

GRAY/02/513

April 25, 2002

**Statement by Mr. Portugal on the FY 2003 Budget and the Medium-Term Framework
(Preliminary)
Executive Board Meeting 02/43
April 26, 2002**

1. I welcome the Managing Director's focused statement and wish to thank the staff for the papers prepared. I wish also to commend the Managing Director for the leadership he has imparted to the process of budgetary reform and Mr. Sugisaki for his active chairmanship of the Budget Committee.

2. The Fund's administrative expenditures have increased substantially over the last three years as a result of a series of new initiatives. I agree, therefore, with the Managing Director that our objective now should be to consolidate the size of the Fund and to seek efficiency gains. It is important that the Fund is perceived as operating according the advice it gives to its member countries of maintaining a hard budget constraint. This hardening of the budget constraint is important not only within the year, but especially from year to year. Expenditure constraint is particularly important in an organization like the Fund that does not have a binding income constraint. The reforms recommended by the External Evaluators, some of which have already been implemented, are likely to contribute to this aim.

3. Management's top-down definition of a budgetary stance establishing that new initiatives and policies, to the maximum possible extent, have to be accommodated within the medium-term budgetary framework, rather than added to the budget, is particularly important in achieving the objective of consolidating the Fund's size. The full-year dollar costing of new policy proposals is also an important element to harden the budget constraint, but it may not be sufficient. I fully agree with the Managing Director that we must refrain from adding unfunded work to our work program. This could represent either an unfair and undue burden on staff or it could involve cutting back on priority existing activities, two outcomes that should be avoided. Therefore, I would suggest that, in addition to full-year dollar costing, the staff papers proposing any new initiatives or policies should also indicate to the Board how management intends to finance such initiative, either in terms of identified efficiency savings, or by redeployment of resources from other activities which would need to be specified, or by allocation of additional resources, or by a specified combination of the latter. When the Board takes a decision on a new initiative or policy, it is important to know how much it will cost and, especially, how is it going to be paid for. Staff's views on this suggestion would be appreciated.

4. The development of departmental business plans clearly specifying a mission statement and goals, as well as outputs, inputs, and work practices needed to implement the mission statement is likely to be another important step to increase efficiency in resource use.

I agree with Mr. Mirakhor's point on the need to standardize and harmonize departmental business plans and with his suggestions on this issue. I also praise management's decision to augment and reinforce the program of fundamental assessments of area and functional departments now under way.

5. I welcome the improvements, albeit modest, achieved in work pressure indicators and encourage management to keep pursuing the objective of reducing work-related staff stress. Clearly, greater budgetary discipline cannot be achieved at the expense of overworking the staff.

6. The substantial 7.3 percent increase in the FY 2003 budget over last year seems justified to me. Over 70 percent of such increase is explained by increases in personnel expenses, both wage increase and volume increase, that had been appropriately approved earlier by the Board, while most of the remaining increase is attributable to two new worthwhile initiatives, the anti-money laundering initiative and the creation of two technical assistance centers in Africa.

7. The information on outputs and output groups presented in the papers does not provide sufficient detail to access the year-to-year evolution of these expenditures. I would like, however, to reiterate the position of our chair that technical assistance, particularly in the core areas of the Fund's activities such as the fiscal area, should be accorded a high priority in the allocation of resources. In many less-developed member countries, the adoption and maintenance of sound macro-economic policies is severely hampered by the lack of domestic technical and institutional capacity to formulate, design, implement, and monitor economic and financial policies. In these cases, the provision of technical assistance and training, which has shown a proven record of effectiveness, can be essential tools to help promote macroeconomic stability. Given the number of fiscal ROSCs, FSAP, and Data ROSCs already undertaken, the demand for technical assistance in these areas is likely to increase. I noticed, for instance, in Table 4 of Supplement 1 a decline in FY 2002 in relation to the previous fiscal year of technical assistance delivered by both FAD and STA, which seems difficult to reconcile with the growing demand for TA in these areas. I would like to suggest that, while estimating the dollar cost of new initiatives and policies, an estimate of technical assistance requirements, if possible based on past experience with similar programs, should be included. I have noticed that the estimates for technical assistance requirements of new initiatives are either absent or not very realistic.

8. Given the substantial increase in expenditures in the resident representative program over the last few years, it would have been useful to have a breakdown of the expenditures classified as "support to the program" in Box 2 of Supplement 1. As the latter are likely to be local expenditures, exchange rate and price assumptions may be quite different from those used in the budget.

9. I welcome the new concept introduced in this year's budget of a regular staff complement, as this will function as a clear ceiling on permanent staff expenditures that are

likely to represent a permanent liability. I wonder, however, if another sub-ceiling should not have also been maintained for long-term or repeated short-term experts and consultants.

10. The approach adopted to derive medium-term budgetary projections is based on the current weight of expenditure categories and on estimates for price increases for each category. I wonder how these projections are going to work as an effective budget constraint on volumes. My understanding is that the total expenditure for each year would function as a hard limit unless explicitly changed by the Board, and that, if the price change assumption for any category of expenditure does not materialize, the dollar amount envisaged for that category would be increased or reduced according to the effective price change, without transfers to and from other expenditure categories, unless explicitly authorized by the Board. I would appreciate staff's comments on this understanding, or on how the medium-term framework would function as a budget constraint on the real current level of expenditure.

11. I agree with the proposed changes to the capital budgeting procedures described in paragraph 46 that hopefully would allow that the full cost of new capital projects is considered when the decision is made on whether to undertake them or not. For this system to work appropriately, it is important, as proposed, that any unspent funds for individual projects lapse after the appropriation period, unless reappropriated by the Board for the same project thereafter. It is also important to have as firm as possible initial costs estimates and the understanding that any cost overruns above the initially informed cost would require substantial justification.

12. Given the lamentable past events related to the HQ2 building decisions, our chair is proceeding on this issue based on the assessment, contained in paragraph 5 of the Background Note on the Construction Budget, that the risks are minimal that the revised US\$149 million cost estimate would be exceeded. Still related to this project, I would like to know if the security aspects of having part of that building open to public use (restaurant, retail space, and cultural space) have been considered, and whether instead of on-site amenities it would be preferable to increase the cash contributions of the amenities package by the same amount.

13. With these remarks and suggestions, I support management's budget proposals.