracks of courses in the IMF Institute program, and should consideration be given to encouraging efficient use of training by asking sponsoring countries to bear some of the costs, e.g. the cost of transportation of participants?

(d) Do Executive Directors feel that the flow of papers to them could be reduced by eliminating or reducing the periodicity of certain reports other than those relating to relations with member countries and use of Fund resources?

(e) Are there any publications which the Executive Board feels are of low priority and could be dispersed with, and are there any translations of publications which are of little practical value?

(f) Are there any in-house support services which Executive Directors feel should be reduced or eliminated?

(g) When ideas on proposals for a new activity or staff project are suggested in the Executive Board by a Director or Directors, would Directors be interested in having the staff provide cost estimates?

In considering these and other points about the budgeting outlook, Executive Directors may find useful a summary of key unit costs, as shown in Table 5.

Table 5. Approximate Annual Unit Costs of Significant Items in the Administrative Budget

Item	Annual Cost (FY 1985)
One percent General Salary Adjustment	\$1,200,000
Average staff position (including overhead)	76,000
Cost of resident representative post other than remuneration	85,000
Average technical assistance expert	89,000
Average Consultation/UFR Mission	135,000
Average cost of an IMF Institute course, including staff time (35 participants):	
Long course (18 weeks)	1,580,000
Short course (8 weeks)	725,000
Average research paper ^{1/}	47,000
Average cost of translating a 30 page paper into another language	11,000

^{1/} This is a very tentative and preliminary estimate because detailed data is not readily available as yet. It should also be added that the cost of any one study might vary considerably from this average, depending, for instance, on complexity and length.