0421

CONFIDENTIAL

COMMITTEE ON THE BUDGET

March 23, 1995

Meeting 94/7

Approval: 3/30/95

3:00 p.m., December 8, 1994

A. D. Ouattara, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	M. Sirat
J. Bergo	
	A. Fernández
	G. F. Murphy
H. Evans	
K. P. Geethakrishnan	
J. E. Ismael	
D. Kaeser	
	A. Chang Fong, Temporary
	J. Prader
	H. A. Barro Chambrier
K. Lissakers	B. S. Newman
H. Mesaki	
C. Saito	A. G. Zoccali
	Y. Y. Mohammed
	E. Wagenhoefer
	M. Petrie, Temporary
	Wei B.

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

Also Present

Administration Department: T. Cole, U. P. Dimitrijevic, A. Goltz. Central Asia Department: C. D. Pham. External Relations Department: M. R. Kelly, Deputy Director. Fiscal Affairs Department: V. P. Gandhi. Secretary's Department: B. R. Hughes, A. Mountford. Statistics Department: S. P. Quin. Treasurer's Department: J. E. Blalock, B. E. Kueppens. Office of the Managing Director: S. Sugisaki, Special Advisor; J. Prust. Office of Budget and Planning: L. Wolfe, Director; J. G. Blanch, P. J. McClellan, P. J. McPhillips, H. L. Mendis, M. Oka, H. Wiesner, A. A. Zimmerman. Office of Internal Audit and Review: M. Caiola, Director. Advisors to Executive Directors: J.-C. Obame, Y. Patel. Assistants to Executive Directors: P. I. Botoucharov, G. Z. El-Masry, K. Gaseltine, H. Golriz, O. A. Himani, S. Ishida, E. Kouprianova, T. M. Kudiwu, N. L. Laframboise, S. Rouai, M. W. Ryan, S. Sighvatsson, R. von Kleist.

1. MEDIUM-TERM BUDGETARY OUTLOOK

The Acting Chairman observed that because the reconstitution of Board Committees was still under way he would continue the practice of the previous meeting in which he would treat all the Executive Directors as equal participants in the discussion.

It was then agreed to consider a memorandum from the Managing Director on the budgetary outlook in the medium term (EBAP/94/93, 11/28/94), together with background material on activities and resource utilization in FY 1994-FY 1998 (EBAP/94/97, 12/6/94) and a memorandum from the Managing Director on the midyear review of the Fund's administrative and capital expenditures for FY 1995 (EBAP/94/98, 12/7/94).

At the previous meeting (CB/94/6, 11/15/94), the Acting Chairman continued, some Directors had requested additional information on alternative scenarios considered by management in preparing its memorandum on the medium-term budgetary outlook. At the outset, he wished to call on the staff to provide a briefing to Directors on the three options set out in the tables before them.

The Director of the Office of Budget and Planning observed that Option 2 was the same as Table 5 in the Managing Director's statement and showed the impact of a 1-2 percent reduction in real administrative expenses on staffing levels. Option 1 showed the impact on staff resources of the current policy of no change in administrative expenses in real terms in the coming two years, and Option 3, the impact of holding the budget at the same nominal level over the same period.

In constructing the latter scenario, which represented a larger cut in expenditures than was proposed under Option 2, the staff had assumed that there would be some targeted reductions as well as some across-the-board cuts in staff resources and had therefore presented the results in terms of the level of staff resources by type of activity, the Director continued. Under the no nominal growth scenario, a savings of at least $30 million would be required over the coming two years. Careful attention to a number of discretionary items could yield a savings in the order of $10 million, with as much as 50 percent of this coming from the travel budget. The remainder would have to come from reductions in a number of other activities, but such cuts would not be painless. As 70 percent of the budget consisted of salaries and benefits, the size of the staff would inevitably have to be reduced under Option 3.

The Managing Director's memorandum had referred to substantial cuts under Option 3--about 175 staff-years over the period, the Director recalled. Assuming that there was some contribution by the Board, 160 staff-years would have to come from reductions in the number of regular and contractual staff. The 160 effective staff-year reduction represented the difference in impact between Option 1 and Option 3. Under such a scenario, attaining management's personnel objectives with respect to the proportion of staff time devoted to leave and to personnel management would be particularly difficult.

The more stringent budgetary option would result in some cuts in Fund activities, the Director continued. For example, in the area of policy development, evaluation, and research, it might be necessary to lengthen the cycle for policy reviews, reduce the level of resources devoted to the world economic outlook and other forecasting exercises, and revisit the Fund's research activities. In the statistics, information and external relations area, the continued collection of statistical services and publications, which absorbed a large percentage of resources, would have to be carefully reviewed. Although statistical publications served a major use outside the Fund, their internal use was somewhat more restricted. Management would also have to look at the resources devoted to a number of nonstatistical publications, including Finance and Development, as well as the Fund's pricing policy on publications to see whether any further gains in income might be realized. The level of the Fund's external relations operations, particularly with respect to briefing the press and nongovernmental organizations, among others, would have to be examined.

Even though the Managing Director's statement clearly indicated that in recent years the number of staff allocated to administrative support had remained flat, or had declined as a percentage of the total in some areas, further reductions would be required under a no nominal growth scenario, the Director stated. That might mean reducing service standards in some activities, including, perhaps, the maintenance and cleaning of the building, and security and related activities.

Among activities related to the Board of Governors and the Executive Board, management would have to come back quickly to the issues of charging for guests and visitors to Annual Meetings, and of holding Meetings abroad, the Director remarked. Streamlining Executive Board minutes and reducing translation requirements would also have to be examined.

With regard to country-specific work, the largest of the Fund's activities, the impact of any reduction in staffing levels was likely to be felt in two areas--a fairly sharp decline in technical assistance and fewer staff visits to member countries, with consequences for the Fund's surveillance activities, even as the Interim Committee was requesting that surveillance be enhanced, the Director commented. The resident representative program was one area which would be examined carefully with a view to identifying savings.

In the light of the cuts in staffing levels and activities that would be required under the no nominal growth scenario, management and the staff had concluded that, given the Fund's work load and the impact of more stringent cuts on the services rended to the membership, a somewhat more moderate reduction in staff was the best approach, the Director of the Office of Budget and Planning remarked. That approach, Option 2, was the scenario adopted in the Managing Director's statement on the budgetary outlook in the medium term.

Ms. Lissakers observed that while it was true that under Option 3 the possible cuts outlined by the staff involved some pain, it was also true that the figures referred to were based on the approved budget rather than the estimated outturn for FY 1995. The midyear review projected an outturn for FY 1995 of $466 million, or $8 million below the budgeted $474.8 million. Under management's scenario, Option 2, the proposed FY 1996 budget of $485 million actually represented a 3-4 percent increase over projected FY 1995 expenditures rather than an increase of 2.5 percent, as suggested in the budget statement. The actual pain under Option 3 would be somewhat less using the estimated outturn as the baseline for spending in FY 1995. Moreover, while new demands were constantly being placed on the institution, there were other areas where savings might be realized. For example, the cost of the Annual Meetings held abroad--the Madrid Meetings--would not recur in FY 1995, for a real saving of about 1 percent. Cutting back on unfilled vacancies would also result in savings. In addition, as new staff became more experienced, an increase in productivity should yield some real savings. Looking at the increase in program-intensive countries through FY 1998, it was also likely that the work load in that regard would peak and soon begin to decline. In sum, using actual expenditures as the baseline and taking into account the possible areas of savings that she had mentioned, more savings than indicated under Option 2 might be realized.

The Director of the Office of Budget and Planning said that it was true that, currently, the estimated outturn was nearly $9 million below the approved budget, but it would be premature to base budget projections on that expected outcome. For example, some outlays that had been delayed were likely to take place before the end of the financial year, particularly in the electronic data processing area. Moreover, certain recurrent expenditures, such as Annual Meetings held abroad and regular elections of Executive Directors had been built into the staff estimates. While it was true that toward the end of the period under review, some downturn in the work load relating to program-intensive countries could be expected, it was likely to be relatively small.

Consideration had been given to freezing vacancies, the Director of the Office of Budget and Planning stated. But that approach, which was a snapshot in time, often led to a situation where, at a later date, the frozen positions were in areas where staff was most needed. It should also be noted that the staff had also built into its calculations an increase in productivity as new staff became more seasoned. As the Fund started to downsize, however, it was likely that the pressure to fill vacancies--which currently accounted for 3-4 percent of total authorized staff--would increase and the vacancy rate would drop slightly. Moreover, with the ongoing effort to achieve a better balance in gender and the nationality distribution among staff, filling vacancies took some time. In sum, the vacancy rate would probably narrow in the coming years, but there would always be some unfilled vacancies.

Ms. Lissakers said that in the coming few years, there should be some clear shift in resources from one department to another. One would assume that the work load of the Western Hemisphere Department, for example, might be somewhat less demanding in terms of staff time than it had been at the height of the debt crisis, and particularly in relation to the work load of area departments with many new member countries or an increased number of program countries. In that connection, she would like to see a department-by-department breakdown of staffing and vacancies in recent years.

The Director of the Office of Budget and Planning remarked that information on vacancies would be made available to Directors. The data, however, changed from day to day, particularly owing to mobility. With an increase in the movement of staff between departments under the Fund's mobility policies, vacancies could come and go fairly quickly.

Mr. Sirat observed that according to the background paper on Fund activities and resource utilization, country-specific work in the Western Hemisphere was rising.

The Director of the Office of Budget and Planning recalled that part of the rationale for increasing the size of the Fund by 500 staff-years had been to address imbalances that had developed between the work load and staff resources throughout the Fund. That rebalancing of work load accounted in large part for the increase in staffing in the Western Hemisphere Department in recent years. Additional staff resources had also been needed to meet the increased work load owing to the expansion of Fund membership, which had led to increases in staffing in the European II Department and the functional departments.

Mr. Evans observed that it was necessary to consider the scenarios for the coming few years against developments in recent years. As the staff had indicated, there had been a substantial increase in staff resources in the past few years, partly owing to the number of new members and the intensive nature of their involvement with the Fund and partly in order to reduce work load imbalances. In addition, between FY 1990 and FY 1995, the Administrative Budget had increased more than 50 percent, mostly owing to the increase in staffing levels and, in part, owing to higher real pay. Looking at the Fund's work load for the coming few years, increases of similar magnitude were not likely; indeed, the presumption must be that, particularly as the transformation process got under way and gathered steam in Eastern Europe and in more countries of the former Soviet Union, there would be some reduction in work load.

Some implications of the discussion of the future of the Fund on the occasion of its fiftieth anniversary also should be borne in mind, Mr. Evans considered. Two themes running through many comments were the need for greater selectivity on the part of, and greater cooperation and complementary between, the Bretton Woods institutions. He had no doubt that there was more scope for developing those two themes further in the years ahead.

As to FY 1995, account should be taken not only of the originally budgeted amount for FY 1994 of $475 million but also of the expected outturn for FY 1994, currently estimated at $466 million, Mr. Evans stated. Future tables should show both figures so as to allow for comparisons. It was clear that, with the currently projected outturn, a 3 percent reduction in budget in real terms over two years under Option 2 represented little actual change in expenditure.

The scope for improvements in productivity, particularly as new staff became more seasoned, was certainly greater than was allowed for in management's statement, Mr. Evans commented. Moreover, there could be other savings--Ms. Lissakers had already mentioned one-off costs; to those he would add the scope for charging fees to cover or defray expenses in a number of areas of Fund activity.

In sum, he had the impression that the differences between the options presented by the staff were not as great as they appeared at first sight, Mr. Evans remarked. The Committee needed to consider whether they were an adequate representation of the choices facing the institution.

The Director of the Office of Budget and Planning said that the practice of using the actual outturn as the baseline for determining the budget for future years sought to avoid a situation where money was spent simply to ensure that spending levels were not reduced in subsequent years. Moreover, in years when spending exceeded the budget, the staff would not suggest using the actual outcome as the baseline for future years. In the event, it was likely that expenditures delayed in FY 1995 would result in increased pressure on administrative expenses in FY 1996.

The Acting Chairman remarked that looking at the countries in the European II Department, where the intensity of staff work was currently great, and taking into account that some of the largest member countries in that area had yet to enter into a multiyear arrangement with the Fund, he did not see any prospect of an important decrease in activities relating to program-intensive countries. Moreover, even though efforts had been made to reduce the number of staff missions, that had proved difficult; in fact, the negotiation of arrangements could require several missions a year, at the pressing demand of country authorities. In his view, it was important to give a clear message that the objective was to move toward reducing costs, rather than trying to predict with some certainty that activities relating to specific segments of the membership, for example, in the Western Hemisphere, would decline in the coming two years.

Mr. Evans said that while he agreed that there was no certainty about a downturn in specific areas of activity, there should be some presumption of a downturn. Moreover, flexibility with respect to reducing activities in different parts of the Fund was important, if real demands were to be met elsewhere.

On the question of the baseline, he had suggested that in the future, tables should set out both the approved budget figure and the estimated outturn, Mr. Evans recalled. Presenting only the approved budget figure in itself presented an incentive to staff to spend up to that level. The fact remained that what actually happened was an important determinant for future budget decisions.

Mrs. Wagenhoefer said that like previous speakers, she was somewhat concerned to see that the number of program-intensive countries was expected to increase. The fact that almost two thirds of the membership tended to be prolonged users of Fund resources was certainly not compatible with the monetary character of the institution.

Directors had received a request for a supplementary appropriation, Mrs. Wagenhoefer observed. She would be interested to know whether the future installments necessary to shift from a cash system of accounting for postretirement benefits other than pensions to an accrual basis were included in the medium-term budget proposals. Specifically, would the target of reducing real administrative expenses by 1-2 percent during the coming two years be met if all future installments were included? Furthermore, while the staff had indicated that administrative expenses for FY 1995, budgeted at $475 million, were likely to be lower, at $466 million, management's request for a supplementary appropriation cited a figure of $488 million. Which was the correct figure?

The Director of the Office of Budget and Planning remarked that the approved budget was currently $474.8 million. If the appropriation for $13.5 million was approved by the Board on December 16, the approved budget for FY 1995 would rise to $488.3 million. The estimated outturn would also rise by $13.5 million, but the underrun would remain at about $9 million. The figures in the Managing Director's statement excluded the additional appropriation, pending a decision on the matter. If approved, the additional appropriation would raise the projections for FY 1996, currently in the range of $483 million to $487 million, by roughly $13.5 million.

Mr. Mesaki stated that in his view, the basic concept underlying the Fund's budget was the minimum expenditure needed to ensure the Fund's proper functioning. In that connection, he was concerned that Option 2, and particularly Option 3, might jeopardize or impair the proper functioning of the Fund. Care should also be taken to maintain the quality of the Fund's work and to avoid increasing the staff's already heavy work load.

The Managing Director's memorandum referred to additional external financing in support of the Fund's technical assistance activities, Mr. Mesaki recalled. It should be noted that an increase in Japan's support for Fund-provided technical assistance of the magnitude seen in recent years was unlikely, given the current difficult budget situation in Japan.

The Director of the Office of Budget and Planning stated that a few months earlier, the Japanese Government had generously raised its contribution to the Japan Administered Account. Much of the impact of that increase would be felt in FY 1996 as well as in FY 1995. Moreover, some additional funding was expected in the coming year from other potential donors. For that reason, the staff considered that Fund-financed technical assistance could be reduced slightly, even though there was no one-to-one correspondence between additional external contributions and cuts, as there would continue to be a certain amount of staff involvement in the hiring of experts.

In management's view, with the expected gains in productivity, Option 2 would allow the Fund to meet work load demands while achieving selective cuts in certain areas, the Director of the Office of Budget and Planning commented. Doubling those cuts--as would happen under Option 3--would very much bite into Fund activities along the lines he had described earlier. For that reason, Option 3 was not seen to be consistent with a work program in which surveillance was to increase and policy work was to continue at current levels. There was evidence to suggest, as the Acting Chairman had noted, that the work load would continue to be intense for at least the coming two years.

Mr. Sirat said that he agreed with the use of budget expenses, rather than actual expenses, as a baseline for projecting the budget in coming years. Like Mr. Evans, however, he would like to see both figures presented in Board documents.

He understood from management's statement that the number of intensive cases was projected to rise from FY 1995 to FY 1996, Mr. Sirat continued. That may be seen as rather good news in the current circumstances. The actual numbers could not be known with certainty beyond 1996. That being said, he supported Mr. Evans's view that at some point, there should be a reduction in intensive cases. At that point, he would favor a more drastic reduction in the budget.

He had noted a sharp decrease in staffing for support activities as a percentage of total staff and an increase in staffing for area department activities, Mr. Sirat commented. Given those two tendencies, which seemed to go in the right direction, and the rise in intensive cases, he was relatively comfortable with the basic framework of the Managing Director's proposal. He was in no position to indicate a specific target for budget reduction, and he believed that Directors should avoid micromanagement as long as the overall strategy was in the right direction. The slow reduction in administrative expenditures in real terms was, in his view, a strategy that could be supported by a consensus of the Board.

Mr. Petrie stated that as a relative newcomer to the Fund's budgetary process, he found the lack of integration of its various aspects--for instance, the separate consideration of staff compensation--surprising. In the current exercise, information on a tighter budget strategy and its impact was presented largely in terms of activities that would have to be curtailed or dropped. In his view, the price of inputs, and not just the quantity of outputs needed to be considered. Moreover, there should be some link between Directors' suggestions on other areas of savings, including in the staff compensation area, and the current exercise.

It was also surprising that the requested additional allocation was not reflected in the options presented to Directors, Mr. Petrie remarked. Installments of $13.5 million were a real cost for FY 1995 and for the out-years. In that regard, he wondered what was the time profile for future installments related to postretirement benefits other than pensions and whether there were any other unfunded liabilities that might arise in the future.

The Director of the Office of Budget and Planning, commenting on the link between salaries, benefits, and the budget, observed that under the procedure for considering staff compensation, which the Board had adopted several years earlier, the salary package was reviewed in the first quarter of the year, and the Board's decision on the matter was incorporated in the proposed budget that was brought to the Board in April. Under the procedures for determining staff compensation, a salary decision was to some extent delinked from a decision on budget strategy.

On the supplementary allocation, in the 19 years following FY 1995, payments would be made to cover the unfunded liability for past service costs and earned benefits, the Director of the Office of Budget and Planning explained. In the absence of any actuarial change, an amount of $13.5 million would appear in the budget in each of those years. Thereafter, only the cost of projected future benefits would be included. Rather than presuppose the Board's approval of the supplementary appropriation on December 16, it was decided to exclude the amount of the supplementary appropriation from the documents on the budgetary outlook.

Mr. Geethakrishnan observed that the difference between Option 1 and Option 3 was only 4 percent, the difference between Option 2 and Option 3 was about 2 percent, and the actual budget outturn for FY 1995 could be as much as 1.8 percent below the approved budget. In that light, the order of variation being quite small, he could accept either Option 2 or Option 3. Option 3, however, had the advantage of sending a dramatic message--namely, that administrative costs would be frozen at a nominal level--whereas Option 2 conceded an increase, if only 1-2 percent. In his view, it would not be difficult to live with the slight reduction in staffing envisaged under Option 3, but he would not force the issue. The crucial question was whether Directors wanted to send a signal or to concede a small increase.

Even if staffing levels could be contained under Option 3, he doubted that it would be possible to freeze administrative expenditures at $475 million, as one third of the budget was nonstaff related, Mr. Geethakrishnan commented. For example, if air travel costs increased by 5-10 percent, there would be no option but to increase expenditures in line with increased costs. Similarly, if the staff compensation review resulted in a salary increase of 5 percent, administrative expenditures would rise despite any freeze on authorized staffing levels.

It would be feasible to decide that, notwithstanding total staffing levels, increases in airfare, salary increases, or other cost rises, administrative expenditures would be frozen at $475 million, Mr. Geethakrishnan stated. But that seemed to be too much of a commitment to take at present.

Mr. Kaeser said that he welcomed the opportunity to discuss different options as had been requested at the Committee's previous meeting.

On the basis of management's statement and the comments of previous speakers, Option 2 appeared to be reasonable, although efforts should continue toward saving more and being more productive than was implicit in Option 2, Mr. Kaeser commented. He personally did not think that country-related activities in the European II Department would decline in the near future, but there might be some prospect for saving in the Western Hemisphere Department. He would caution, however, that management's memorandum contained some prospects for increasing Fund activities--for instance, through the establishment of an evaluation unit. In addition, the implications for the Fund's work of the globalization and unification of financial markets would need to be analyzed.

Mr. Murphy said that he agreed with Mr. Geethakrishnan that the range of options before the Committee was quite narrow. That the Committee was at last in a position to discuss options in some detail was a welcome start, and a departure for looking in further depth at possible savings. He also considered that the distinction some speakers had noted between budgeted and actual figures was an important one.

Mr. Fernández remarked that he was not sure that the approach being taken was the right one. He favored a level of administrative expenses that allowed the institution to avoid situations where, for instance, a mission in the field ran out of budgeted funds to hire translators and a mission member had to act as translator; where a mission had no money to ship statistical documents back to Washington; or where four out of five members of a mission team had not participated in the previous mission even though the country authorities had requested a certain stability in the staffing of Fund missions and work on that particular country. Taking a decision, such as a nominal increase or a freeze in expenditures, on the basis of political considerations implied cutting resources in the activities and functions of the Fund, and he doubted that that was the right approach.

Mr. Mesaki said that he wondered whether the difference between Option 2 and Option 3 was as narrow as Mr. Geethakrishnan had indicated. He would wish to confirm that management would be able to pursue its mission under Option 3. He had the impression that Option 2 was very much in the right direction for budget consolidation.

Mr. Geethakrishnan explained that his reference to narrow differences applied to staff numbers rather than to total administrative expenditures. In terms of expenditure, the difference between Option 2 and Option 3 was substantial; in terms of staff numbers, the difference was only 2 percent, compared with the recent growth in staffing, at about 15-20 percent. He had no preference between the two options; the issue for him was the signal the institution wanted to send.

The Acting Chairman remarked that management's preference was Option 2, the approach taken in the Managing Director's memorandum on the medium-term outlook. He expected that Department heads would prefer Option 1. In looking at the Fund's budget over the past ten years, it was clear that budgetary management had been tight. The previous year the Board had approved the Managing Director's proposal for budget consolidation over the three-year period FY 1995-FY 1997. Management's current proposal was an effort to gradually realize a declining trend in administrative expenses, which was not an easy task in view of the institution's structure and mandate, and the need to maintain the quality of its output.

One way of judging whether a budget was well managed was to compare budgeted and actual expenditures, the Acting Chairman observed. For FY 1995, actual expenditures were estimated to be within 2 percent of the approved budget.

It should be pointed out that as previously decided by the Board, the supplementary appropriation of $13.5 million was already being financed through the rate of charge, the Acting Chairman commented. For the sake of transparency, that funding was being brought into the FY 1995 budget.

While it was true that a political message would be a good message, it was also necessary to look specifically at the operations of the Fund and to ensure that the political message maintained the quality of service that was expected by the membership, the Acting Chairman stated. In that light, Option 2 appeared to management to be an acceptable compromise. In the medium term, given the Fund's almost universal membership and assuming the successful implementation of policies in Latin America, Asia, Africa, and Eastern Europe, a somewhat tighter budgetary stance might be possible. But a discussion of that prospect would be premature.

Mr. Prader observed that while it was tempting to discuss general scenarios and might even be useful to get into micromanagement, Directors should be aware of the consequences. If there was a desire to move toward Option 3, which would entail cuts in surveillance activities or technical assistance, among others, then Directors should know which member countries were going to be affected before agreeing on a general guideline for Option 3. Otherwise, there would be a crowding out of member countries' technical assistance on the basis of who had more access to power in the institution.

It would be interesting to know how much of the increase in staffing in the Western Hemisphere Department was due to an increase in activities and how much was attributable to the commonly agreed objective of reducing work pressures and imbalances across the Fund, Mr. Prader stated. It should not be forgotten that that objective had been approved by Directors in all budget discussions so far.

He was skeptical about the prospects for reducing Fund activities relating to Eastern Europe or the former Soviet Union, Mr. Prader remarked. The experience in his own constituency did not suggest any significant possibilities for reduction. In any event, his chair could not agree to any cuts in technical assistance unless it was clear which member countries would be affected by such cuts.

Mr. Sirat said that in commenting on micromanagement his intention had been to underline his belief that the Board should concentrate on the general budget strategy as it had in previous years, and as the budget committee was supposed to do as well. From what he had heard at the current meeting and in past Committee discussions, there was no hidden treasure in the Fund and no miracle by which expenses could be reduced drastically in real terms while maintaining the same quality of output. In the latter regard, he shared the concerns of Mr. Prader, among other Directors.

The consolidation strategy had been agreed the previous year, Mr. Sirat remarked. In the Managing Director's view, that consolidation strategy and the objective of maintaining the quality of output was consistent with a small reduction in administrative expenditures of 1-2 percent in real terms. That was acceptable to him. He was not sure that the budget committee or the Board, for that matter, should engage in a lengthy discussion of whether the rate of reduction should be 2.5 percent or 2 percent.

Mr. Bergo said that he was pleased with the general strategy toward consolidation and even some slight reduction in real terms of the budget, even if the target, given the likely actual outcome for FY 1995, might have been somewhat more ambitious. Although there was room for further developing the presentation of options, he very much appreciated the efforts that had been made in the current exercise.

The choice of options would depend on an assessment of the work load and productivity trends, as well as the prioritization of activities, Mr. Bergo considered. He concluded that in the circumstances, a budget aiming at no or little growth in nominal terms might be the correct one for the coming two years, but not because he attached any specific value to no growth in nominal terms. Rather, it was important to realize savings whenever possible, and not to relax prioritization efforts in the event that the resource situation improved. It was more important than ever to try to redeploy staff to correct work load imbalances, and to secure that, on the margin, the value of production was about the same across units. He had the impression that a number of units and staff were working extremely hard, while in other areas, the work load was considerably less. There might be a case for further efforts to develop simple tools to assess the work load balance across the organization. But he did not wish to be misunderstood: he did not wish for the Committee to decide on where to redeploy staff. He would, however, be interested to hear about the tools that the

Administration Department used to help balance the distribution of work across the organization.

Consideration should also be given to how the Committee should organize its work so as to best facilitate the Board's discussion on the medium-term budgetary outlook, Mr. Bergo stated. Ideally, the Committee's deliberations should result in a formal report to the Board that identified issues on which the Board should focus and possibly provided some assessment of various aspects of the Managing Director's proposal. It might be difficult to accomplish that for the forthcoming discussion, but such a report should certainly remain the Committee's goal in view of the importance of the exercise and the fact that the Committee and the Board could best influence budgetary developments at an early stage by stating its priorities.

The Director of the Office of Budget and Planning observed that Mr. Fernández's point about continuity on Fund missions was worth repeating. Prior to the recent increase in staffing, a survey of continuity of mission chiefs indicated that as many as 40 percent of all missions were headed by a staff member that had not led the previous mission to that country. That had been one indication of impact of the work load on the staff.

Although the redeployment of staff was never an easy task, it was carried out regularly in the Fund, the Director commented. Among the indicators of work load pressures for area departments were the number of program-intensive countries, paid and unpaid overtime--among other personnel indicators--and levels of mission travel. Surprisingly, they did not move that much from year to year, or across departments. For other departments, the staff maintained reasonably up-to-date output indicators. Redeploying staff, however, was not easy. While positions could be reassigned, moving individual staff members from support departments to area and functional departments, in particular, was somewhat more difficult.

In recommending reductions in technical assistance, the staff would try to assess the impact upon various levels of technical assistance reduction, probably in the context of the technical assistance committee and the reallocation plan, the Director of the Office of Budget and Planning remarked. As one quarter of the Fund's technical assistance was directed to the countries of the former Soviet Union, and while an effort would be made to continue that insofar as possible, some cuts would be inevitable.

Mr. Evans said that he would be interested to know why the issue of the inclusion of postretirement benefits other than pensions in the Administrative Budget had come forward only recently. In his view, there appeared to be a good case, particularly bearing in mind the shortfall in expenditures in FY 1995, for absorbing the $13.5 million into the FY 1995 budget. Good budgetary principles suggested that changes to the budget should not be made within a financial year.

Like Mr. Geethakrishnan, he saw advantages, on the political side, to a nominal freeze, Mr. Evans continued. It was an easier concept to explain, and it had the advantage of being the only option consistent with dollar budgeting, in which the relative price effect of any increase in real wages was taken into account.

The tables on the three options had been particularly useful, and he hoped that the tables, with some brief text, would be available to Directors for their forthcoming Board discussion on the medium-term budgetary outlook, Mr. Evans stated.

He agreed with Mr. Sirat on the question of micromanagement, Mr. Evans remarked. In that regard, he wondered whether background papers of 245 pages were appropriate either for the budget committee or for the Board, as any attempt to comment in detail on them would involve Directors in micromanagement on matters that were the concern of management.

The Director of the Office of Budget and Planning observed that the background paper to which Mr. Evans had referred had been prepared primarily for management, providing a fairly detailed statement of what each department planned to do in the coming year, which served as a check on outputs throughout the year. It had been circulated to the Board for information.

The proposal to include postretirement benefits in the FY 1995 budget had come about as a result of the decision to adopt a new standard of accounting, the Director of the Office of Budget and Planning explained. Under that standard, the $85 million in unfunded liabilities that had been recognized at the end of FY 1994 had not been included in the Administrative Budget. However, it was recognized as an expense and included in the Fund's income statements. The decision to bring it forward in the FY 1995 budget was based on a desire for transparency. The remaining past costs to be amortized over the coming 20 years--$6.5 million on current rates--would appear in the Administrative Budget for each of the next 20 years. Thereafter, the forward-looking costs only would continue appear in the budget. To absorb those costs in a no nominal growth budget meant that another $13 million in cost savings would have to be found for the coming year. That would have a substantial impact on Fund activities.

Mr. Geethakrishnan said that he understood that the supplemental appropriation was an accounting result, in the sense that the Fund was moving over from a cash to an accrual basis. He wondered whether those monies would be invested outside the Fund.

The staff representative from the Treasurer's Department recalled that at the end of FY 1994, the staff had issued a background paper indicating that the Fund would implement an accounting change in respect of the recognition of a liability for postretirement benefits. The staff had made that proposal for a number of reasons. The first was that the Fund was coming under increasing pressure by the Fund's auditors to adopt such a change in order to stay within the framework of generally accepted accounting principles. Second, FY 1994 was an opportune time to implement the accounting change, because in that year the Fund also moved to depreciation accounting, which had resulted in a revaluation gain of the existing headquarters building. By implementing both accounting changes, which were similar in magnitude, at the same time, they tended to offset one another.

The background paper had also indicated that those resources would be set aside and invested so that the revenue generated by those funds would lower future costs, the staff representative from the Treasurer's Department explained. The assumption that revenues would be generated had been taken into account in calculating the supplemental appropriation of $13.5 million. Currently, the monies were held within the General Resources Account, but they would soon be transferred to a separate trust, which was being established.

Mr. Geethakrishnan commented that investing the funds outside was the correct procedure to follow. In that event, however, there was an actual cash outflow, and the amounts no longer merely represented an accounting change, as had been indicated in the budget documents.

The Acting Chairman remarked that Directors had discussed concurrently the alternative scenarios that had been requested, the Managing Director's memorandum on the medium-term budgetary outlook, and the midyear review, including the supplemental appropriation. He would be interested to hear Directors' further comments, especially on the Managing Director's statement on the budgetary outlook.

Mr. Fernández recalled that he had suggested that if at the current meeting Directors agreed to establish a general rule for increases in administrative expenses, such as no change in nominal terms, an explanation should accompany the table setting out that option, describing in detail the implications in terms of reallocating resources and priorities.

The Director of the Office of Budget and Planning observed that detailing potential cuts in a staff paper, if only for discussion purposes, was likely to create a certain amount of insecurity within the institution.

Mr. Evans said that if the Committee and the Board was to do its work, it had to have some details on the options before it. The fact that the options might be painful in various ways to various staff or that an examination of them might create a degree of uncertainty within the institution was not sufficient reason to avoid their careful consideration.

Mr. Prader remarked that he understood the hesitations of both the staff and Mr. Evans. He would also note that in the World Bank, the President had announced target cuts of 6 percent in real terms in each of the coming two years. As a consequence, there had been many meetings among various groups to decide where to reduce staff. The consequence for his own constituency was that one of its smallest member countries, which had received little international support, was faced with the prospect that there would be no desk officer to deal with the country in the future. He would not want to be faced with that kind of situation in the Fund as a consequence of discussions among a number of Directors regarding budget options.

Mr. Geethakrishnan said that he wished to reiterate his view that neither the Board nor the Committee should get involved in the details of where cuts should be made. Once the Board took a decision on staffing levels, it should be left to management to decide where cuts should be made. Management could then report to the Board, not for discussion and decision, but for information.

Ms. Lissakers stated that she agreed with Mr. Geethakrishnan that it was not the task of the budget committee or the Board to decide where cuts should be made. Rather, their task was to decide on the strategic objective. It was for the staff to figure out how best to allocate the resources the Board had decided should be made available. There was, however, a sort of self-fulfilling nature to the exercise, insofar as there was a tendency to expand activities, duties, and obligations commensurate with the resources that were made available. In asking for more specifics, Directors were trying to get some sense of the level of pain that might be involved in achieving what would be desirable.

As there were real costs--and a large part of the burden fell on countries that were debt and debt-service constrained--there were real reasons to look for savings, Ms. Lissakers commented. Tilting toward budget stringency, given the pace of growth of the budget, was not unreasonable. Nor was it unreasonable to try to set a somewhat more ambitious target for expenditure cuts than the staff might like to volunteer, for obvious reasons. Once the target was set, it might not be as painful to achieve as had been suggested. Savings arising from productivity improvements and investments in technologies could be translated into modest staff reductions. There was therefore a fine line between micromanagement and formulating a reasonable budget objective that did not sacrifice the quality of output while putting the breaks on the recent rapid growth in the budget, which had been driven by an enormous increase in membership. In her view, several Directors would like to have a serious look at the possibilities and there might be more options for cost cutting than had been presented so far.

Mr. Geethakrishnan said that he agreed with Ms. Lissakers on the need to look for cost savings. He was not saying that the Board and the Committee should abdicate that responsibility. Rather, his comments were made from a macroperspective--the medium term. When the Committee looked at the annual budget proposals, it could go into the details. At the macrolevel, it was sufficient to tell management that Directors support a 2 percent reduction or a 3 percent reduction, and leave it at that.

Mr. Sirat stated that he understood from the current and previous discussions of the Committee and the Board that there was a general consensus that the level of country-work activity or the number of intensive cases was a good basis for assessing the evolution of administrative costs and possible productivity gains. He therefore had some difficulty understanding how, in a period when there was expected to be an increase in activities related to intensive cases, there could be a somewhat larger reduction in the budget than was under consideration. Reaching a general agreement on the link between the level of intensive cases and the level of staffing could help provide a more rational basis for further discussion than "no increase in real terms" or "no increase in nominal terms," which were merely political signals.

Mr. Mesaki said that he agreed with Mr. Geethakrishnan that the Committee should not micromanage the budget. In his view, the principle for establishing the Fund's budget was simple: minimum cost with maximum performance. From that viewpoint, he believed that only one option should be considered, in line with the practice followed by governments, including the Japanese Diet.

The Acting Chairman remarked that as the Committee on the Budget was a new committee, it was not surprising that it was searching to find how best to make itself effective and contribute to the work of the Board. Moreover, each Director had had experience with his or her own country's budgetary procedures, and the Committee was trying to take into account the different suggestions and experiences of as many Executive Directors as possible. In his own experience as Prime Minister of Côte d'Ivoire, he presented one scenario only to a budget committee, which sometimes held several lengthy meetings, to review informally every item in greater detail than would be possible in a plenary session, with the expectation that the Committee would make a proposal to the full Parliament.

The use of several scenarios helped provide more information on what management considered to be possible and reasonable, given the objectives and mandate of the Fund, the Acting Chairman continued. And, the iterative process adopted by the Committee could be expected to improve over time. He wished, however, to assure Directors that management was not keeping information from the Board: transparency was a key element of its approach to the budget process. It should also be noted that management had already undertaken the exercise that some Directors had proposed: it had examined the budget submissions of each department carefully and had also taken into account the views expressed by Directors during their reviews of technical assistance and the resident representative program. It was indicative that even though some Directors had indicated earlier that there were too many resident representative posts, at the Annual Meetings he had received requests for four or five additional posts. Management tried to accommodate such requests in formulating its budget proposals.

While trying to be cost effective, it was also necessary to ensure that the institution was not costly to the membership, the Acting Chairman remarked. In that regard, it had to be kept in mind that the cost of financing the Fund placed a heavy burden on most countries using Fund resources.

Options certainly had to be examined at the level of the budget committee, but he would propose that those options should not be put to the Board, as the Managing Director's proposal took into account the views of the Committee, the Acting Chairman stated. In addition, Board consideration of various scenarios would be a duplication of the Committee's work.

Mr. Geethakrishnan observed that the background paper indicated that the outturn for travel expenses was attributable in part to a lower than anticipated level of travel for technical assistance, but in the budget proposal itself, there was no indication that technical assistance had declined.

The Director of the Office of Budget and Planning said that estimates of travel expenditures were somewhat subject to time. In fact, there was a backlog of travel claims to be taken into account owing to a lack of staff to process them. Nonetheless, the travel budget for FY 1995 was expected to register a shortfall of $3.6 million. As to the level of technical assistance travel, it should be noted that short-term assistance had a higher travel content than long-term assistance. In that light, the shortfall might indicate an underdelivery of technical assistance because there had been some substitution of short-term assistance in those instances where it was not easy to find someone willing to accept a long-term assignment.

Mr. Evans observed that the memorandum on the budgetary outlook in the medium term included a section entitled "options," several of which had been helpfully spelled out in the tables circulated by the staff, and on which not all Directors had come to, or expressed, a view. It seemed inevitable that there would be some discussion of those options during the Board's formal consideration of the budgetary outlook. In the circumstances, he would reiterate his earlier suggestion to circulate the tables to the Board, together with a short text setting out the possible consequences of each scenario as had been outlined by the staff. It would also be helpful to include in the tables the expected outturn for FY 1995, which was likely to be at the heart of the forthcoming Board discussion.

Ms. Lissakers said that she strongly endorsed Mr. Evans's suggestion.

Miss Chang Fong remarked that Mr. Petrie's point on the need to consolidate the Board's consideration of all matters with an impact on the budget was well taken. And, while she agreed with Mr. Sirat that the Committee should not try to micromanage, it was essential to set clear priorities, for instance, when talking about the work program. As the current work program did not indicate a decline in work load, any spending cuts would have to come from doing tasks more efficiently or in a less costly manner. It might therefore be necessary to revisit the work program and work priorities. Moreover, in considering cost cuts, it would be unfortunate if the Fund fell into the situation that Mr. Prader had described. She wondered whether, at the current stage, and given the work program envisaged for the coming one to two years, Directors were prepared to see serious cuts in the budget, whether in nominal terms or real terms.

Mr. Murphy said that he supported Mr. Evans's suggestion. As to pulling together the Board's consideration of the various strands going into the budget, he would only note that as one looked to the medium term, it should not be assumed that the compartmentalization of various budget elements could be kept fixed. In particular, one could not proceed indefinitely on fixed assumptions about remuneration which was the price variable alongside the labor quantity variable.

Mr. Petrie stated that he agreed with Mr. Murphy on the need to consider a more integrated approach to the various elements of the budget. He supported Mr. Evans's suggestion to make available to Directors further detail on the options that had been presented.

The Acting Chairman observed that as the Board discussion on the budgetary outlook was scheduled for the coming week, it would not be possible to develop more detailed information for circulation to Directors.

Mr. Lissakers suggested that as it was still fairly early in the budget process and as the budget would not be adopted until May 1995, it might be possible to postpone consideration of the budgetary outlook for a week, if necessary, in order to have more detailed information on the scenarios.

Mr. Sirat observed that as all Directors were sitting as the Committee pending its reconstitution, the forthcoming Board discussion on the budgetary outlook was likely to resemble closely the current discussion, except that the staff would provide a written paper instead of an oral statement.

Mr. Geethakrishnan commented that as the Committee on the Budget had not yet been reconstituted, and thus did not have a formal existence, there was no harm in having the Board consider all three options. Moreover, as Option 2 had been detailed in the Managing Director's memorandum, it would be desirable to discuss Options 1 and 3 on the basis of a written statement, if not a detailed paper.

Ms. Lissakers stated that she agreed with Mr. Geethakrishnan. Moreover, given the complexity of the budget preparation process and the newness of the budget committee, some further discussion of the medium-term scenarios would be necessary before the Board could give its blessing to one particular scenario as the basis for preparing the detailed budget for presentation to the Board in the Spring.

Mr. Sirat said that circulating the record of the current meeting prior to the Board's consideration of the budgetary outlook might also be helpful in facilitating the Board's discussion. In fact, he would be surprised if the Board arrived at an outcome very much different than the probable outcome of the current meeting, which seemed to favor Option 2.

Ms. Lissakers remarked that while she would welcome the opportunity to ponder the comments that had been made by Directors at the current meeting, she would come to the Board discussion with an open mind and did not expect to repeat the exchange that had just taken place. In that light, she was not sure that having the record of the current discussion available would obviate the need for a full discussion of the matter at the forthcoming Board meeting.

The Secretary, commenting on how the Committee might proceed in reporting to the Board pending its reconstitution, suggested that the Chairman might prepare some concluding remarks that could be made available to Directors prior to the Board's forthcoming discussion.

Mr. Geethakrishnan recalled that when the question of submitting a report by the Committee to the Board had been discussed at an earlier meeting, the Chairman had questioned whether that was feasible, insofar as he would be assuming two roles: as rapporteur for the Committee and as author of the proposal to be considered by the Board. It was one thing to circulate the minutes of the meeting for Directors' information and another altogether to take a view that the Committee would endorse or make a recommendation to the Board for its consideration.

The Secretary observed that the terms of reference of the Committee on the Budget provided that "the Committee will make its views on the budget proposals known to the Executive Board." The opportunity was therefore presented for those in the Committee to put forward, formally or informally, a sense of their debate so that the Board could start its presumably shortened debate on the matter on the basis of a common vocabulary or understanding. As to how a committee that was not yet formally constituted could report to the Board, he would suggest that a pragmatic view could be taken insofar as there was a desire that the work that had been done in the context of the Committee on the Budget should contribute to an effective debate in the Executive Board. He therefore had no difficulty with making the sense of the meeting available to the Executive Board.

Ms. Lissakers said that she believed that the approach described by the Secretary was that envisaged by the Committee at its outset, namely, that the Committee would try to narrow the points for further discussion and consideration by the full Board. She assumed that that did not preclude the circulation of the tables with text as had been suggested by Mr. Evans.

The Acting Chairman stated, in conclusion, that Directors could perhaps agree on the main elements of the discussion, which could be organized around three points.

The first was the alternative scenarios, which had been generally welcomed, the Acting Chairman continued. Speakers had asked that they be provided to the Board. Some speakers had also asked that when reference was made to previous financial years, the actual outturn should be included as well as the agreed budget in order to provide a better perspective. Speakers had also noted that efforts should continue to review priorities and that management should be prepared to redeploy staff when work demands changed over time. With respect to the medium-term budgetary outlook, there was support for the policy of budget consolidation. Regarding the slight modification of that policy being proposed by the Managing Director, views had been put forward by two groups of speakers--those who felt that more could be done than a 3 percent reduction of staffing over the coming two years, and those who felt that it was important for the Fund to continue to service members adequately and who advised against further cuts in staffing so as to avoid a negative impact on the quality of Fund output.

The second element would be some background on the three scenarios that had been discussed, with a brief introduction by the staff, the Acting Chairman continued.

As the final element, the staff would provide the record of the current meeting prior to the Board's forthcoming discussion, the Acting Chairman stated. The record of the meeting would indicate the Committee's discussion of the question of the additional appropriation resulting from the new accounting standard for postretirement benefits.

The Executive Directors accepted the Acting Chairman's proposal.

The meeting was adjourned at 5:30 p.m.

APPROVAL: March 30, 1995