CONFIDENTIAL

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COMMITTEE ON THE BUDGET

Meeting 94/5

10:00 a.m., October 27, 1994

A. D. Ouattara, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
J. E. Ismael	
	W. Ch. Keller, Temporary
	G. Y. Glazkov, Temporary
K. Lissakers	B. S. Newman
	A. Galicia, Temporary
H. Mesaki	
	Y. Patel, Temporary
	E. Wagenhoefer
E. Waterman	

J. W. Lang, Secretary
S. L. Yeager, Assistant

Also Present:

	M. Sirat
J. Bergo	
H. Evans	
	J. Prader
A. Mirakhor	
A. S. Shaalan	
	Wei B.
A. G. Zoccali	

Administration Department: G. F. Rea, Director; H. J. Struckmeyer, Deputy Director; P. K. Craig, A. A. Tait. Office of the Managing Director - Office of Budget and Planning: L. A. Wolfe, Director; J. G. Blanch, P. J. McClellan, P. J. McPhillips, M. Oka, H. Wiesner, A. A. Zimmerman. Office of Internal Audit and Review: M. Caiola, Director. Office of the Deputy Managing Director: J. Prust. Secretary's Department: B. R. Hughes, A. Mountford. Treasurer's Department: J. E. Blalock. Advisors to Executive Directors: S. K. Fayyad, M. F. Melhem, B. A. Sarr. Assistants to Executive Directors: R. N. A. Ally, P. I. Botoucharov, J. A. Costa, J. W. Dagustun, D. Desruelle, A. Galicia, K. Gaseltine, O. A. Himani, S. Ishida, E. Kouprianova, N. L. Laframboise, S. C. McDougall, N. Prasad, M. W. Ryan, R. von Kleist.

1. MEDIUM-TERM BUDGETARY OUTLOOK

The Acting Chairman recalled that at the Committee's May 31, 1994 meeting, a number of committee and Board members had requested that they be kept informed of developments concerning the formulation of a medium-term budgetary outlook for the coming three-year period. As part of the ongoing dialogue between management and the Executive Board, he had asked the staff to describe the current budget exercise to the Committee and to answer any questions that Committee members might have. As the staff was still developing the medium-term budget proposal, he suggested that the focus of the discussion should be on the broader strategic issues. Committee members would have an opportunity to review management's proposal in more depth in late November when the Managing Director's statement on the budgetary outlook in the medium term was circulated to the Executive Board.

The Director of the Office of Budget and Planning, reviewing developments over the past four months, explained that in the early summer, all departments, bureaus, and offices had been asked to provide their views on the medium-term outlook, focusing on the envisaged work load and the resources that would be needed. In addition, they were requested to take into account two different scenarios--namely, no increase in staffing and a decrease in staffing. Departmental submissions had been received in the mid-September and had been examined over the past month.

Other indicators had also been taken into account in reaching an overall judgment on the prospective work load over the medium term, namely, for FY 1996 through FY 1998, the Director continued. The staff had concluded that, while the work load would remain intensive and, in fact, would increase further in some areas, the overall work load would remain at about the current level. Departmental submissions had supported that view, although some departments believed some additional staff would be needed to meet the work load. In general, departments anticipated that resources would be tight.

The staff had also concluded that, with careful prioritization in the work load, there would be a plateauing of costs in the coming three years, the Director remarked. For instance, the number of new applicants for Fund membership was expected to level off, while the number of program or "intensive" countries--namely, those countries requiring additional support by departments--was expected to stabilize over the period. In addition, external financing, which had already increased substantially, was likely to rise even more; some newly recruited staff would become fully productive as they gained experience with the Fund's operations; and the increased investment in technology over the past few years would continue to pay dividends, not only across the board, but also in specific areas. For example, the new payroll/personnel system, which was currently being tested, would go into effect at the beginning of 1995.

There could, however, be increased costs in some areas, the Director stated. The Interim Committee had called for increased surveillance activities, and the demand for technical assistance continued at a high level. The policy work facing the Board and the staff over the coming year also was expected to be very heavy.

Under the current policy of budget consolidation put in place in FY 1995, there was to be no change in the authorized staff ceiling and little or no change in real expenses, the Director recalled. In the current budget, the authorized staff ceiling was unchanged from FY 1995, and actual expenses in FY 1995 were slightly lower than in FY 1994. In light of all those factors and the expected gains in the coming three years, the staff believed that a slight adjustment to the consolidation definition might be possible. Specifically, a reduction in administrative expenses by 1 to 2 percent in real terms in each of the coming two years on a budget-to-budget basis might be possible. A decision for FY 1998, however, might best be left until later, when the staff would be in a better position to make a judgment about the prospective work load.

Achieving a 1 to 2 percent reduction in real terms--assuming an inflation rate on the order of 3 percent to 3.5 percent over the period--would require action in several areas, the Director commented. Some anticipated price rises would have to be absorbed, which would require careful review of some dollar-denominated activities as well as a slight reduction in the authorized staffing level in each of the coming two years. The staff would be looking in the coming month at how savings might be achieved. In particular, it would look at specific activities where some resources might be saved through technology and changes in work practices. It might be possible to ask for a more across-the-board adjustment to reflect ongoing productivity gains that were expected to be realized over the coming two to three years. The size and nature of those cuts would be included in the Managing Director's statement on the medium-term budgetary outlook.

In adopting that stance, the staff recognized the need to safeguard the integrity of Fund activities, to continue working toward achieving the personnel targets, and to meet any unforeseen demands arising in the coming period through a reduction in activities in other areas, or in the extreme, through a request for additional resources, the Director of the Office of Budget and Planning explained. In the coming month, the staff and the management, in consultation with departments, would work to finalize the medium-term budget proposal along the lines he had described. It was expected that Committee on the Budget would meet to discuss the matter prior to the Board's consideration of the Managing Director's statement on December 19. Thereafter, the staff would prepare the budget proposals for FY 1996 and would produce a paper for Board consideration in the second half of April. On the basis of a six-monthly review of FY 1995 expenditures at the end of October, the staff would circulate a paper for the information of the Board toward the end of November.

Ms. Lissakers asked whether the request for departmental submissions for the coming three years had included guidance on management's policy priorities and budgetary objectives; and, if so, whether that guidance varied from department to department.

The Director of the Office of Budget and Planning explained that the instructions to departments had noted that the Fund was in a period of consolidation and that departments should work on the assumption that overall staffing would not increase in the coming three years. In addition, departments had been asked to respond to a second option, namely, some reduction in staffing. Thus, the instructions contained broad guidelines on the likely budgetary stance for the medium term. There had, however, been no differentiation between departments; rather, the staff had followed an across-the-board approach.

The Acting Chairman said that management also had met with department heads to indicate to them the broad outlook for the medium term, and to hear their views on its likely impact on their budget requests. Although views varied from department to department, most operational departments felt that they needed to consolidate, but that the work pressure remained intense as did the desire to continue to produce high-quality products for the institution. Management would be meeting with individual departments before deciding on a final strategy, which would be set out in the Managing Director's statement.

Ms. Lissakers asked wither there had been any reference in the guidelines to the outlook for the Fund's income position. If not, where in the process was income taken into account?

The Director of the Office of Budget and Planning said that the staff was very much aware of the impact of administrative expenses on the rate of charge. But the process followed to date was to establish the expected work load and the minimum level of expenses and staffing needed to meet that work load. The cost of inputs, including their impact on the rate of charge, were then examined in that light.

Ms. Lissakers observed that it would be useful for the Committee to see the request to department heads in order to better understand how the process worked.

Mr. Waterman remarked that he drew some comfort from the staff's comments regarding management's approach to the medium-term budget. However, he still had some misgivings about the role of the budget committee in the process. The work currently being undertaken by the staff was extremely important and in line with Directors' views on the sort of work that management ought to do, but at some point the Board, particularly the budget committee, should be more involved in the process than was being proposed. In particular, he would like to see an iterative process at an early stage: management would report on the implications of some of the scenarios under consideration to ensure that the Committee had an opportunity to discuss the implications of, for example, a tighter budgetary baseline, before management decided on a firm proposal. In that way, the budgetary process would become less confrontational than it had been in the past.

In general, the direction being taken seemed to be a positive one, Mr. Waterman commented. Clearly, staffing requirements were an important factor in determining the cost of running the Fund over the coming few years. In his view, apart from some unforeseen developments, the organization would be able to meet its basic responsibilities with slightly lower numbers of staff in future years.

Ms. Lissakers, commenting on the Committee's role in the budget process, observed that there seemed to a strong sense among committee members, and, indeed, among Directors, that there should be continuous engagement by the budget committee in the process, and particularly in setting priorities and objectives as the budget was being planned, rather than ex post commenting on a proposal that bore the imprimatur of management. She would therefore reiterate her request that the Committee be given a copy of the guidelines for department heads so it could gain a more concrete sense of that aspect of the budget process.

As to objectives, it was reasonable to presume at the start of the budget planning process that expenses should be matched with anticipated income, although that was not necessarily an absolute constraint, Ms. Lissakers stated. Adjustments to the rate of charge could then be made on an emergency basis if costs could not be adjusted to anticipated income. That was standard practice in most institutions, and she saw no reason why the Fund should be an exception, even though she recognized that there might, in fact, be circumstance in which costs exceeded anticipated income, thereby necessitating an adjustment in the rate of charge. It would be helpful to hear the views of Directors and management on the relationship between planned expenditures and anticipated income. Finally, the formula for allocating the Fund's operating expenses should be a consideration from the outset.

Mr. Evans noted that the staff had mentioned various factors that would affect the Fund's ability to meet its budgetary objectives over the coming few years, including the large buildup of staff in recent years, the impact of seasoning, the contributions of information technology, and the scope for greater prioritization and efficiency. In his view, the estimated gains of 1 to 2 percent a year, was extremely modest; set against the likelihood that the budgetary outturn for the current year would be below budget, a reduction of that magnitude represented almost no change in FY 1996.

The contrast with the outcome in the World Bank, in terms of numbers as well as approach, was striking, Mr. Evans continued. The World Bank President was examining proposals for a cut of up to 6 percent a year in real terms for two years based on the existing scope for economies within the institution in terms of both greater selectivity and more setting of priorities. In addition, over the past few years, the World Bank had developed a more consultative approach to budget planning: management discussed various approaches with the Bank's Executive Directors and their budget committee before coming to a definite proposal. He therefore strongly supported Mr. Waterman's remarks on the desirability of greater involvement by the Committee, and in particular, the suggestion that before the management put forward a single proposal in late November, several options should be discussed with the Committee.

He also agreed with Ms. Lissakers that the Committee should look at the implications of any budget proposal for the rate of charge, Mr. Evans remarked. In his view, the Board should aim to reduce the rate of charge, which implied that administrative expenses would tend downward at a perceptible rate. As it was likely that from time to time major events would require the mobilization of extra resources by the Fund, it was necessary in the meantime to take advantage of productivity gains and the scope for rationalization to reduce costs. Moreover, he doubted that assuming that the size of the institutions would tend to increase over the long term was desirable or necessary. It would therefore be helpful to revisit the Committee's procedures to see whether a more consultative approach could be introduced that would allow for the consideration of several options before the Managing Director put forward his proposals in late November.

Mr. Sirat said that he welcomed the staff's statement, as he favored budget consolidation and a cautious approach to reducing costs in real terms. He would be interested in concrete proposals to further reduce costs. He did not have ex ante views on the appropriate level of administrative costs and could consider further cuts only when he had a clear idea of their impact on the Fund's efficiency. In that regard, while the Committee should be aware of the practices of other institutions, he was not sure that the World Bank was the best comparator in terms of productivity and the containment of administrative costs.

The key variable in the budgetary outlook seemed to be the number of intensive country cases, Mr. Sirat observed. He would therefore like to see in the documentation presented to the Committee an indication of the number of intensive cases likely to be considered in the medium term. While he understood the difficulty in forecasting the number of intensive cases, it would be helpful to define the relationship between the number of such cases and the level of administrative costs in anticipation of reducing those costs once the number of intensive cases began to decline.

The concern of some committee members regarding the impact of costs on the rate of charge was a new and welcome development, Mr. Sirat stated. As to forecasting the income outlook for the medium term, the value of such an effort seemed questionable. In fact, at present, the Treasurer's Department had great difficulty in forecasting the income level for the coming year because the outcome was totally dependent on the SDR interest rate and the level of the Fund's lending activity, both of which were difficult to predict.

Mrs. Wagenhoefer said that she supported Mr. Waterman's suggestion that the Committee meet again before the Managing Director presented a more detailed proposal regarding the medium-term outlook. She also supported his suggestion that the Committee should have an opportunity to discuss alternative scenarios in order to better understand their possible implications for the medium term.

She was inclined to agree with Mr. Sirat that projecting real expenditure required some consideration of income, which was far more difficult to project in the medium term, Mrs. Wagenhoefer commented. As Mr. Sirat had observed, it was already difficult to foresee how interest rates and other variables would develop over a single year. In considering the medium-term outlook, the main task instead should be to concentrate on the expenditure side, starting from real developments. In principle, the envisaged real downturn of expenditure was welcome. If, in the event, expenditure in FY 1994 was 3 to 4 percent below the original estimates, however, there would be no real downturn in the medium-term outlook. More detail was needed on that point.

Mr. Mesaki said that, while he welcomed the intention to achieve budget consolidation, he understood that budget consolidation per se was not a goal. As the institution should at all times extend high-quality work to its clients, he did not share the World Bank's mechanical approach to budgetary matters. The Fund should provide for flexibility at all times.

Projected income should be discussed whenever the Board considered the budget, but it was difficult to accurately forecast income over the medium term, Mr. Mesaki remarked. Moreover, in the near future the Board would be discussing a related issue, namely, the adjustable norm, which might also have an impact on income. He agreed with Mr. Waterman that the Committee should discuss the Managing Director's budget proposal before it was formally presented to the Executive Board.

Ms. Lissakers commented that Mr. Sirat was right to say that it was difficult to make medium-term projections regarding income, but the implications of adjustments in the rate of charge should not be the residual in the budget-making process. Rather, the relationship between the planned budget and anticipated income should be addressed concretely throughout the budgetary process, and the implications for the rate of charge should be made clear.

The Committee was currently grappling with that issue because, to date, the budget planning process had not been transparent, Ms. Lissakers added. As the Committee received more information and was able to participate in the planning process, it might gain a better sense of the relationship between the rate of charge and the budget. She would urge that the implications for the rate of charge be addressed at an early stage in both the annual budget process and the medium-term outlook exercise so that clear trends in income were built into the process.

Mr. Al-Tuwaijri said that he welcomed the staff's statement that the Fund was looking ahead to a period of consolidation. The current exercise was a new development in the Fund's budget process, which aimed at facilitating a dialogue between management and Executive Directors. He hoped that it would also help reduce the tension that had accompanied budget discussions in the past.

He wished to see the budget committee more involved in the iterative process, and to that end, more information, more scenarios, and more access to the process of the medium-term exercise was needed, Mr. Al-Tuwaijri continued. Also, the implications of each scenario for the rate of charge was especially important.

He agreed with those committee members who had emphasized the importance of having more information before the Managing Director's statement on the medium-term budgetary outlook was presented formally to the Board, Mr. Al-Tuwaijri remarked. He recalled that in a memorandum dated April 28 from a number of Executive Directors to the Chairman of the Committee on the Budget concerning the role of the Committee, Directors had emphasized the importance of having more information on the budget exercise and of looking at different scenarios and their implications, especially with respect to the rate of charge.

Mr. Wei said that he wished to echo Mr. Mesaki's concerns regarding the impact of budget decisions on the Fund's flexibility. He understood that an effort would be made to reduce the budget by 1 or 2 percent in real terms in each of the coming 2-3 years. He agreed with Mr. Mesaki that some flexibility was needed, particularly in light of the uncertainties surrounding some capital expenditure items.

He was pleased that the implementation of the Phase III project might be completed within budget for the first half of FY 1994, but the delays that had already been experienced--for example, in closing the alley--implied additional costs, Mr. Wei added. He was concerned about the future implementation of the project, especially in view of the World Bank's recent bad experience with its headquarters building project.

Another concern was staff benefits, Mr. Wei continued. He understood that World Bank staff had the option of business class travel for home leave once every two years or economy class for home leave once per year. A number of Fund staff believed that the Fund should also offer such options. In that event, he wondered what impact a change in home leave benefits would have on the budget.

As to actual administrative and capital expenses for FY 1994, he would be interested to hear what key expenditures had been substantially lower than expected, and why, Mr. Wei remarked. In view of the envisaged strong demand for technical assistance, the costs related to that activity in terms of staff years might increase. In the circumstances, he agreed with Mr. Sirat on the need to consider some concrete proposals on how to reduce overall expenditure.

Mr. Prader said that he was in general agreement with the direction of the medium-term budget proposals outlined by the staff. On the point of expenditure cuts, like Mr. Sirat, he would like to see some indications and estimates of the consequences of expenditure cuts on the membership, particularly on program countries. He also shared the skepticism of Mr. Sirat and Mr. Mesaki with respect to the World Bank's budgetary approach, which had resulted in an extremely high level of staffing. To avoid such unpleasant surprises, it would be helpful to have a comparison of World Bank and Fund policies and performance with respect to administrative costs over the past four or five years.

Mr. Evans remarked that any approach to budgeting that relied mainly on a bottom-up approach was not enough. Rather, an approach was needed that provided an overall view of where the institution was headed and the resources that could, or should, be made available to it. Certainly, any overall figure should be examined for its implications.

There was a real danger in the Fund of relying excessively on the bottom-up approach, Mr. Evans considered. Such an approach failed to recognize that there were often more efficient ways of achieving particular objectives. In the United Kingdom, for example, the Treasury had recently announced a reorganization designed to produce better service while cutting the number of senior staff by 25 percent. He believed that all institutions had the ability to deliver their objectives more efficiently and that, for the Fund, economies and greater efficiency were possible.

Mr. Bergo said that he supported Mr. Waterman's suggestion that the Committee meet with management to discuss options for the medium-term budgetary outlook at a time when options were still open. He also agreed with Mr. Sirat on the need to see the effects of certain cost developments before deciding on the budget, and on the difficulties in forecasting income in the medium term.

The Acting Chairman remarked that upon receiving the first draft of the budget proposal, he had paid a courtesy call on the President of the World Bank--together with the Managing Director--to discuss the Bank's intention to reduce expenditures in real terms and how it would proceed. His first instruction to the staff had been to look at the Fund's medium-term budget in that light. He had also asked for some comparative statistics on the budgets of the Bank and the Fund, especially actual expenses over the past three years since the increase in the number of member countries in both institutions. He would not like to comment on those figures, but he believed that Executive Directors on both Boards were broadly aware of how expenditures had evolved in the two institutions.

He had also asked the staff to make sure that the Fund was in conformity with the general trend in member countries, the Acting Chairman continued. As the Fund was a cooperative institution, it had to take into account the sentiment of all members. A number of countries were going through an adjustment effort while the major industrial countries were facing severe budgetary restrictions. Those development had to be considered in formulating the medium-term budgetary outlook.

But the budget should not be figures alone, the Acting Chairman commented. The institution did a good job: every Executive Director had, on occasion, praised the quality of the staff's work. The staff was very dedicated and that type of quality had to be maintained as well.

Looking at all those parameters, and from his own experience, he considered it appropriate to discuss the budget proposals in the Committee before presenting the formal proposal to the Board, the Acting Chairman remarked. As Prime Minister and Minister of Finance, he had often attended long meetings of the Finance Committee of Parliament, which reviewed the budget proposals in considerable detail, before presenting the proposals to the full Parliament. Depending on the available time, he agreed that ways should be found to improve the coordination between the Board and the Committee and between the Committee and management, so as to take into account proposals by the Committee in designing specific proposals for formal Board consideration. However, in doing so, the budget process should not become bureaucratic.

As to Ms. Lissakers's request for the instructions to departments, they had already been related to the Committee by the staff: in its meeting with department heads, the management had indicated that they should look at consolidation and at the impact of a reduction in staff on their activities, the Acting Chairman explained. He had also taken note of the suggestions on improving the budget process. The management would review how to proceed with regard to the preparation of the budget and would come back to the Committee once it had set out its own procedures in a more definitive way.

He believed that reorganization could lead to a reduction in costs, the Acting Chairman noted. But reorganization itself had a cost; he would recall that a few years earlier, the job grading exercise had caused numerous morale problems for the Fund. It was necessary to monitor costs and other long-term issues that had been identified to see if reductions were possible and whether they were conducive to the better quality of the product. He understood that the Board would like to continue having quality work and to have an institution that did not grow further, or at all, except in exceptional circumstances. The staff and the management would seek to achieve those objectives in its proposals for the medium-term budgetary outlook.

The Director of the Office of Budget and Planning, recalling Ms. Lissakers's remark that the rate of charge should not be a residue of the outcome of the budget, said that he agreed with those who had observed that the alternative of setting a target for income was not easy. While it was true that salaries and benefits accounted for a large share of the budget, those elements were not easily changed in the medium term. He would, however, come back to the Committee at some future date with information on the links between income and expenses and the implications for Fund activities of a reduction in expenditures.

Earlier budget documents had provided detailed information on the costs of intensive cases, by region, the Director observed. The staff would continue to make that information available to the Board and the Committee. Area departments had been asked to anticipate intensive cases for the coming two to three years, which was a difficult task. Like the Committee, the staff was aware of the tendency of area departments to link the number of intensive cases with staffing levels.

It was true that in FY 1994, expenditure on technical assistance had been lower than budgeted, the Director continued. That outturn largely reflected the difficulty in finding long-term experts to serve in many newer member countries where living conditions were not easy. Consequently, area departments had substituted short-term for long-term technical assistance, which had reduced somewhat the pressures on the budget.

The World Bank's budget called for a 6 percent reduction in expenses, which amounted to a real reduction of 3-3.5 percent when a price factor was added, the Director stated. As for staffing, from FY 1992 through FY 1995, the Fund had added 507 staff years to a base of approximately 2,200, resulting in the current level of 2,738 staff years; over the same period, the Bank had seen an increase in staffing to 6,500 regular staff and 3,500 consultants.

If the budget were built from the bottom up, as Mr. Evans had suggested, there would be increases every year, the Director observed. The case could also be made that in most of its activities--surveillance, technical assistance, policy work, and information--the Fund should be doing more. While the annual budget presentation was looked at from the bottom up, the medium-term exercise was approached from the top--namely, by looking at the overall strategy and its impact on the work load.

The projected increases in salaries and benefits for the medium term were based on estimates of inflation for the coming three years, the Director of the Office of Budget and Planning explained. But figures varied significantly from item to item. For example, medical care costs had risen rapidly over the past five years--by as much as 15-20 percent annually in the early 1990s--although there was some evidence that costs were slowing. For the medium term, the staff had estimated that overall inflation would be on the order of 3 1/2 percent. The Fund staff also worked with the World Bank's Price Committee to try and isolate prices for individual items in the budget. The estimate for health care, for example, was clearly greater than 3 1/2 percent. As to salary increases--the other major part of the estimate--comparative figures were not yet available; the staff was using a figure of 3 1/2 percent as a proxy. Comparative salary information would become available in March, at which time it would be included in the Administrative Budget to be presented to the Board. For the moment, the salary increase for Executive Directors had been excluded. It was true that certain events in the world economy and changes in benefits could occur that would require revisiting the budget during the course of a year. In that event, a supplementary budget would be put forward. In fact, two supplementary budgets had been advanced following the accession of the countries of the former Soviet Union to Fund membership.

2. <u>RESIDENT REPRESENTATIVE PROGRAM - REVIEW</u>

The Committee considered a staff paper on the review of the resident representative program (EBAP/94/69, 9/2/94).

Mr. Newman said that he appreciated the important role that the resident representative function provided to the institution. He understood why the program had grown so rapidly in the past few years, both in size and in overall cost. His concern was to have some confidence that the priorities were correct and that the service was being provided by the most cost-efficient manner.

He noted from the staff paper that closings of resident representative posts had been few and far between, even in recent years when closings seemed to have been attributed more to the security of the resident representative than to the function being performed in the country itself, Mr. Newman commented. Given the current consolidation phase in the Fund, he believed that there was a need to ensure that the resident representative program was as cost effective as possible. For example, there were techniques to ensure a regular review of priorities in a program that accounted for some 5-10 percent of the Fund's total budget, and while it was difficult to measure the offsetting savings in terms of staff missions that would have had to be fielded, for instance, the cost differential between headquarters-based staff and overseas staff was substantial--nearly 80 percent--for the same kind of individual. In the circumstances, he would be interested to know how it was decided whether a post should be opened, closed, or continued, and to suggest that there were techniques that the Committee itself might wish to consider to facilitate prioritization of resident representative positions.

Some techniques were more blunt than others, Mr. Newman continued. An overall ceiling might be set on the number of resident representatives that was somewhere below the current level so as to provide an incentive to rethink priorities. Or a global budget could be set for a resident representative post as part of the departmental budget, so that each department head would have to allocate the limited resources in a way that was as cost efficient as possible. Or, a price mechanism could be instituted whereby more costs were covered by the host country. It was striking that currently, the host country paid roughly 6 percent of the total cost of a resident representative. Perhaps some cost-sharing arrangement could be put in place to cover costs in excess of those for headquarters-based staff.

He recognized the difficulty of closing posts, Mr. Newman stated. When facing similar budget constraints, the U.S. Treasury had had to scale back its overseas posts and to find more effective ways of undertaking the task. He hope that the Fund would undertake a similar process, no matter how painful it might be.

Mr. Ismael said that he agreed with Mr. Newman on the need to explore further the possibility of increased cost sharing by the host country. But in exploring that possibility and the overall cost of a representative office, one limitation to be kept in mind was that the shared cost should not be at a level that was tantamount to the cost of contracting outside consultants. In that event, there would be no point in having a Fund resident representative in the country, especially if the country had no program. Nor should the cost to the recipient country be prohibitive.

Another consideration was institution building, Mr. Ismael remarked. At issue was the extent to which a resident representative office could help transfer technical knowledge to the host country, so that when the office closed, local staff would possess the technical skills needed to continue the functions previously performed by the resident representative. That aspect should be part and parcel of the agreement between the Fund and the host country; specifically, the secondment of local staff of a central bank or ministry of finance would not be on a voluntary basis but would be a condition for the posting of a resident representative.

Ms. Laframboise asked why the average real cost per staff year had risen sharply in recent years. Like Mr. Newman, she would also be interested to hear how the staff decided on opening or closing a resident representative post. As there could be a limitless demand for resident representatives, some kind of a cost-benefit analysis should be part of the decision-making process.

Mr. Zoccali said that he shared the view that the resident representative program had been cost effective in furthering the Fund's policy advice to member countries. The basic precondition for posting a resident representative must be that the post was desired by the country authorities. If that condition was met, he would agree with the conclusion in the staff paper that there was no substitute for having a Fund staff member working alongside the authorities.

The staff paper provided a useful tool for assessing the resident representative function in that regard, Mr. Zoccali observed. It highlighted the need to ensure that staff of the highest quality were assigned to fulfill the functions of a resident representative. To take maximum advantage of the proximity to the host country authorities, the functions assigned to the resident representative should be closely aligned to his/her comparative advantage. In that regard, the resident representative should not substitute for other forms of established liaison. For example, the staff envisaged that resident representatives would serve as a conduit for bringing relevant information on developments in the Fund to the attention of the authorities so as to ensure that officials were well informed of Board-approved changes in Fund policies or new Fund policies that may affect the country. In his view, that was an area where prioritization was required and where closer coordination with Executive Directors' offices could improve the overall effectiveness of the assignment. Greater use of regional project coordinators also showed promising potential. Mr. Ismael had also pointed to the advisability of fostering secondments by the host government as an expression of its intention and willingness to make maximum use of the services provided by the Fund.

He was concerned about the continuing perception among the Fund staff that participation in the resident representative program was disadvantageous for career development even though former resident representatives generally rejected that notion, Mr. Zoccali remarked. Perhaps a clearer and more systematic effort to explain to suitable staff that experience as a resident representative could be useful for career development might help to lessen the emphasis recruitment currently placed on financial incentives. The mobility requirement perhaps should be revisited to make sure that resident representative positions remained attractive. In his view, experience in the field should be a criterion for evaluating an individual's career prospects, and the Fund resident representative posting could help in that regard.

He agreed on the need for cost recovery, to the extent possible, Mr. Zoccali continued. The cost disaggregation in the staff paper was useful, but it did not indicate to what degree countries were bearing the costs associated with office space and secretarial assistance, particularly in the new postings since 1989. Rather, it mentioned that the cost of the resident representative varied considerably country to country and that with the multiresident posts the cost per staff year was even higher than the $400,000 average. It would be useful to encourage somewhat greater country contributions in that regard, especially as building occupancy, together with allowances and allocated benefits, had doubled in FY 1993 and FY 1994.

He would welcome greater clarification of the criteria for opening and closing posts, Mr. Zoccali stated. In that regard, it should be noted that the table on existing resident representative posts was not complete; for example, in Argentina, the post had been closed as of September 30, and the closing was not attributable to a security consideration.

Mr. Prader said that he shared the positive overall assessment of the resident representative system. He could also support Mr. Newman's call for a regular review of costs. In that context, the low contribution of recipient countries--only 6.5 percent of total costs--was striking; that figure needed some upward revision, particularly as there seemed to have been cases where some countries believed that because the Fund had money, they could charge higher costs to the Fund.

The Fund should also ensure that candidates chosen for such positions met one major criterion, namely, the ability to pass on the operational experience of the Fund, Mr. Prader considered. While he understood the difficulties in recruiting the numbers of staff required to meet the demands arising from the opening of Eastern Europe and the collapse of the former Soviet Union, the Fund should avoid hiring hire people who had never worked in the Fund staff as they could not meet that important criterion.

Like Mr. Zoccali, he would also support closer coordination with Executive Directors' offices, Mr. Prader remarked. In fact, it might be advisable to tell resident representatives prior to their posting that they should cooperate with Executive Directors' offices and, in particular, they should be cautioned against circumventing Executive Directors' offices.

Mr. Al-Tuwaijri stated that the staff had presented a convincing argument in support of the resident representative program and the view that it was beneficial for the functioning of the institution. While he agreed with that view, he was concerned about the high cost of the program in a period of budget consolidation. Ways had to be found to reduce its cost.

Previous speakers had raised the issue of the host countries bearing some of the cost, Mr. Al-Tuwaijri recalled. That important element should be examined, especially as it seemed that the Fund was paying costs that were to be paid by the local government; for example, the Fund was buying cars for resident representatives, while according to the guidelines for resident representatives, the host country was to provide means of transportation.

In making a comparison with commercial banks, the staff had observed that if a commercial bank assumed significant risk in a certain country, it would urge its staff in that country to watch over its investment, Mr. Al-Tuwaijri noted. He was not sure that that comparison was entirely applicable to the Fund; while the Fund assumed significant risks at times, unlike commercial banks, it enjoyed preferred creditor status.

The most meaningful saving to the Fund's overall budget could be made only through a reduction in the size of the program, and it was necessary to look at ways of reducing the number of resident representatives, Mr. Al-Tuwaijri concluded. In that context, he was interested in the staff's response to the question raised by Ms. Laframboise regarding the cost per staff year.

Mr. Sarr said that he welcomed the important and useful role that the resident representative program continued to play in member countries. He noted, however, that the program had developed rapidly over the past few years and that the cost was rising rapidly as a share of total administrative costs. Given the global budgetary constraints and the current consolidation phase, he agreed that the program would need to be monitored. In that regard, he could endorse most of the recommendations made by the Review Committee, which had led to a review of the guidelines and procedures for technical assistance.

The staff paper suggested that one critical area was country contributions and how countries might be encouraged to make their committed contribution, Mr. Sarr commented. Given the budgetary situation of the countries, he wondered whether the staff had had an opportunity to review that aspect of the resident representative program.

An interesting aspect was the use in some posts of internships--a point linked to Mr. Ismael's remarks on how the Fund could best encourage the use of counterpart staff, Mr. Sarr remarked. He would be interested to hear the staff's views on how internships might be generalized and how counterpart staff could be made more operational.

Mrs. Wagenhoefer said that she agreed with the staff's assessment that the resident representative program was not only desirable and beneficial but necessary. Of course, Germany did not have experience in that regard; since reunification it had not had a permanent resident representative. That positive assessment should not, however, preclude a critical look at whether the benefits were being derived at minimum cost. She would therefore urge management to contain the costs of the program as far as possible and would be interested to hear whether country contributions were being fully utilized.

Mr. Mirakhor commented that, as he agreed with many of the comments by Mr. Newman, Mr. Prader, and Mr. Zoccali, he would only underline one factor, namely, the disincentives to recruiting qualified staff to fill resident representative positions. Currently, the incentive was financial. It should instead be geared to career development. It was also necessary to review the Fund's policy on recruiting nationals for those positions. The use of qualified nationals could be cost effective, and the bias against their recruitment should be carefully examined.

Ms. Dagustun said that she shared the view that the program was worthwhile program and that it was important to have Fund staff in the field. Like Mr. Zoccali, she hoped that the staff would come to view experience as a resident representative to be an important aspect of career development.

In the light of the earlier discussion on the budget priorities, it was for area departments to judge how they could best allocate their resources so as to help member countries most effectively, Ms. Dagustun commented. Her chair had, in the past, raised the issue of devolved budgeting for such activities. The staff paper indicated that the staff believed that that approach would give rise to a number of complications; nonetheless, her chair would support further study of that possibility.

Mr. Glazkov said that he wished to express the appreciation of his authorities for the work of the resident representative program. He joined those speakers who considered the program to be worthwhile. However, he agreed with those who had emphasize that the program's cost effectiveness should be enhanced. He also agreed with Mr. Prader on the need to emphasize the interaction of resident representatives with the offices of Executive Directors. Finally, he wished to support Mr. Newman's proposal to examine the opportunities for allocating most efficiently the resources of the Fund between area departments and resident representatives.

Mr. Mesaki commented that he fully shared Mr. Mirakhor's view. It was most important to extend high-quality service to member countries. From that point of view, assigning the most qualified person to the member country was important.

The Deputy Director of Administration remarked that the discussion on the resident representative program had been interesting, as had past reviews since the program was established in the mid-1950s. During the past two years, however, the program had undergone some fundamental changes, which were clearly a reflection of the tightening budget constraints that the institution and the departments were facing. It was in that light that he wished to address the question raised by Mr. Newman and echoed by many other speakers about whether the Fund was spending its money wisely, was setting the right priorities, and was seeking efficiency in the program. Those issues had been uppermost in the Deputy Managing Director's mind when he established a committee to examine how to increase the efficiency of the Fund's resident representative program.

The result of the committee's effort was a large number of recommendations, many of which had not been included in the staff paper because management had immediately acted on them and they had since become policy, the Deputy Director continued. Those included the establishment of specific terms of reference, which were cleared with management, the Office of Budget and Planning, the Administration Department, and the technical assistance departments, for each new post and for all others whenever there was a change in the resident representative. The terms of reference were specific to the country, to the role that the resident representative was to play in that country, and to the country plans that area departments had developed for each of their countries. The terms of reference were constantly revised and constituted a good instrument for ensuring that the resident representative was used most efficiently.

The criteria for opening and closing posts had also been tightened considerably, the Deputy Director remarked. In that context, he noted that it was true that the post in Argentina had been closed not for security reasons; the closing had not been reported in the staff paper because it occurred after the paper's cut-off date. The staff faced difficult choices not only within individual departments but within the institution and across departments, as all available resident representative positions authorized by the Board through the budget process had been filled. Consequently, the demand for new posts could only be met by closing others or by releasing a previously earmarked position. Beyond that, the opening of posts and their structure were controlled by the budget process. If the Board considered that the current budget of 66 positions or $31 million was too large, that was a budgetary issue to be dealt with in a budgetary context.

The related question of country contributions had been hotly debated in the Executive Board at various times in the past, with differing outcomes, the Deputy Director recalled. Over time, country contributions had increased, and were currently equivalent to about 6.5 percent of the total cost to the Fund of technical assistance. The individual contribution was decided on the basis of what was generally available in the country. The ideal contribution, and the simplest to administer, was a cash contribution in convertible currency. But such contributions often met with considerable resistance on the part of the country, often for good reasons. The alternative, a cash contribution in local currency, had not been sought because of the magnitude of the expense and the fact that not all costs were in local currency. Although it had not been possible to establish a general system of cash contributions, a system of contributions in kind had been developed, as indicated in the staff paper, including such items as cars, manpower, office space, or housing.

As to institution building, in a number of countries the Fund had an arrangement with the central bank or the ministry of finance or some other public sector institution to provide interns, the Deputy Director noted. He himself had had experience with interns during his tenure as a resident representative, and he had found them to be useful. But in other countries, the local staff to be trained might not have the English language skills needed to function properly in the resident representative setting. The point was well taken, however, and would be reported back to area departments.

Average costs had risen sharply in recent years because of the need to establish new posts, many of which had been very expensive, particularly in the countries of the former Soviet Union, the Deputy Director explained. In addition, the posting of more senior staff as resident representatives had increased expenditures owing to the associated higher costs in terms of salaries and benefits.

As to whether a cost-benefit analysis was possible, that had been one of the first questions considered by the review committee, the Deputy Director remarked. It was the unanimous judgment of the committee members that a meaningful cost comparison could not be done, as it was impossible to quantify the number of missions that might have been foregone or much smaller because of the presence of a resident representative. While the review committee considered that there had been such savings, it believed that it was impossible to quantify them, a view with which the Deputy Managing Director had concurred.

Given the persistence of the notions that Directors had observed among the staff, it was reassuring to see that a survey showed that the career progression of those who had served as a resident representative and those who had not was neutral or slightly positive, the Deputy Director commented. The staff's recommendation that the Review Committee, in formulating recommendations to management on promotions at the A-14 level and above, take into account a staff member's experience as a resident representative had since been endorsed by the Review Committee itself. That was the strongest signal that could be given about the value of a resident representative posting to career development.

Mobility was taken seriously in the Fund at all levels, the Deputy Director remarked. One principle of mobility was that the program, and promotion based on mobility, could work only if there were two or more independent assessments of a staff member's performance. If the resident representative assignment was within the same department, the argument of independent assessment would be weakened and it could even prove counterproductive at the Review Committee level when deciding upon promotions.

As to posting nationals to their own country, the Fund had in the past decided against such a practice because of the perception of possible favored treatment, the Deputy Director of Administration stated. The arguments underlying that decision continued to be valid.

Mr. Mirakhor said that if the country itself has no problem with a perception of unequal treatment, the Fund should not adhere to that practice. The issue should instead be looked at in terms of cost effectiveness and enhancing the quality of support to the country itself. For instance, in some countries large sums had been spent in establishing a resident representative post for things that a national of the country would not have required.

Ms. Laframboise asked whether resident representatives were ultimately accountable to area departments, or whether was there any input by Executive

Directors' offices or by the host countries on the performance of resident representatives.

The Deputy Director of Administration responded that resident representatives were assessed in the context of the Fund's performance review system. There would be a kind of double jeopardy if two performance reporting systems were established, with different timeframes, specifically to assess a staff member's performance as a resident representative. The importance of collaboration with Executive Directors was always clearly pointed out to resident representatives, and he was not aware of difficulties in that areas in the past, although there might be an occasional oversight. The reference in the staff paper regarding liaison was meant to underline the fact that resident representatives sometimes dealt with mid-level officials who were not fully informed of Fund policies through their own official channels of information.

Mr. Ismael said that in his own experience, one resident representative had been introduced to him, while another had not and had even taken up his post without the Executive Director's knowledge.

Mr. Prader commented that his chair had also had a mixed experience in its relations with resident representatives.

Ms. Laframboise remarked that her chair had had a similar experience. It might be helpful to consider some formal basis for improving relations or gauging their effectiveness.

The Deputy Director of Administration said that he would relay the concerns of Executive Directors to the area departments that managed the resident representatives. The lapses that had been noted were, however, difficult to understand because no one travelled without an authorization signed by the appropriate Executive Director. That was, of course, far from introducing oneself and making oneself known to the Executive Director as a resident representative candidate.

3. ADMINISTRATIVE AND CAPITAL BUDGETS, FY 1994 - REPORT ON ACTUAL EXPENSES

The Committee considered a memorandum by the Managing Director reviewing the Fund's actual administrative and capital expenses for FY 1994 (EBAP/94/57, 7/25/94).

Mr. Newman said that he assumed that the real decline in expenses envisaged for the medium-term was based on a comparison of projected expenses with the actual budget outturn rather than the projected budget outturn; otherwise shortfalls in the current year would be offset by increases in subsequent years. Also, it was striking that one of the increases in the budget related to home leave, which demonstrated that, in an institution made up largely of economists, the staff would find a way to maximize their benefits at the least cost to themselves. He would caution that a system of cash payments could lead to a situation where business class fares were used for economy class travel, with the staff pocketing the difference.

Mrs. Wagenhoefer noted with satisfaction that estimated and actual expenses for FY 1994 had remained well below the budgetary ceiling set by the Board. That was an important step toward the objective of achieving zero real growth of the Fund's budget over the coming few years. Like Mr. Newman, she wondered whether the reduction in real expenditures referred to FY 1995 through FY 1997. She would also appreciate some additional information about the development of health care costs for the Fund and for staff members, and about measures to contain those costs. In particular, she would be interested to know whether the Fund had used its large aggregate demand, perhaps in conjunction with the World Bank, to achieve more favorable treatment from health care suppliers and intermediaries.

The Director of the Office of Budget and Planning responded that as he had carefully pointed out earlier, comparisons of actual and projected costs were made on a budget-to-budget basis. If actual expenses for FY 1996 underran the budget, there would be some room for maneuver; in particular, as the current budget assumed a certain level of staffing that had not yet been achieved, it was likely that the full year impact of filling those vacancies would not be felt until FY 1996.

On home leave, it was true that the change in the home leave policy saw an advance of home leave plans in FY 1994 and that, as a result, home leave expenditures had exceeded the budgeted amount, the Director stated. The number of advances suggested that there would be some seasonality, in a sense, creeping across years. Indeed, the change had been made with the understanding and intention that staff could perhaps visit their home countries more often. There was some evidence to suggest that that had happened.

On health care costs, he would be happy to work with his colleagues in the Administration Department on that issue and would come back to the Committee with the requested information at some future meeting, the Director added.

The Capital Budget included a large amount of funding for the Phase III project, which had been approved by the Board, the Director of the Office of Budget and Planning recalled. As Committee members were aware, there had been a delay in starting that project, which, it was hoped, would be resolved very shortly. At present, the staff did not anticipate that the delay would have an impact on the budget to the point that additional funding would have to be requested.

Mr. Wei recalled that the estimated cost of a delay in implementing the project was about $200,000 per month. He was concerned that there were numerous uncertainties about the project that were beyond the Fund's control, as was clear from the recent Board discussion on the alley closing.

The Director of the Office of Budget and Planning observed that the cost was slightly higher, but he would have to confirm that. It was certainly true that for every month of delay, there would be a substantial increase in the cost for leased space, on the order of $700,000 a month.

The Committee adjourned its meeting at 12:25 p.m.

APPROVAL: November 21, 1996