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COMMITTEE ON THE BUDGET

Meeting 94/6

3:00 p.m., November 15, 1994

A. D. Ouattara, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	M. Sirat
J. Bergo	
	D. Z. Guti
	J. Shields
J. E. Ismael	
D. Kaeser	
	A. Calderón
H. Mesaki	
	G. F. Murphy
	B. S. Newman
	J. Prader
	A. G. Zoccali
	E. Wagenhoefer
A. S. Shaalan	
	A. V. Mozhin
E. Waterman	
	Wei B.

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

Administration Department: J. C. Blanch, P. J. McClellan, P. J. Mcphillips, M. Oka, G. F. Rea, H. J. Struckmeyer, H. Wiesner, L. A. Wolfe, A. A. Zimmerman. Central Asia Department: M. Schulze-Ghattas. Exeternal Relations Department: M. R. Kelly. Fiscal Affairs Department: V. Tanzi. Office of the Managing Director: S. Sugisaki, Special Advisor; P-I Koupaki; Office of Internal Audit and Review - M. Caiola, Director. Research Department: R. D. Hass. Secretary's Department: B. R. Hughes, A. Mountford. Treasurer's Department: J. E. Blalock. Advisors to Executive Directors: A. Chang-Fong, A. Cseres, R. Kannan, Y. Patel, M. Petrie. Assistants to Executive Directors: R. N. A. Ally, P. I Botoucharov, D. Desruelle, A. Galicia, K. Gaseltine, H. Golriz, O. A. Himani, S. Ishida, W. Ch. Keller, E. Kouprianova, T. M. Kudiwu, N. L. Laframboise, M. W. Ryan, A. Sighvatsson, R. von Kleist.

1. MEDIUM-TERM BUDGETARY OUTLOOK

The Acting Chairman noted that, with the new terms of Executive Directors beginning on November 1, the biennial reconstitution of Board committees was currently under way. He therefore proposed, and Directors agreed, to proceed by hearing Directors' views without making any distinction between committee members and other Directors.

The Executive Directors then considered a staff paper on the budgetary outlook in the medium term (EB/CB/94/2, 11/11/94).

Mr. Waterman said that, although there had been some useful progress over the past six months in improving the budgetary process, more could be done. In particular, the staff analysis of the prospects for financial year (FY) 1996 and beyond should be made against the actual outcome for FY 1995 and actual staff numbers. For his part, he would be interested in the implications of no nominal increase in expenditures in FY 1996 or, alternatively, of a reduction in staffing by, say, 100 staff years. As achieving a 1-2 percent reduction in the budget estimate for FY 1996 should not be particularly difficult, it was not clear from the staff paper why it would be difficult to attain the same outcome for FY 1996 as for FY 1995. As Mr. Evans had indicated at the previous meeting, there was much to be said for a top-down approach to the budget and for testing what was possible at the margin to achieve savings--an approach adopted in many countries and institutions. From time to time, it was necessary to put some pressure on the institution to see what was possible, just as the Fund placed pressure on member countries with programs to achieve a better fiscal outcome.

In saying that, he did not expect the staff necessarily to be in a position to respond at the present meeting, Mr. Waterman added. It might be useful for the Committee to meet again, briefly, before the Managing Director formally presented his proposals to the Board. Perhaps the staff could make an oral presentation to the Committee on what would be required to achieve an the same outcome for both FY 1996 and FY 1995.

Mrs. Wagenhoefer welcomed the improvement in the budgetary process since the establishment of the Committee on the Budget, and in particular, the innovation of including in the staff paper two medium-term budgetary options, namely, reducing annual administrative expenses by 1-2 percent in real terms on a budget-to-budget basis and keeping the administrative budget at the current level in nominal terms. She hoped that, as the work of the Committee evolved, budget options would be spelled out in more detail and presented more clearly as alternative courses of action to be determined by the Executive Board, in contrast to the take-it-or-leave-it approach of former years.

Directors' requests for alternative options seemed to be met by the proposed reduction of annual administrative expenses by 1-2 percent in real terms in each of the next two years, Mrs. Wagenhoefer considered. That would also meet the demand of a majority of member countries for budget consolidation in the Fund. Moreover, she agreed to limiting the specific planning period to two years, which appeared to be a sound compromise between flexibility and predictability.

She looked forward to further improvements in the budgetary process, Mrs. Wagenhoefer commented. One important example in that regard was the increased use of dollar budgeting, especially for personnel expenditures, so as to greatly enhance the transparency in the use and distribution of resources in the Fund.

Mr. Newman also welcomed the greater openness on the part of the staff and management with regard to the budget process and the role of the Committee. He appreciated the heroic efforts made by the staff to further consolidate expenditures in response to the Committee's and the Board's concern about the rise in administrative costs.

An important responsibility of the Committee was to make recommendations regarding the most desirable way to proceed and the implications of various options for dealing with budget issues, Mr. Newman considered. The analysis in the staff paper provided part of the means for reaching conclusions and recommendations. The proposal put forward in the staff paper provided for a real cut of 1-2 percent, which implied a nominal increase over the likely budget outturn of about 4 or 5 percent. The staff had concluded that that was about as far as one could prudently go and still fulfill the responsibilities of the institution, in light of the continuing demands placed on it.

He certainly valued the staff's judgment in that regard, Mr. Newman continued. At the same time, the staff paper had not provided a basis for deciding whether that judgment was the correct one. As the paper did not indicate effectively the implications of alternative scenarios, the Committee did not have a basis for making recommendations to the Board regarding alternative options and their implications.

The paper gave the impression that such a presentation would be made in the document to be prepared for consideration by the Board in December, Mr. Newman commented. By that time, it would be difficult for the Board to reach conclusions that would enable it to change the budgetary outcome, if the Board so chose, because any discussion would take place too close to the end of the budget process. He hoped that information would be forthcoming before the actual Board discussion in December to enable the Committee to reach judgments and make recommendations to the Board for its consideration, if for no other reason than to avoid the need for additional Board discussions after December.

Mr. Mesaki said that he welcomed the medium-term budgetary outlook as well as the principle of budget consolidation as set out in the staff paper. He wished to emphasize that flexibility would be needed in the budget if the

Fund was to be able to meet the needs of its membership with equity and in a timely manner.

The staff paper indicated that a greater share of the work in technical assistance might be financed by external sources, Mr. Mesaki observed. He would like some clarification of the staff's estimates in that regard. Also, the staff had stated that annual administrative expenses would be cut by 1-2 percent in real terms, but that it would be somewhat difficult to achieve a nominal zero-based budget. He would appreciate an elaboration of the staff's views on a zero-based budget.

Mr. Kaeser welcomed the opportunity to discuss the budget outlook in the medium term and broadly agreed with the comments of other speakers on resource allocation. In that respect, he would stress two points.

First, he fully supported the Fund's efforts to strengthen its surveillance activities. He would not like to see a sizable reduction in the staff resources allocated to area departments in the future.

His second point concerned technical assistance, which was absorbing an ever-growing share of Fund resources, Mr. Kaeser continued. As he had stated on previous occasions, he believed that it was necessary to carry out a systematic and independent ex post evaluation of the results achieved in technical assistance projects. Only such evaluation could guarantee that the Fund continued to provide high-quality technical assistance in an efficient way and that allocated resources were optimized.

Concerning the budgetary strategy, the proposal to reduce annual administrative expenses by 1-2 percent in real terms was both reasonable and feasible, Mr. Kaeser commented. As to staffing, he believed that the Fund should adopt a more sophisticated approach than the proposed outright reduction of authorized staffing levels. In his view, each department should be requested to put one or two staffing positions in a central reserve, the resources of which the management would allocate according to changes in circumstances and priorities.

He was also concerned about the Fund's policy on the use of consultants, Mr. Kaeser stated. He had the impression that there was widespread use of consultants; in his view, there should be a ceiling for that staffing source as well.

Mr. Shields said that he wished to associate himself with Mr. Waterman's comments at the beginning of the discussion. The staff paper was a welcome addition to the information already provided to the Committee, but it was only a chink in the door. More was needed, and in a timely fashion, for the Committee--and ultimately the Board--to be able to make decisions on various budget alternatives.

There was a need to look at different options, Mr. Shields continued. It was difficult to understand what a nominal freeze or small growth in expenditures might mean without an examination of cost figures. He believed that Mr. Waterman's suggestion of an oral presentation on various options was one step forward, but it did not obviate the need to have more on paper as well, and fairly soon. In addition, he would be interested to hear from the staff about how far the budget outlined in its paper relied on efficiency gains, a reduction in staffing, productivity improvements, or the phasing out of activities.

Mr. Murphy remarked that he would like to associate himself with Mr. Waterman's remarks and, in particular, his proposal for a further elucidation of the zero-nominal growth option. An oral presentation would go a long way toward providing the information requested and to meeting, to some extent, the concerns of Mr. Newman. He agreed that the staff's judgment was likely to be correct, but the problem remained that the Committee did not have before it the data needed to reach that conclusion.

The Director of the Office of Budget and Planning, commenting on the zero-nominal growth option, said that he could describe in broad terms what that option might entail, but the numbers had to be viewed with a certain amount of caution.

If it were decided to put in place a no-growth nominal budget, and using the current budget as the estimated outturn, it would be necessary to save about \$50-55 million over a three-year period, or \$35-40 million in a two-year period, based on the current assumptions regarding price and salary developments, the Director stated. Looking at the overall structure of the Administrative Budget, salaries and benefits accounted for about 65 percent of expenditures, travel for about 15 percent, and "other expenses" for about 20 percent. While an effort would be required to contain discretionary expenses wherever possible, travel costs were clearly linked to the Fund's work program, and other expenses, such as lease and utility payments, could not be avoided. Even if efforts to contain discretionary budgets below current levels were pursued ruthlessly, a reduction in costs of the magnitude required under the no-growth option would spillover into staffing and benefits. According to staff calculations, a no-growth budget would probably require additional cuts, over a couple of years, on the order of about 150 staff years.

As Table 3 showed, nearly all of the increase in staffing in the past three years had been in the area departments, the Director continued. In seeking a further reduction in staffing levels, the requirements of support departments would have to be carefully re-examined, but even then, a reduction in the staffing levels of the area departments and the functional and special service departments could not be avoided. For example, it would not be surprising if, on some reasonably equitable basis, area departments were asked to give up 45, 50, or 60 staff years over the coming two years, which translated into five or six divisions across departments, if there were no decision to cut a major activity outside of country-specific work.

A zero-nominal growth budget would have an effect on the membership insofar as it affected theability of the staff to service the membership, the Director added. In particular, it could be expected to have an impact on technical assistance as well as some policy work and other supporting activities.

The statement that a greater share of the Fund's technical assistance activities would be financed from external sources reflected the large increase in funding from the Japanese authorities earlier in the year, the effect of which would be felt in the coming year or so, as well as the anticipated outcome of ongoing discussions with other donors, the Director explained. If overall expenditure were to be reduced in real terms by 1-2 percent, the ability to finance technical assistance from Fund resources would be limited. In the circumstances, and to the extent that the external financing of technical assistance would rise, the Fund's share would shift somewhat.

There were, in fact, relatively few consultants in the Fund, the Director observed. The Research Department employed four or five, and there might be a few others. Over the past two or three years, the Fund had, however, made increasing use of short-term experts to staff its technical assistance activities, with some positive gains. For example, member countries sometimes provided their nationals to participate in technical assistance missions, usually for three or four weeks, often with Fund staff members, sometimes without. Those experts might be re-engaged two or three times a year for follow-up activities. In terms of total staff years, consultants might account for as much as 2-3 percent of the total resources of the Fund.

As to creating a central reserve of staff for deployment to areas with heavy work loads, that approach had been followed in the past, the Director commented. The reserve have been kept relatively small. Even then, unanticipated demands arose that required additional staffing. Some thought would have to be given to the idea of a regular system whereby all departments were asked to give up a percentage of their staff resources to a central reserve. He expected that most departments would protest that their work load was heavy and that their staffing level was already insufficient to meet work demands.

On Mr. Newman's concern about the Committee's ability to comment on management's proposals, it was envisaged that the Committee would have an opportunity to discuss those proposals before they were formally considered by the Board on December 16, the Director of the Office of Budget and Planning stated. Even then, another three months remained before the Administrative Budget for FY 1996 would be brought to the Board. In the interim there would be an opportunity for changes to be made in the proposal to be put forward in April 1995.

Mr. Sirat said that, like other speakers, he welcomed further elaboration by the staff on the medium-term budget strategy. He was not surprised by the staff's comments on the potential impact of a nominal freeze on the budget. He agreed with the staff that, while the Committee could consider different scenarios, at some point, the Board would have to reach a judgment on whether the Committee should consider a cut of 100, 150, or 200 staff years.

Mr. Newman remarked that the staff's comments were helpful. They were the kind of analysis that he hoped to see, preferably in writing, so that Directors could judge for themselves and could be in a better position to assess the staff's conclusions. He would be interested to know, for example, what proportion of the anticipated cuts reflected unfilled vacancies.

Mr. Shields, commenting on the time available for committee input into the budget process, noted that in order for the Committee, the Board, or individual Directors to suggest changes in the proposals for the medium term, more information on alternative scenarios would be needed prior to the Board meeting on December 16. He would be interested to know what materials the staff planned to prepare for committee consideration prior to the December discussion.

The Director of the Office of Budget and Planning said that approximately three weeks before the Board discussion on December 16, the Managing Director would circulate his proposal for the medium-term outlook. The Committee might wish to meet between the circulation of that paper and the December 16 meeting to review the proposal. Under the terms of reference of the Committee, its views would be conveyed to the Board at the time of the December 16 discussion. In the course of its discussion, the Board would normally endorse or give its views on the Managing Director's proposal, which was designed to provide a broad overview of where the Fund was headed. Subsequently, and based upon the results of that discussion, departments would be asked to prepared their budgetary submissions to meet the particular scenario adopted for FY 1996. The proposals for FY 1996 would be circulated to the Board some time around the end of March. Presumably, at that time, the Budget Committee would again meet to discuss the proposals and would again convey its views to the Board, which would formally consider the Administrative and Capital Budgets in the second half of April. The new financial year would begin on May 1.

Mr. Shields commented that he understood from earlier staff comments that there might be time to reconsider various elements of the budget proposals, but it was difficult to consider the broader aspects if the information being provided to the Committee was directed toward a single basic proposal.

Mr. Waterman remarked that the Committee would find it helpful to have more detailed information on what the organization would look like under various budget scenarios and whether they would have any major impact on Fund activities. For instance, what would a reduction of $50-60 million mean in terms of Fund operations and in terms of allowing for expected productivity gains over the coming few years? The request for information by many Directors was aimed at testing the possibilities more thoroughly than they had been tested to date.

The Acting Chairman said that he had taken note of the request of many Directors for a committee meeting before the Board's consideration of the medium-term budgetary outlook. In that regard, the first task would be to circulate the Managing Director's proposals in the coming days.

He would point out that the budgetary process, at both the department head and management levels, was a continuous process, the Acting Chairman continued. The idea of a zero-nominal growth budget had been reviewed in that context. In assessing that option, one had to keep in mind that the Fund was already a very lean institution and that, despite the large increase in the membership and the number of programs in recent years, the growth in staffing had been much below levels that had been seen elsewhere. That did not mean that the Fund should not continue to reinforce its budget consolidation strategy; indeed, the Managing Director's proposals aimed to do just that.

He proposed that following the issuance of the staff paper on the medium-term budgetary outlook, the Committee might meet to review management's proposals prior to the December 16 Board discussion, the Acting Chairman remarked. In the meantime, the staff would follow up on Directors' suggestions for further work. As the timetable was tight, he would like to reflect further on how more precise information might be made available to Directors.

Mr. Zoccali observed that in discussing the medium-term outlook, the budgetary impact of the work of the ad hoc committee reviewing the annual meeting procedures should be taken into account. He wondered what was the status of that ad hoc committee.

The Acting Secretary said that the World Bank's nominations for the Committee had been received from the Bank Secretary only recently, with an indication that they were not at all certain. Those nominations, of course, would affect the balance to be achieved through nominations on the Fund side. It was hoped that the ad hoc joint committee would be included in the committee reconstitution process, which should be brought to a conclusion in the near future.

Mr. Waterman commented that he was somewhat unclear about the next steps. If the next document to be circulated to the Committee was the Managing Director's proposal, he would prefer to have a further oral presentation by the staff prior to its formal issuance to the Board. If that was not possible, further information along the lines suggested by Directors could usefully be attached to the documentation for the medium-term budgetary review.

The Acting Chairman responded that proposals for the medium-term budgetary outlook were meant to set out the objectives for the annual budget, which would be worked out in more detail in the coming months. It might be helpful for the Committee to have, as background, the earlier budgetary tables on various options in order to see more clearly some of the implications of a reduction in the budget in real terms. In the light of the comments that had been received from department heads, however, he considered that a reduction of 1 to 2 percent in real terms was a fairly ambitious goal, given the fact that the work load had not yet plateaued.

All the factors that Directors had noted had been assessed by the Office of Budget and Planning, the Acting Chairman noted. He understood from Directors' comments that they were not yet convinced that the staff's conclusions were correct and that they did not yet have enough information to reach a judgment for themselves. He wished to reflect further on how Directors' needs might be met, given the tight timetable.

Mr. Newman remarked that he understood that Directors would like to see more than one scenario in the Managing Director's medium-term proposals. Presumably, the staff, in developing those scenarios, would make certain judgments as to what had to be sacrificed. The Committee would like to know what would have to be sacrificed in order to achieve various scenarios so that it could decide whether it agreed with the staff's view that a scenario was too draconian, or was inappropriate. In effect, the job was already half done; what remained to be seen was the work implicit in the judgment that the staff had reached.

The Chairman observed that such work had been presented to the Committee last year in the process of deciding on the original path for the medium-term budgetary outlook. Among the scenarios considered at that time was flat consolidation and a reduction of 1-2 percent.

Mr. Newman recalled that the option of zero nominal growth had not been examined, even though that option had been proposed at each of the past two meetings of the Committee. He would like to see those numbers in the forthcoming staff paper.

Mr. Kaeser supported those asking to see a different scenario. For his part, he could support a 2 percent reduction in real terms, if he could clearly prove to his authorities that another scenario would not make sense. It was better to have different scenarios so as to have an open and fully convincing discussion on the issue.

Mr. Shields said that the baseline used for judging different options should be the expected outturn for FY 1995 rather than a budget-to-budget comparison.

Mrs. Wagenhoefer stated that she supported Mr. Newman and Mr. Kaeser.

The Director of the Office of Budget and Planning said that the staff paper on the medium-term budgetary outlook, which would be circulated before Thanksgiving, would contain more detailed information on the medium-term proposal. That paper could be considered by the Committee in early December.

The Acting Chairman said that the Managing Director's statement on the medium-term budgetary outlook would be circulated to Executive Directors in the coming few days. In the meantime, other options would be examined. He would propose that the Committee meet again to review the additional information to be provided by the staff prior to the Board's consideration of the Managing Director's statement on December 16.

The Executive Directors concurred with the proposal and adjourned their meeting at 4:00 p.m.

APPROVAL: December 10, 1996