04

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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/173

3:00 p.m., December 14, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	
	H. G. Schneider
	X. Blandin
	J. Delgadillo, Temporary
R. D. Erb	
M. Finaish	
T. Hirao	T. Yamashita
	Jaafar A.
	L. Leonard
	C. Robalino
	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	
Y. A. Nimatallah	
J. J. Polak	
A. R. G. Prowse	
G. Salehkhou	
	J. A. K. Munthali, Temporary
	J. L. Feito
J. Tvedt	
	T. A. Clark
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

Administration Department: R. Tenconi, Director; H. J. O. Struckmeyer, Deputy Director; T. Cole, A. Coune, G. E. Gondwe, A. Goltz, J. D. Huddleston, J. G. Keyes, H. Wiesner. African Department: O. B. Makalou, Deputy Director. Asian Department: K. A. Al-Eyd, J.-P. C. Golle. Central Banking Department: P. N. Kaul, Director. European Department: H. Ungerer. Exchange and Trade Relations Department: D. K. Palmer, Associate Director. External Relations Department: A. F. Mohammed, Director; G. P. Newman. Fiscal Affairs Department: V. Tanzi, Director; R. O. Khalid, Deputy Director; L. Garamfalvi. IMF Institute: A. H. Whitfield. Legal Department: G. P. Nicoletopoulos, Director. Research Department: R. R. Rhomberg, Deputy Director. Secretary's Department: A. P. Bhagwat. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, R. B. Hicks, B. E. Keuppens, J. T. McDonald, J. V. Soromenho-Ramos, T. M. Tran, G. Wittich. Bureau of Language Services: A. J. Beith, Director. Bureau of Statistics: W. Dannemann, Director. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, C. J. Batliwalla, K. A. Hansen, W. Moerke, Y. Okubo, I. R. Panday, P. D. Péroz, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: E. M. Ainley, J. R. N. Almeida, R. Bernardo, J. Bulloch, G. Ercel, V. Govindarajan, C. M. Hull, A. K. Juusela, H. Kobayashi, M. J. Kooymans, M. Rasyid, J. Reddy, A. A. Scholten, S. Sornyanyontr, A. Yasseri.

1. FUND INCOME POSITION - REVIEW; AND REVIEW OF EXPENSES IN FY 1984 AND BUDGETARY OUTLOOK FOR FY 1985

The Executive Directors continued from the previous session (EBM/83/172, 12/14/83) their review of the Fund's income position (EBS/83/248, 11/21/83; and Cor. 1, 12/12/83) and their midyear review of expenses in financial year 1984 and the budgetary outlook for financial year 1985 (EBAP/83/296, 12/6/83). They also had before them a memorandum by the Managing Director containing guidelines for electronic data processing (EDP) support for Executive Directors' offices (EBAP/83/307, 12/12/83), and a paper on the installation of the new Rolm telephone system (EBAP/83/302, 12/9/83).

Mr. Schneider, commenting on a statement by Mr. Jaafar at the morning session, remarked that there had recently been a seminar on the Fund for nonofficials in Austria and that all the participants from German-speaking countries, as well as his own authorities, had been very satisfied.

Mr. Alfidja observed that the seminars on the Fund had also been greatly appreciated in francophone Africa. He had received requests for holding another one elsewhere in his constituency. The seminars were useful and should be continued. As to the review of the Fund's income position, he shared the view expressed by the staff that there should be no change in charges. His views on the review of expenses in FY 1984 and the budgetary outlook for FY 1985 were similar to those expressed by Mr. Sangare's chair. He too would like to see the introduction of an objective evaluation mechanism for the Fund's operations and programs with member countries.

Mr. Zhang said that he was glad that the staff considered that there was no need to change the rate of charge on the use of the Fund's ordinary resources at the present time. He could support the Managing Director's statement on the midyear review of expenses and the budgetary outlook, in broad terms.

Continuing, Mr. Zhang expressed the appreciation of his authorities for what the Fund had done to provide training for a Chinese special appointee, to organize a seminar for the central bank in China, and to make it possible for Chinese nationals to attend the IMF Institute as participants on a continuing basis. He was also most grateful for the seminar organized by the Bureau of Statistics in China on the subject of the balance of payments.

Mr. Clark stated that he would join those Directors who, during the morning meeting, had suggested a need for a review of the Fund's income position after the forthcoming decision on remuneration. Indeed, it might have been more appropriate if the present discussion had taken place later.

Concerning the budget, Mr. Clark went on, he was disturbed by the extent of the overrun on computing costs. He understood that it had resulted in large part from a decision to rent an additional main frame.

He strongly supported the general objective of developing the Fund's computer facilities, but he would be interested in an explanation of the procedure for authorizing such expenditure when it was known to involve a substantial deviation from budget plans, and of the extent to which the Board had had an opportunity to comment.

He would join Mr. Kafka in expressing warm appreciation for the way in which the Fund staff had dealt with a greatly increased work flow, Mr. Clark stated. While some degree of pressure was probably valuable, if it was too intense or too long, it was likely to be damaging. He recognized the need for increasing the number of staff in several areas: in particular, he hoped that the progress that had been made in bringing Article IV consultations up to date could be continued. On the other hand, the work load might not remain at the present level indefinitely, a point that should be kept firmly in mind in fixing the form and terms of any new recruitment.

Commenting on the plans for future work, Mr. Clark expressed a special interest in an examination not merely of the interaction of policies but also of the interaction of Fund programs. For much of its life, the Fund had been working in a world where the number of its programs had been relatively small in proportion to the number of countries; that was however no longer true, and the interaction between programs, especially in a particular region, might be quite an important consideration.

Mr. Feito commended the staff and management for their conduct of the Fund in troubled times. The Managing Director's memorandum (EBAP/83/296) showed that the Fund resources were being allocated to the most efficient uses.

On specific points, Mr. Feito said that he would echo Mr. Kafka's preoccupation with some of the effects of the present situation on the staff in the Western Hemisphere Department. Special responsibilities had been placed on the Department; he would therefore support any action to increase the human resources available to it. He also attached importance to the steps that had been taken or were being considered for improving expenditure control in the administrative budget. In particular, he would like to see the introduction of capital budgeting and accounting. Such a procedure would enable Executive Directors to have a timely analysis of the costs and benefits of the automation program. He was of course fully in agreement with the proposals to introduce the most advanced technological features in every field of the Fund's endeavors. The staff should be able to benefit from the advantages offered by computers.

Mr. Malhotra remarked that the recommendations contained in the Managing Director's statement all went in the right direction. He agreed that there was perhaps too much strain on the staff, and he would support any strengthening that the Managing Director might find necessary. Like Mr. Kafka, he was interested in some kind of independent evaluation within the Fund that would give an opportunity to review the design of country programs, to see how the programs themselves had fared, and if they had not been successful to understand why not.

Regarding the experience of individual staff members, Mr. Malhotra considered that it would be helpful if a larger number could be exposed to real country experience by attaching them to government agencies either in their own countries or elsewhere for a year or two. Such an arrangement would improve the staff members' awareness of the situation in the field. It might also be useful to have some kind of lateral entry on a fixed-term basis, either at the middle or at the somewhat higher levels, in order to bring about the necessary infusion of experience in the real world.

Many countries had spoken highly of the technical assistance that the Fund had been providing, Mr. Malhotra observed. The technical assistance program enjoyed his full support; indeed, it should perhaps be further strengthened, as suggested in various parts of the Managing Director's report. While he agreed with the idea that educating the world about the Fund's activities was reasonable in itself, he associated himself with the cautionary note struck by Mr. Jaafar at the morning meeting.

He agreed with the Managing Director that security procedures needed to be strengthened, and rather quickly, Mr. Malhotra stated. It seemed to be taking a long time for the staff to install locks in offices and to provide the appropriate keys.

As to future work, while he noted that the staff would wish to continue its work on the SDR, Mr. Malhotra observed, a great deal had been done already to improve the attractiveness of the asset. Indeed, when some months previously the Board had agreed that the SDR interest rate should be determined every week and payments made to holders every quarter, some of his colleagues had remarked that the SDR had been made as attractive as possible, and that what was important was to undertake an allocation. He shared that view. He agreed with the staff that there was no need at present to change the rate of charge on the use of the Fund's ordinary resources. In the past, his chair had contended that there was sufficient justification for reducing the rate of charge, as for the past three years income in excess of annual targets had been added to reserves. That point should be considered whenever the question of charges was next discussed.

Mr. Blandin observed that he had been instructed by his authorities to comment on the approach taken by the staff in EBS/83/248 regarding the Fund's income position. First, the proposal not to raise the rate of charge was surprising since, according to Rule I-6(4), no such proposal could be made, for reasons clearly outlined in Section II of EBS/83/248. Second, if the Executive Directors were to take a decision on the level of charges under Rule I-6(4), the correct course of action would be to explore the possibility of a reduction. Indeed, there was a good possibility of reducing the rate of charge, as the estimates for the whole of FY 1984 showed that net income would be well in excess of the target of SDR 30 million. Finally, his authorities continued to believe that past excesses of net income over and above the 3 percent target should be treated as income for the next financial year. The previous year's excess had been about SDR 37 million; if taken with the present year's expected excess, it would provide sufficient grounds for reducing the rate of charge. He had no comments on the midyear review of expenses.

Mr. Salehkhou stated that he was in broad agreement with the midyear review of expenses in FY 1984 and the budgetary outlook for FY 1985. He would however like to make a general observation of a cultural nature. Too opulent and extravagant a way of living might cause the Fund to tend to become indifferent to the problems and miseries of others. Executive Directors, management, and staff alike served an international institution whose concern had been to promote austerity for member countries, especially those in difficulty. It was only fair, therefore, that Executive Directors, management, and staff should set an example of simple living in an efficient working environment.

Regarding individual points mentioned in the review, Mr. Salehkhou said that he would support Mr. Kafka's suggestion for a period of internship for members of the staff in their national governments to give them a better feel for their respective parts of the world than could be obtained on ad hoc visits to member countries. He would also request a study of the salaries, benefits, promotion scales, and other terms of employment for Assistants to Executive Directors. They were presumed to be part of the staff, and, unlike Executive Directors, Alternates, or Advisors, they were mostly governed by staff procedures. In some important respects, like annual promotion and grading, however, they were treated differently. Considering the work load in the offices of Executive Directors and the Assistants' knowledge of individual countries, they deserved at least the same privileges as their counterparts on the staff.

As for the $6,050,000 increase in the administrative budget for FY 1984, which exceeded the revised budget ceiling by 3.1 percent, Mr. Salehkhou stated that he was looking forward to receiving management's report on an independent Fund computer center. Regarding paragraphs 6 and 7 of EBAP/83/296, dealing with business travel and other travel, which clearly formed a substantial part of the budget, he expressed some concern and asked for a thorough study of the travel services received by the Fund, on the grounds that the rationale used in the 1979 study might no longer be valid. There was substantial room both for economies and for an improvement in efficiency in that field. He had personally observed frequent discrepancies and price variations in air tickets and other travel purchases. He also hoped that upon completion of the installation of the new telephone system, there would be fewer defects of the kind that had caused considerable frustration throughout the Fund. As to books and printing, increased expenditure in that field to help widen the scope of scholarly reviews to include research in alternatives to the free enterprise system would be welcome.

He was rather apprehensive about the practice described in paragraph 12 of EBAP/83/296, under which there was a requirement that departments with needs for nonbudgeted items should, if feasible, surrender in return some item that had been budgeted, Mr. Salehkhou remarked. He wondered how widespread that practice was within the Fund. It seemed to him that it was likely to encourage the inclusion of unnecessary items in departmental budget projections as a means of covering unauthorized expenses later. A different incentive scheme might better encourage departments to effect savings in their budgets. Like Mr. Kafka, he felt that the idea of obtaining the services of outside consultants to evaluate the whole spectrum of Fund adjustment programs was eminently reasonable. Such cost-benefit studies would have the advantage of introducing a neutral and detached view of the Board's consideration of adjustment programs, and lead it to consider alternative courses of action. Naturally, any outside consultancy ought not to add substantially to the Fund's budget.

He was rather unhappy that his proposal that the Fund should obtain comparative studies of employment practices in Japan had not been taken into account in completing the staff compensation survey, which had involved an overexpenditure of nearly $500,000 because of the additional scope of the exercise, Mr. Salehkhou observed. If the Fund had tried to obtain the additional information in Japan through the good offices of Mr. Hirao, it might not have cost very much.

On the positive side, Mr. Salehkhou concluded, his authorities had asked him to express their wholehearted thanks for the valuable services rendered by the IMF Institute. He and the developing world appreciated, perhaps more fully than others, the significant contribution that the Institute had made to the technical training of people from developing countries. He also expressed his appreciation for the efforts that were continually being made to improve the efficiency of the Administration Department, which deserved more support by Executive Directors and management.

Mr. Erb stated that he had no specific comments on the information provided on the budget for the current year. Like Mr. Prowse, he was rather hesitant to comment on specific items or propose new ideas because he was not at all clear what the cost of any particular item might be. Some of his colleagues had encouraged management and staff to undertake certain activities, but he could not necessarily approve them without having an idea of the cost. In brief, he cautioned the Fund staff to restrain the institution's expenditures.

Taking up the topic of providing technical assistance for Fund members, Mr. Erb noted that he agreed with those who had supported the role of the IMF Institute in its training efforts; that role should expand over time. One seminar that might be useful would cover the subject of the role of prices in the allocation of resources and the impact of pricing policies not only on the allocation of resources but also on economic growth. Regarding the information that was made available both inside and outside the Fund, and the development of a computer system, it was clear that the Fund needed to have a computer system of its own, which would require substantial expenditure both immediately and in the future. The availability and distribution of information within the Fund were not adequate, and the Fund was committed to providing more information in certain fields to the outside public. In that connection, the staff might consider ways in which the Fund could sell or provide information to nongovernmental inquirers, not only through International Financial Statistics and other publications, but also in the form of data on indebtedness that would be collected as part of the Fund's expanded work. There seemed to be scope to sell information at a price that would cover not only the cost of data gathering but also some of the cost of the underlying computer system. Like other Executive Directors, he looked forward to the day when there would be a system within the Fund to which Executive Directors would have access, even though he recognized that that day might be several years hence. It would also be helpful to have a computerized document retrieval system enabling Executive Directors to have access to past documents without having to obtain the physical document itself.

Recent experience with the telephone system, Mr. Erb went on, underscored the importance of training each office when new systems were put in place. It might have been useful to establish a working office in which secretaries could have had an hour or two of intensive training. A mere reading of the manual provided with each telephone was insufficient. His office had been one of the pilot offices to receive the latest model Rolm telephone; it had proved to be a significant improvement both over the previous Rolm telephone and over the Bell installation. When it became more generally available in the Fund, it seemed likely that it would ease many of the present difficulties.

In the field of external relations, Mr. Erb stated, the emphasis should be on providing technical information on the functions of the Fund. He did have some doubts about a public education program, a field in which great care was required. Meanwhile, the External Relations Department had been helpful to him and his office in dealing with outside groups seeking information about how the Fund worked.

Some of Mr. Kafka's suggestions at the previous meeting on ways to ease the pressures on the staff deserved examination, Mr. Erb commented, although it seemed unlikely that any recruitment in the coming year or so would ease the current pressures. Nor did it seem likely that hiring former employees or retired persons would be very helpful in that respect. The start-up period for such people might well be six months or so, during which time they would be of little benefit to the department to which they were attached. His view had always been that the Fund should promote staff from within, and that it should continue to hire the best possible people from as many countries as possible. Consequently, he was not particularly favorable to the idea of recruiting persons from outside to fill higher-level positions. Perhaps one way of helping the staff would be to ask countries to prepare for staff visits well in advance so that the time that the Fund teams actually spent in individual countries could be reduced. There were many instances in which the Fund staff had to return to a country to obtain additional data, something that should be avoided. It might be helpful if the Managing Director were to canvass the staff and invite its suggestions. The Managing Director should report to the Board if in fact it was found that there were ways in which governments could facilitate negotiations by being better prepared when the Fund teams arrived.

He agreed with the areas of emphasis under other categories of expenditure, Mr. Erb stated, and he looked forward to later reviews. It would be helpful if relatively inexpensive means were used by staff members traveling within countries, and in particular within the United States. They should avoid first-class travel, especially when the trips were of relatively short duration. As to the delays in delivery of furniture, he reacted differently from Mr. Schneider; the delays would in fact be useful as a way of stretching some of the planned expenditure into the future.

Mr. Polak stated that he had no comment on the review of the Fund's income position or the review of midyear expenditure.

Commenting on proposals by others, Mr. Polak said, first, that he doubted whether the recruitment of midcareer persons with experience in their own countries would prove altogether satisfactory; people with country experience usually had experience in one country only. Such people also required a great deal of training to fit into the multicountry pattern that was required on the part of Fund staff. As to the appraisal of Fund programs, while he would favor such an appraisal by persons different from those who had originally been concerned with running the programs, the Fund had made great progress in that respect in the past few years. It was by no means certain that the use of outside consultants who would first have to learn what the Fund's programs were intended to do would provide useful advice on the effectiveness of past programs. The work of the Exchange and Trade Relations Department in that field during the past few years had been outstanding.

Mr. Finaish stated that he shared the views of others regarding the usefulness of the IMF Institute in particular. Many countries in his constituency had appreciated the availability of courses in Arabic. However, there had recently been a decline in the number of applicants accepted for an introductory course with Arabic arrangements. If requests to participate in seminars and courses continued to outrun available capacity, the problem might have to be tackled in the context of the medium-term outlook for the Institute, without adversely affecting the Arabic facility.

As to the question of staffing, Mr. Finaish said, he did not feel it was easy to make a firm judgment on the adequacy of the existing staff numbers or on the adjustment that might be needed in the period ahead. Executive Directors might not normally deal extensively with all departments, and in matters of staffing one had to rely, to a large extent, on the judgment of the management which, of course, had to take into account the views of various Directors on those matters.

Taking up the activities of the area departments, Mr. Finaish remarked that it might be useful, when feasible, to request some of them to conduct research work on policy subjects of interest to the countries within their area. The intention was not of course to duplicate the work of the Research Department, but in certain fields the area departments' accumulated experience of 30 years or so would be most useful, not only for the Fund but also for other countries in the area.

Regarding the evaluation unit, the proposal by Mr. Kafka and Mr. Malhotra was certainly worth studying, Mr. Finaish observed. Although there was the example of the World Bank, he did understand that many difficult issues--such as the leadership of the unit, its relations with the Executive Board and management, and its terms of reference--would all have to be thought out in advance. On another matter, his office too had difficulties with the Rolm telephones.

Mr. Malhotra stated that he supported Mr. Salehkhou's observation regarding the need to bring the terms and conditions of service for technical assistants to Executive Directors into line with those for staff members.

The Director of the Administration Department, replying to questions, recalled that some Executive Directors had suggested that steps should be taken to recruit persons with experience of policy issues and economic management in their own countries. That was precisely the purpose of the fixed-term appointment program. The Fund had been recruiting, for periods of two to five years, staff members with significant experience in their own country; however, considerable adaptation to work in a multinational institution was usually required. In practice, the number of newly recruited staff members with experience of the sort was comparatively high. Out of 72 new staff members recruited in ranges F to M from January 1, 1983 to December 10, 1983, 33 had had experience in the public sector in their own country, including 18 with experience in their central bank; 6 had had experience in the private sector, and 5 had had experience in other international organizations. In brief, only 28 of the 72 staff members recruited during the year to date had had no practical experience. Moreover, in the past three or four years, between 20 percent and 25 percent of all the staff appointed to range J or above had come from outside.

As to giving staff members experience in countries of a type that was not available in the Fund, the Director went on, in the past year the Fund had introduced an external assignment program whereby staff members might be assigned to a central bank or a ministry of finance either in their own country or in another country. Staff members had been assigned to banks or ministries in India, Japan, the Federal Republic of Germany, and the United Kingdom. The program had been very successful, but some departments were not happy at losing staff members for a year or two. Moreover, the operation of the program required the agreement not only of a staff member but also of an institution that was prepared to take one. The idea of re-recruiting retired staff members seemed to run up against both practical and psychological problems. It might be better to try to draw more on existing Fund staff in departments that did not yet require staff to travel extensively. The question of assigning summer interns or editors to Executive Directors' offices was one that could be taken up in the Committee on Administrative Matters, as could the question of the terms and conditions for employment of Assistants to Executive Directors.

The telephone system had been causing problems for a long time, the Director mentioned. He hoped that the explanation given in EBAP/83/302 regarding the need to install a new system was satisfactory. He agreed with Mr. Erb that one of the major problems had been the lack of staff training. The Rolm company had allocated about two hours for training in an artificial environment, when perhaps as many as ten hours might be required. The advantages of the new telephone system would become apparent only gradually, while the inconveniences were immediately visible. The difficulties of operating two systems in parallel during the conversion period were bound to be substantial, and he did hope that shortly the Fund would have a system that was both simpler and better than the previous one. A number of staff members were being trained by the Rolm company, and they would be assigned to the offices of Executive Directors and others when the new system was installed, to help to ease the adaptation period.

The question of security had been of great concern to management and staff, the Director stated. It had hitherto been difficult to strike a balance between the inconveniences that were bound to arise from any tightening of the Fund's security arrangements against the risk of persevering with a comparatively loose security system. For instance, tightening access to the parking garage would probably result in considerable delays. When it became possible to use the 20th Street access to the garage, security in that area could be improved, although, even then, there was bound to be some inconvenience. Some two years previously, the Fund had commissioned a report by a consultant, and some of the suggestions were being implemented. Among them was the purchase of equipment to screen parcels and incoming mail. As to security of a different sort, Mr. Nimatallah had mentioned that a number of items had been stolen inside the building. The Fund employed a substantial number of outside workers, including cleaners and guards, and it was difficult to ensure that all of them were strictly honest. Moreover, with the completion of Phase IIa and the movement of offices, many other people, like carpeting installers, furniture removers, and the like had been in the building for a short time. In the circumstances, a small number of thefts was almost inevitable. Some 1,000 persons had been moved from one office to another inside the Fund building, and there might have been some delays in providing services. He would be in touch with Mr. Schneider regarding the provision of carpeting and new furniture.

Taking up individual questions raised by Executive Directors, the Director explained that the figure of $245,000 for an increase in the salaries of experts covered roughly 100 technical assistance experts in the field, who had been granted the same salary adjustment as the Fund staff. As to the presentation of the budget and the need to have sufficient time in which to consider it before Executive Board discussion, the provision of more analysis might result in some delay, as there was a tight schedule for preparing the midterm review at a time when work was proceeding on the budget document. No more than five professional staff members were involved in writing the midterm review. Some Executive Directors had asked for details of cost; the cost of the World Economic Outlook exercise had been estimated at some $3 million for FY 1984.

Commenting on Mr. Salehkhou's remarks about the Fund's travel, the Director of the Administration Department observed that the present travel agent had a monopoly, which was not desirable. He hoped that early in 1984 a second travel agency would be installed to offer competition. It was however not really practicable to compare one individual fare obtained through two different sources. In the United States, all airline fares were entered into two computers owned by two of the leading airlines, and 50,000 new fares were entered into those computers each week. He had suggested obtaining printouts giving the fares offered by a number of airlines, but a travel agency working for the Fund would never be able to compete with travel agencies that rebated to the customer part of the commission they received from airlines. Although the practice was not permitted in principle, the commissions were often so large that the travel agencies found it worthwhile splitting them with their customers. Moreover, in London there were "bucket shops": an airline--which knew a few hours before the scheduled departure of a flight that it would have 50 or 60 seats available--would dump the seats on a bucket shop, which would sell them at low prices.

The Deputy Managing Director said that he noted with appreciation the comments on technical assistance, including praise for the IMF Institute. Mr. Leonard, he recalled, had suggested that the Institute should be careful to collaborate with the World Bank and that it should emphasize structural problems. The Director of the Institute would be in direct contact with Mr. Leonard on those points. The Institute had been emphasizing structural measures as they related to pricing policy, exchange rate policy, and similar questions. He had also taken note of Mr. Erb's suggestion regarding the possibility of a seminar on pricing policy and its effect on the allocation of resources and on growth.

Taking up Mr. Erb's observation about selling information, in relation for example to bank credits, the Deputy Managing Director explained that the Fund was the largest vendor of tapes by subscription in the world. The Fund had 420 tape subscribers, of which 80 were governments--which received the tapes free--leaving 340 that were paid for. Total receipts by the Fund from the tapes were about $330,000. The Fund had a staff publication committee that recommended policy in that field. There had been a major review of Fund publication charges a few years previously; the committee could no doubt look at the matter again. It was however worth noting that among the Articles of Agreement of the Fund was one that that enjoined on the Fund the duty of making itself the center of information on monetary matters. It would be unfortunate if a policy of charging for the supply of information were to interfere with that duty.

Taking up data processing, the Deputy Managing Director remarked that four departments in the Fund were the main users of data processing: the Secretary's Department, the Treasurer's Department, the Research Department, and the Bureau of Statistics. If the cost overrun for the present budget year was broken down by functions, the largest function was the operation of the Joint Computer Center. Two points ought to be made regarding the Center. First, the informational base on which management and staff had to rely for the establishment of the budget had been completely inadequate. Indeed, from the standpoint of the Fund, that inadequacy had been a problem with the Joint Computer Center for many years. The Fund had long had a history of having to dispute bills received from the Center. The Fund staff had made great efforts to improve the situation, and the service from the Joint Computer Center had perhaps improved slightly during the past year. Nevertheless, the totally inadequate reporting from the Center was a not insignificant reason for the recommendation of the Executive Committee for Computing Services that the Fund should establish a separate center of its own. Second, contractual services in data processing had been considerably more expensive than had been estimated. The unit costs had in fact turned out to be more than twice as high as the estimates made at the time that the budget had been compiled, almost entirely because services in the specialized field in which the Fund was operating were not available in the market for the smaller amounts that had been estimated. If an appropriate allocation of total staff costs and direct data processing services as shown in the administrative budget was made, the total costs of data processing services, including an appropriate allocation for overhead, would be $15.4 million rather than the $7.7 million shown under the narrower heading. The overrun would then be 17.2 percent rather than 25 percent.

As to the way in which overruns were authorized, the Deputy Managing Director explained that both the Executive Committee for Computing Services and the Administration Department--which was, of course, represented on the Executive Committee--had an important role to play. In some cases, such as the increase in the cost of the Joint Computer Center, which was administered by the World Bank, little could be done unless a decision was taken to cut back severely the volume of work in the Joint Computer Center. In many other respects, management and staff were trying to establish a wholly new approach to the authorization and control of data processing costs. All data processing costs had been divided into projects, whether production projects, enhancement projects, or new development projects. Those projects were in the hands of the using departments, but they had to be justified before the Executive Committee for Computing Services, where an input was made both by the Bureau of Computing Services and, to the extent necessary and possible, by the Administration Department. Naturally, all the activities that he had been describing were advisory to the Managing Director, and subject to the approval of the Executive Board, which covered all the administrative expenditures of the Fund. The Executive Committee for Computing Services consisted of himself as Chairman; Mr. Minami, Head of the Bureau of Computing Services; Mr. Struckmeyer from the Administration Department; and one each from the heavy using departments: Mr. Dannemann, Bureau of Statistics; Mr. Habermeier, Treasurer's Department; Mr. Rhomberg, Research Department; and Mr. Alan Wright, Secretary's Department. In addition there were two persons from other departments holding rotating positions: Mr. Tun Thin, Asian Department; and Mr. Mookerjee, Exchange and Trade Relations Department. A third rotating position was to be added.

A number of important development projects were taking place in the data processing field, the Deputy Managing Director mentioned. Major work was being undertaken to automate and update the accounting systems in the Treasurer's Department. The Asian Department was testing office automation equipment and techniques, which might later be extended to other departments. The aim would be to see whether departments could communicate with each other with automated equipment. Work was going ahead in the Secretary's Department in particular on the storage and retrieval of information. All those projects were being advanced in a careful and measured fashion; it was only too easy to waste a great deal of money in data processing unless great care was taken in the planning stages.

The Deputy Director of the Administration Department remarked that, in his dual role as a member of the Administration Department and a member of the Executive Committee for Computing Services, he was very much aware of the cost implications of electronic data processing. The discussion at the previous session had, however, shown the problems involved, since some Executive Directors had stressed the need for pressing on with automation to improve the Fund's work, while others had emphasized careful attention to the costs.

He would reinforce the statement by the Deputy Managing Director regarding the care with which pilot projects were undertaken, the Deputy Director continued. There would be a period of evaluation before any automation was extended from one department to others. On the other hand, it was undesirable to hold up automation in departments where it was needed forthwith. Some resources had therefore been budgeted for additional word processors and microcomputers, thus explaining why the EDP budget was 17 percent higher than forecast. The Fund had had the benefit of the advice from well-known outside consultants like Booz-Allen, Arthur Andersen, and Arthur D. Little. Two others would be employed to study the location of the Fund computer center before the staff approached the Executive Board with a proposal. The new telephone system had been indispensable for the office automation process.

As to the total cost, the Deputy Director of the Administration Department, replying to a question posed by Mr. Lovato at the morning session, explained that it was difficult to give even an idea at the present time. For instance, the Executive Committee for Computing Services would look at the EDP budget for 1985 only in February 1984. Requests by departments were currently being received. The staff did however intend to produce a tentative figure at the time of the budget presentation for FY 1985. It would help greatly if the Fund were to go over to a system of capital budgeting.

The staff representative from the Administration Department said that, with regard to the timing of the midyear budget statement, Executive Directors would note that the six-month point of the financial year was October 31, only five or six weeks before the Executive Board discussion. The data required to write the paper became available only in mid-November. The staff had not only to write the draft but also to clear it with departments. At the same time, the staff was preparing the FY 1985 budget. If further analysis were undertaken for the midyear review, the procedure would certainly be slowed down. Work was however proceeding on the automation of the budget. In due course, therefore, it should be possible to accelerate the preparation of the report for the midyear discussion. However, for the next year or two any increase in the length of time between the issuance of the report and the discussion in the Board could be brought about only by postponing the discussion.

As to the layout of the Managing Director's statement, the staff representative explained that the staff had discussed the current financial year in terms of objects of expense, because that was the basis of the Executive Board's decison. On the other hand, projections for the coming fiscal year could perhaps best be discussed in terms of broad work programs. In future, the staff would try to coordinate descriptions of each of the two years. As Executive Directors were aware, the staff did make an analysis by work program of the Fund's expenditure in the budget document itself. To make a similar analysis for the midyear review would be difficult while the staff was working with a manual system. He hoped that once the budget was automated, it would be possible to produce such an analysis. The present budget document contained an analysis of expenditure by eight general work programs. Three of them were analyzed in quite considerable detail, and it had been the staff's aim to increase the analysis over the years.

Replying to Mr. Kafka, the staff representative suggested that Mr. Kafka's proposal was similar to the modern concept of zero-based budgeting. The budget procedures now followed by the staff incorporated similar ideas. In analyzing budget requests, his office did not merely operate on an incremental basis; it examined the whole program in relation to the Fund's needs. That process had resulted in the elimination of some lower priority programs during the past years, and of 16 staff positions during the past three budgets alone.

Taking up Mr. Salehkhou's concern regarding the statement that departments had been asked to surrender budgeted items in return for additional expenditures that had not been budgeted, the staff representative from the Administrative Department explained that the purpose was to encourage departments to make a comprehensive statement on their budget needs at budget preparation time, so that all requirements could be looked at comprehensively, both by management and by the Executive Board. If departments submitted proposals throughout the year, it was difficult to control the budget or to take decisions on the relative importance of various demands on the Fund's resources. Another aspect of the current requests was that many of them were for equipment that was said to be labor saving;

it was only natural that the Budget and Planning Division should require some reduction in staffing in return for the provision of labor-saving equipment, or the surrender of less expensive equipment in return for more expensive equipment, such as the exchange of typewriters for word processors.

Mr. Salehkhou said that he had been interested in the observations by the Director of the Administration Department on the proposed change in the Fund's travel arrangements. He feared, however, that the change would only turn the monopoly into an oligopoly. There were really substantial savings to be made: for instance, he had found a difference in the quoted price of a round-trip fare to Ghana for his Advisor of as much as $550 between Thomas Cook and an outside firm. He was not altogether satisfied with the explanation given by the staff representative from the Administration Department on the surrender of budgeted for unbudgeted items. As the expenditures were largely on technological innovations, it was difficult for Executive Directors to know whether they were essential. If, for instance, a department decided to include certain items that were not really necessary as a means of having a cash reserve, he would be quite unable to detect the validity or lack of validity of the request. It seemed to him that, in the interests of sound budgeting, some ceiling should be set by the Executive Board for expenditure on such items.

The Deputy Managing Director explained that the whole budget, as adopted by the Executive Board, was a compilation of ceilings contained in the budget document and set out by ten objects of expenditure. Management was not authorized, without further Executive Board action, to exceed any single one of those objects.

Mr. Salehkhou noted that the only point that he had been making was that in, for instance, the proposed expenditure on the data processing services, he--and no doubt other Executive Directors--was incapable of making judgments on all the items included in a single budget figure. It seemed to him quite possible for departments to go undetected in making proposals for the purchase of certain items of equipment, which they really intended to swap later in the year for unbudgeted items.

The staff representative from the Administration Department said that the administration was very aware of the practice of padding estimates. There were various techniques for deciding whether requests were genuine or not, such as, comparisons with past years' experience, interdepartmental comparisons, and Fund-wide standards. The practice of eliminating an existing budget item in order to accommodate an unbudgeted request had been applied in the past, but its implementation had been made somewhat systematic in the current year. The total amount of exchanges so far in 1983 would be between $100,000 and $200,000. Many of the cases were in connection with requests for microcomputers. He personally believed that the provision that departments should give up budgeted for unbudgeted items was a good one, because it made the departments more financially responsible. The idea of making departments more responsible for their own budget was in line with modern practice.

The Deputy Director of the Administration Department remarked that insofar as electronic equipment was concerned, not only the Administration Department, but also the Bureau of Computing Services, and the Executive Committee for Computing Services had to approve the various projects. Consequently, the room for padding was very small, if it existed.

Mr. Salehkhou commented that he had raised the question with complete confidence in the staff's integrity. However, the staff had presented figures showing considerable overexpenditure. He did not see why, if a department felt that in the middle of the budget year it needed another item, it could not come to the Executive Board and ask for authorization.

The Chairman noted that the overrun for the data processing services was not really the result of the budgeting mechanism itself. It had been caused in large part by the inadequacy of the budget estimate, which in turn had been based on inadequate data supplied by the Joint Computer Center. Moreover, the Bureau of Computing Services had had to rent another computer in order to get through the amount of work required by the Fund. While there certainly seemed to have been a faulty initial estimate, that was different from a defect in the budgeting process. It was not the overrun that was as worrying, perhaps, as the faulty forecasting.

The Deputy Director of the Administration Department explained that while the Joint Computer Center was called "Joint" because both agencies had access to it, it was managed by the World Bank and the Fund only had access. The 17 percent overrun mentioned by the Deputy Managing Director came to some $2.3 million. Excluding the additional computer, the effects of the faulty data base, and the higher cost of contractual services, the overrun amounted to $330,000, covering additional word processors that had been bought in order to speed up the presentation of reports and mission work. It was therefore to be hoped that the larger items of the overrun would not recur.

Mr. Prowse commented that it was clear from the staff responses that there was no room for compressing the time required to produce the midyear budget report. Consequently, if Executive Directors were to have a longer time in which to consider the document, there should be a longer period between the circulation of the document and its consideration by the Executive Board. He hoped that such arrangements would be made in the future. He had also suggested that the proposed budget for FY 1985 should be discussed by the Committee on Administrative Policies. Some of the detailed discussion seemed to him more appropriate for consideration by a Committee than by the Executive Board. Holding a preliminary discussion in the Committee on Administrative Policies ought to reduce the time required for discussion in the Executive Board. There was a danger that the Executive Board discussions would become longer and more detailed unless Executive Directors adopted a different procedure.

The Deputy Managing Director observed that the Executive Board would have to amend the terms of reference of the Committee on Administrative

Policies in order to follow Mr. Prowse's suggestion. It was therefore up to the Executive Directors to decide whether they wished to adopt that proposal. He himself doubted whether the proposed procedure would be at all time saving; it could undoubtedly be more thorough in certain respects.

Mr. Erb recalled that Mr. Prowse had made his suggestion previously. The Board might adopt the procedure on an experimental basis before taking a decision as to whether it should be permanent.

The staff representative from the Administration Department commented that the staff was already committed to a tight schedule for preparing the budget for FY 1985. To introduce a discussion in the Committee on Administrative Policies might create considerable strains, especially if the staff was being asked to provide more analysis each year. In later years, the budget timetable could be adjusted to make the preliminary budget document available for discussion by the Committee on Administrative Policies.

Mr. Prowse stated that he would be prepared to discuss the matter with the Deputy Managing Director and those concerned with budget preparation to see what might be possible in early 1984 and in later years. While he certainly did not wish to make things difficult for the staff, he sincerely believed that many of the issues ought to be discussed at committee level rather than in the Executive Board. He also realized that there was a distinction between the role of the Executive Directors and that of management and staff, but he intended to be wholly positive in that respect.

The Chairman accepted Mr. Prowse's procedural suggestion.

Summarizing the discussion, the Chairman stated that he had noted with appreciation the expressions of commendation for the staff and its work in negotiating programs in the field and for the responsible way in which it had carried out its work at headquarters, as well as for the technical assistance provided by the Institute and the departments concerned. The support of the Executive Directors would help to strengthen the morale of the staff, which was overburdened in a number of departments and individual divisions. He had noted the suggestions by Executive Directors for possible ways in which to alleviate the pressures. In particular, he had caught the note of sympathy for some additional recruitment, and Executive Directors could be assured that management and staff would continue to deal with those matters in the traditional conservative manner, although management clearly understood that some additional recruiting was necessary. He had also heard with interest the comments about the desirability of more lateral transfers, meaning that staff members from less busy departments could be used to help those that were really overburdened. While such loans were already made, perhaps more could be done in that direction.

Regarding the studies that Executive Directors would like undertaken in the future, the Chairman said, he had noted a desire that the Research

Department should become more involved in systemic studies, a view shared by the Economic Counsellor and himself. The work load of the Research Department was, however, already very heavy. He had noted Mr. Jaafar's suggestions regarding work on restrictions and protectionism. The Fund was already fairly heavily engaged in that direction, but it was useful to know that some Directors would like still more effort placed in that field. The matter of interest rates in large industrial countries was considered permanently by the staff in its Article IV consultations and in the World Economic Outlook exercises. Nevertheless, the subject probably deserved special attention, especially in connection with the increasing effect of interest rates on international flows. The role of prices in the allocation of resources and their impact on growth was also an interesting topic for a seminar or staff paper.

It was clear, the Chairman continued, that Executive Directors had become very interested in security, and he had welcomed the positive responses by Directors to the suggestions that he had made for improvement in that field. As Executive Directors probably knew, the Fund would recruit a person to be in charge of security matters. He hoped that Executive Directors would cooperate actively with that person and with the Secretary. Improving security would be inconvenient for all, but the Fund really had no choice.

Finally, the Chairman recalled that several speakers had expressed themselves in favor of an independent evaluation of the Fund's programs and actions. Probably no one present was more interested than he in the concept of assessing not only country performance but also the quality of the Fund's programs. However, he had some doubts regarding the idea of an independent evaluation body, or even an organ within the Fund. First, it would certainly be agreed that there was really no independent evaluation system. Everyone had his own intellectual habits and methods of thought. Appointing persons from outside to an evaluation team did not mean that they would really be any more independent than anyone from inside the Fund staff. They too would have their prejudices and preconceptions, and their objectivity could be challenged at any time. What sort of consultant would the Fund choose? His own feeling was that the actual choice would create considerable difficulties for the Fund. It was true that the World Bank did have an evaluation team, but it was quite a different matter to evaluate a telephone system, for instance, than to try to evaluate the quality of a Fund program or even the quality of its implementation.

What was involved, the Chairman went on, was not only an assessment of the mathematical compliance with targets or objectives; an evaluation also required an understanding of what the Fund had had in mind in proposing the program in the first place. Anybody wishing to assess a Fund program would have to immerse himself in the philosophy of the institution, which had been built up over almost 40 years. He would also have to be able to understand the strengths and weaknesses of member countries, and the ongoing relationship between the staff and the member countries, which in turn had developed through the review process, consultations, and frequent communications. He would not wish to place responsibility on people who by definition could not have that knowledge. They would first have to be trained not only in the methods but also in the thought processes of the Fund, something that would be so time-consuming and difficult that he did not believe that it would be wise to embark on it.

Finally, the Chairman observed, the proposal seemed to him rather like an "escape valve." The people with ultimate responsibility for assessing the quality of the programs and the standard of implementation were the Executive Directors. The task of the staff was to help the Executive Directors to carry out that duty in the most efficient way possible by providing all the information needed to make a professional judgment on the design of the Fund's programs and on the way in which governments carried them out. He would therefore prefer to concentrate on two aspects, on which--as some Executive Directors had mentioned--the Fund had already made considerable progress. First, the staff should provide more explicit explanations of the analytical approach underpinning the design of any program. In the past, Mr. Buira, among others, had placed great emphasis on the point, and he believed that the Exchange and Trade Relations Department and the area departments had made a great effort to provide clearer analytical frameworks. For instance, the relationship between budgetary stringency and balance of payments results had been made much clearer in the past two or three years. Second, management and staff should provide reviews of programs after they had worked or failed, in as neutral a manner as possible, to provide a basis for judgment. He would not wish to transfer to a group of consultants a task that lay at the heart of the responsibilities of the Executive Board, namely, to pass judgment on the work carried out by the staff.

He did not believe that the Executive Directors should rely on outside advice in commenting on the programs formulated by the staff and carried out by governments, because that was essentially part of their own task, the Chairman concluded. He would be very receptive if Executive Directors were to help the staff in explaining why events had not turned out as expected, or why certain programs had failed. The subject of program assessment was one to which he had given considerable thought from the first day of taking office, because it was a topic that was bound to arise in any administration. He would therefore be happy to have the views of Executive Directors on what was after all a subject of major importance.

The Deputy Treasurer, replying to comments by Mr. Mtei at the morning session, remarked that the staff had thought that it was merely drawing the Executive Board's attention to the fact that the Fund's income target had been fully met, that no trigger clause would be involved, and that there was therefore no need to institute the part of Rule I-6(4) dealing with the relation of incomes to charges. Mr. Blandin had expressed surprise that the staff had not proposed a reduction in charges. What the staff had said was that it did not feel that there was any need to change the rate of charge. Had the amounts been large and the staff considerably out in its estimates, there might have been a difference in the drafting of the concluding paragraph.

As to why there had been a reduction in estimated commitments of SDR 2 billion over the financial year, the Deputy Treasurer noted that the difference was between the estimates put forward in connection with the review of the Fund's liquidity in April 1983 and those put forward in the August 1983 review of the Fund's liquidity. In fact, the Fund had been disbursing SDR 1 billion a month during FY 1984 compared with some SDR 700 million a month in FY 1983. While that SDR 300 million represented a substantial increase, it was somewhat less than had been projected at the beginning of the financial year. The reduction in estimated commitments had been due to the fact that one major program was not likely to come before the Executive Board during FY 1984 and another one was so far off course that it was unlikely that any reductions in the program would be feasible. Furthermore, there were two programs--one of them rather large--that were being renegotiated, and the phasing would take most of the drawings out of FY 1984.

The Executive Directors concluded that there should be no change in the rate of charge on the use of ordinary resources. A further review of the Fund's income position, including estimates for 1985, would be made shortly after April 30, 1984, as provided by Rule I-6(4)(a) and (c). Naturally, a review could be made earlier should the Executive Board consider an increase in the rate of remuneration in the course of the financial year.

APPROVED: March 12, 1984

LEO VAN HOUTVEN
Secretary