EBM/91/34/R-1
FINAL

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November 7, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Restricted Session - Administrative and Capital Budgets - Medium-Term Outlook

Attached for the records of the Executive Directors are the final restricted minutes of the discussion of the medium-term outlook on the administrative and capital budgets in Item 1 of EBM/91/34 (3/8/91).

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EBM/91/34/R-1 - 3/8/91

1. ADMINISTRATIVE AND CAPITAL BUDGETS - MEDIUM-TERM OUTLOOK

The Executive Directors, meeting in restricted session, resumed from the previous meeting (EBM/91/33, 3/8/91) their consideration of a memorandum by the Acting Managing Director on the budgetary outlook in the medium term (EBAP/91/25, 2/15/91), and supplementary memoranda on automation (Sup. 1, 2/22/91), areas of technical assistance (Sup. 2, 2/22/91), and major specialized databases in the Fund (Sup. 3, 2/27/91), together with a memorandum on the midyear review of the Fund's administrative and capital expenses for FY 1991 (EBAP/91/31, 2/21/91), a paper on the question of a standing joint committee of Fund/Bank Executive Directors on administrative matters (EBAP/91/43, 2/28/91), and a memorandum on personnel policies and objectives (EBAP/91/46, 3/1/91).

Mr. Sarr made the following statement:

I welcome the memorandum on the medium-term budgetary outlook, which gives the Board the opportunity to review a number of important choices that should be made to enable the institution to continue to respond adequately to the challenges that lie ahead. I find that most of the background papers for this discussion could have merited a full Board consideration on their own, and I certainly agree with you that some of the issues raised in these papers will need to be revisited in the near future.

I wish to make a few general comments on the different program categories before discussing some of the key questions outlined in the Managing Director's statement.

First, with respect to country and operational activities, we note that the increased membership, the requests for more in-depth work related to Fund surveillance, including issues of regional importance, as well as the increased number of countries implementing adjustment programs, with or without Fund support, have contributed to intensifying work pressures in recent years. We see little scope for a reduction in these pressures if the Fund is to continue to respond adequately and flexibly to the diverse circumstances of the entire membership. We generally support the medium-term proposals outlined in management's memorandum to respond to the expected increased demands. In particular, we see merit in stationing for a time one or more staff members in resident representative positions in those countries where the level of activity justifies such action and where this could clearly help to alleviate pressure on staff at headquarters.

Second, in the area of special services to members, we welcome the commendable efforts made by the Fund to respond to the greater demand for assistance from member countries through the various initiatives developed recently and through expanded external training activity programs. However, we note from experience that, in spite of these efforts, requests for technical assistance had to be turned down or postponed. In view of the specificity of the Fund work and the shortage of skilled technicians in many member countries, we fully support your intention to continue to increase technical assistance and training services. These have proved to be cost effective and have greatly facilitated convergence of views between the Fund and member countries. Moreover, they help to foster a better understanding of macroeconomic policy formulation and implementation. We also support your intention to continue to improve coordination of technical assistance so as to better target it to country needs.

Third, in the general policy development and research area, we note that, despite the numerous attempts to streamline the work load in this area, it has not been possible to achieve the desired results because of constant unexpected demands. We agree that, in the medium term, the reduction in the work load should not be at the expense of systemic issues. This chair continues to emphasize the need to direct efforts toward supporting the Fund's operational work, and we welcome the progress made to this end. We also hope that the work of the interdepartmental working group on policy design would direct priorities toward supporting research with a regional focus and also give greater emphasis to regional policy issues as well as to work that can contribute to the building of institutional memory.

Fourth, with regard to other areas of the work load, we have no major difficulties with the medium-term proposals made by management, especially on information and external relations. We also broadly agree that the targeted increase in the allocations for automation is necessary in order to enhance the productivity gains. While we recognize that the prospective increase in budgetary allocation for automation is unavoidable, we are of the view that its cost effectiveness will need to be reappraised constantly.

On personnel policies, we find the background paper to be efficiently comprehensive to have warranted a full Board discussion so as to address the many important initiatives envisaged in the medium term to reshape Fund's personnel policies. We are in full agreement with the diagnosis made in the paper of the undeniable difficulties and problems faced by the Fund's staff as well as the broad objectives that should guide the Fund's personnel strategies and policies in the future. We can support the various initiatives envisaged aimed at maintaining the high quality and the professionalism of the staff. On the specific measures to reinforce the international dimension of the institution, we feel, like Mr. Kabbaj, that more emphasis on the recruitment of graduates from non-English speaking institutions could contribute toward this objective. We welcome the efforts made recently to target recruiting missions to countries that are still underrepresented in the staff.

We are reassured to note that management intends to accord a high priority to the delicate issues of promotions and career opportunities, and seek staff opinions as well as attempt to address, in a timely manner, major staff concerns. We have no doubt that the concrete steps that will be taken in this regard will go a long way in improving morale and working conditions in the institution. We hope that they can be developed and implemented soon and with minimum disruption.

We would like to reiterate that staff compensation must continue to be sufficiently competitive and take into account the need to achieve a wide range of nationalities in the Fund. On the issue of education and training, it is unfortunate that the Fund not only lags behind comparator organizations in terms of the proportion of the wage bill devoted to training and education, but also that its training facilities are underutilized by Fund professionals because of time constraints. We could go along with initiatives that could help to address this problem.

Turning to the issue of the existing imbalance between available resources and existing work loads, this chair, over a number of years, was alarmed by the heavy pressure that the institution was imposing on its staff as a result of these imbalances. In view of this and taking into account the implications of the medium-term issues raised above, we have, in principle, no difficulty with the general approach for addressing this imbalance. While we fully agree on the need to restore the resource balance, we are, however, surprised by the magnitude of the manpower required to achieve it. We have to keep in mind its medium-term implications, especially in budgetary terms. In addition, we wonder whether the planned front-loaded recruitment approach is desirable, since the planned increase in space will not materialize for 4-5 years. We feel that some additional information would be helpful, especially with regard to the areas where this additional manpower will be deployed.

With respect to the organizational structure, we welcome the various proposals aimed at strengthening collaboration among departments at the highest possible level through the creation of interdepartmental coordinating committees and the effort to streamline and strengthen the internal review process.

Regarding the planned shifting of a few selected countries from one area department to another to facilitate the analysis of country issues in a regional context, perhaps management could provide some clarification on the countries and regions involved, the timetable, and the staffing implications of such operations.

As for the establishment of an internal evaluation unit, a number of Executive Directors, as you may recall, have previously raised this issue, and we strongly support the initial steps taken to address their concern. We are certainly ready to lend all support to these initial steps and to give adequate consideration to the work of this unit. Nevertheless, and as emphasized by Mr. Kafka and Mr. Kabbaj, among others, this does not substitute for the independent evaluation unit that would report directly to the Managing Director and the Executive Board.

We support management's intention to tap fully the potential of this institution by strengthening its institutional memory and assessment in a form that will be easily accessible to all users in the Fund and to the membership. This approach, while initially expensive, can prove over time to be cost effective and enhance the policy recommendation capacity of the institution.

Finally, on the budgetary implications for the wide-ranging and important policies envisaged in the medium term, the personnel expenditure projections are of great concern to us. The underlying assumptions for the low and high scenarios seem to result in little savings on personnel expenditure. It would be helpful if a different front-loaded scenario, combined with a lower expansion of staff, were envisaged so as to contain budgetary expansion.

Mr. Zhang made the following statement:

We welcome today's discussion on the budgetary outlook in the medium term. We would like to commend management and staff for the comprehensive and informative papers prepared. As I can go along with the main thrust of EBAP/91/25, I wish to make just a few comments.

Fund activities have expanded rapidly. Since 1985, 7 new members were added for a total of 155 members. Some further growth in membership is possible. With the increase in membership and the emphasis on surveillance, we have witnessed a sharp increase in work load relating to consultations, policy analysis and advice, and so on. The development of Fund activities is also reflected in the use of Fund resources, arrears to the Fund, the debt strategy, structural and institutional reforms, technical assistance, and so forth. The figures and data in EBAP/91/25, like those on travel by purpose, and on the use of Fund resources in terms of changes in the number of stand-by arrangements and other facilities in different years, are convincing and thought-provoking. However, it is not always easy to quantify the increase of the work load and its accompanying demands in terms of high-quality consultation and surveillance, in-depth analysis, and well-considered policy advice.

For quite some time now, the Fund has managed to meet ever-growing demands by overstretching the staff. The staff has not only been burdened by excessive work demands, but also had to sacrifice legitimate vacation time. From the institution's point of view, if the staff has no time for further study and training, how can it be sure of keeping a high-quality staff and retaining such a body? In this respect, the paper from the Acting Managing Director is excellent and today's discussion is a timely one.

Concerning the medium-term management strategy, we are in agreement with management's objectives as outlined on page 23. We can, in principle, endorse management's recommendation that the size of the Fund be increased by 200 man-years over the next three years and that the front-loading approach be adopted. However, I also share the concerns expressed by some of the previous speakers on this issue.

As for organizational structure, we can go along with the report's proposal to establish an interdepartmental committee to advise the Administration Department and the Managing Director on the formulation of personnel, budget, and other administrative policies and to create a coordinating committee to address technical assistance issues. Regarding issues of evaluation, including the creation of a task force and strengthening the institutional memory, I can associate myself with the remarks by Mr. Kabbaj and Mr. Yamazaki.

Here I wish to emphasize the need to strengthen the work of the area departments. Take the Asian Department, for example. Since 1980, there have been six new member countries from Asia and recently the consultation with Hong Kong has been added. On the whole, member countries in Asia have achieved relatively higher economic growth with fewer programs. However, this does not mean that the work load is less than that of other departments. On the contrary, prevention comes first and involves detailed work. We cannot overlook the uniqueness of the individual Asian countries in economic activities. There are many populous nations in this area with a great variety of economic patterns, and most of them are facing a difficult task in developing their economies. All these points merit attention and they have increased the work of the Asian Department staff. Other departments certainly also have their own special features. Therefore, it is essential that departments be adequately staffed and sufficiently equipped to enable them to keep pace with developments in the medium term.

Finally, I wish to say a few words about technical assistance and the training of member country officials. We attach great importance to the technical assistance and training opportunities provided by the Fund to member countries. We believe these play a very significant role in the improvement of work for both the Fund and the member countries. We commend the IMF Institute for its work in this regard and we wish it to be provided with adequate resources. We notice that those departments involved in providing technical assistance have an urgent need to be allocated more manpower, so that they can better serve the demands of our member countries.

Mr. Monyake made the following statement:

This discussion on the medium-term budgetary outlook provides a useful conceptualization and sense of direction of Fund activities. The staff has provided an excellent review of the outturn in the last five years and prospects for the medium term. It would also have been helpful to indicate what follow-up action had been taken on recommendations made at a similar meeting last year. For example, some Directors had suggested that a paper on the proposal to establish an evaluation unit should be prepared. I wonder whether the proposal to set up a task force in the office of the Managing Director as introduced in the memorandum, represents management's response to the same question.

Before turning to the specific issues outlined in the Managing Director's statement, I have some general remarks. First, it is important to remind ourselves that the administrative and capital budgets have significant implications for Fund income and, consequently, the rate of charge. Mr. Mohammed has made some pertinent observations in this regard. Thus far, management should be commended for containing the growth of the budget while responding to increasing demands on the Fund. In this context, I listened to Mr. Peretz's comments this morning with keen interest.

Second, in the interest of maintaining a lean and stable organizational structure, the Fund should perhaps emphasize those operations that seek to improve and strengthen members' economic management capability. In particular, technical assistance and training could help to strengthen and build local macroeconomic management capacity, thereby reducing staff resource needs over time. The staff could also avoid the risk of micromanaging these economies, for example, through close, regular reviews usually incorporated in Fund-supported programs. For surveillance activities of industrial countries, the Fund should rely on the vast resources--both private and public--available in these countries with respect to in-depth studies related to structural issues. Accordingly, the Fund's role would be reduced to synthesizing the results of such studies.

I now turn to the specific points raised by the Managing Director. The review of trends in country operations reveals some worrisome developments that need to be addressed by the Board.

First, the growth in membership has, indeed, increased the globalization of the Fund and the attendant rise in the work load. This is quite apparent in the case of my constituency which has witnessed increased membership in recent years. I would, therefore, support some provisioning to meet these demands, especially when countries in Eastern Europe have already applied for membership or are seeking some form of association, as in the case of the U.S.S.R.

Second, the coverage and discussion of actual developments in consultation reports, particularly background papers on recent economic developments, could be limited to topical issues as has been done sometimes in the case of industrial countries. An updated statistical appendix should replace the bulk of the write-up. Perhaps such an approach could save computer, staff, and secretarial time while making the papers more interesting reading material.

Third, I agree with the assessment that there has been a noticeable increase in the complexity and number of programs. The number of ESAF/SAF-supported programs has risen substantially in the last few years, and the number of countries likely to seek recourse to these resources is bound to rise still further, with increasing awareness on the part of the authorities of the need to deal more decisively with the deep-seated structural problems confronting their economies. The policy framework paper process, which involves national authorities, the World Bank, and sometimes other donor agencies, together with the review clauses, has become a highly involved and complex exercise, resulting in an increased number of missions and, sometimes, lengthening of staff missions. For that matter, national authorities usually come to Washington to complete the often lengthy and difficult negotiations.

For countries with arrears to the Fund, experience has shown that any resolution of existing cases will require even more intensive and exhaustive work in order to build credible programs. Hence, there is need to exercise flexibility in the process of building workable programs and also in scheduling of missions.

Fourth, on structural and institutional reform, there can be no disagreement on the need to pay greater attention to social safety net issues. Indeed, poverty issues also deserve serious consideration, including appropriate research work.

Fifth, as already indicated, technical assistance should be emphasized mainly because member countries are provided assistance to build and improve local management skills. In our view, technical assistance, personnel, and training should be given high priority. Supplement 2 to EBAP/91/25 provides an excellent synopsis of the various activities of technical assistance and the involvement of various departments in the Fund. To us, all these activities, including the IMF Institute, are important and deserve to be strengthened. I further support the suggestion by Mr. Kafka that assistance should also be given at the executive level.

Finally, external relations should not be restricted to mere public relations exercises. More open and active debate on economic policies and adjustment should also be encouraged in order to enhance understanding of the underlying economic rationale. The symposium recently attended by the Managing Director in Botswana provides a good example of such dialogue and cross-fertilization of ideas and experiences.

The symptoms of resource imbalance, as outlined in the memorandum on the budgetary outlook and elaborated in the accompanying paper on personnel policies and objectives, suggest the presence of growing strains on staff resources. Any additional pressure, as envisaged in the medium-term outlook is likely to aggravate the position. Furthermore, there appears to be a significant frustration and deterioration in staff morale, particularly given the flatness of the organizational structure of the Fund. I would, therefore, support measures to redress this imbalance as soon as possible. On the specific question of promotion policies and practices outlined in the accompanying paper on personnel policies, I do not want to second guess the judgment of management. But I would take this opportunity to commend the growing realization that due attention should be paid to managerial and diplomatic skills, which are often critical in developing a rapport with national authorities and, indeed, harmony and satisfaction in the work environment.

I am in broad agreement with the medium-term priorities that seek to achieve a reasonable balance between demand and staff resources. In particular, the rate of growth in staff positions appears reasonable, and the addition of 200 man-years within the next three years, with a possible front-loading, is acceptable to me. Perhaps the staff could clarify whether or not the proposed increase is a global figure that includes support staff requirements.

On Fund work practices, the memorandum seems to indicate a rather worrisome development regarding the preparation of mission briefs which are said to be less than adequate. Given the seriousness attached to Fund advice, there is an urgent need to redress any such problem. To the extent possible, the mission leader should endeavor to involve the Executive Director concerned in developing mission briefs, particularly where use of resources is contemplated. In other words, mission briefs should not be viewed as negotiation positions, never to be revealed to the authorities.

There can be no disagreement that departments should step back and evaluate past experience. However, this chair subscribes to the view that an independent evaluation unit would be better suited to undertake such an exercise, rather than the people involved. Thus, while the establishment of a task force in the Office of the Managing Director is a laudable proposition, it should not replace the need for an independent evaluation unit, and it would have been helpful if a paper had been produced to provide a basis for discussion by the Board.

On budgetary implications, savings have been made on benefit travel, as a result of flexibility in the choice of class travel. Experimentation with similar flexibility could be considered for mission travel, perhaps along the lines being utilized at the World Bank, as suggested by Mr. Peretz.

Given the objective and tasks set for the medium term, with which I concur, I would conclude by stating that the proposed expansion of manpower resources appears reasonable. It still amounts to significant restraint in the overall growth of the administrative budget.

Mr. Arora said that, like others, he welcomed the opportunity to discuss issues related to the budgetary outlook in the medium term and, like Mr. Cirelli, Mr. Prader, and Mr. Zhang, he strongly supported the management philosophy underlying the memoranda before the Board.

The question of resource imbalance was important, Mr. Arora continued, but it could be traced directly to the changing nature of the Fund and, in particular, a welcome shift away from the focus on the short term to the medium term. If he understood them well, Mr. Goos and Mr. Spencer took exception to that approach and considered that the proper way to deal with a demand problem was to compress demand rather than to expand supply. His view was that that approach was incorrect because the international scene was riddled with crises and uncertainties that could not be resolved easily. It would be unfortunate if, just when the Fund's involvement in the developing countries was required to maintain stability in the world economic and financial system, the institution appeared to be withdrawing from that very important task.

The resource imbalance had arisen, as Mr. Prader had pointed out, because its potential nature and dimensions had not been understood soon enough, and the demand for augmenting manpower resources had not been seen in the right perspective at an early enough stage, Mr. Arora said. Now that it had been, it made no sense to say that the Fund's activities should be restricted and compressed. In that context, the Deputy Managing Director's response to Mr. Goos had made relevant points about the need for medium- or longer-term involvement in work in countries that were affected, for instance, by a structural balance of payments crisis or a debt crisis. The Chairman had also made the point that technical assistance was to be viewed not only as remedying a particular deficiency in a developing country but also as an essential component of good government that made all the difference between a good and a bad program. In that sense, technical assistance was a crucial input in improving the quality of policy implementation in developing countries.

Thus, those who based their critique of the budgetary outlook memorandum on the mandate given to the Fund in its Articles were perhaps ignoring the vital changes that had come about in the Fund's functions that it would be difficult or impossible to roll back, Mr. Arora commented. That was not to suggest that there was no scope for saving. Having been trained in the civil service tradition, he presumed that management and the Administration Department had looked at the savings that might come either from efficiency gains or from reducing activity that was not considered to be of priority, and, having done so, had concluded that a certain manpower increase was justified. The details could be examined later, but he would not, on that account, suggest that the estimate had no valid, empirical basis.

In that context, Mr. Dawson had referred to a lean Fund, Mr. Arora remarked. Certainly, the Fund should be as lean as it was possible to make it. But "meanness" was another matter. He suspected that a Fund that was put on a very strict diet and made deliberately lean would not, because of the nature of surveillance and other activities, tradition and culture, be any less partial to developments in industrial countries; but it would inevitably become meaner to the developing countries. The Fund should and could be lean and generous too.

He agreed entirely with the argument that had been made relating to the increases in charges that would ensue from the initial increase in expenditures, Mr. Arora noted, and that would bear harshly on the developing countries. Two issues that arose in that connection were, first, should the quality of the Fund's output be allowed to suffer just because charges increased, and, second, should the burden of administrative costs continue in the future to be placed entirely on countries that borrowed from the Fund? Should there not be a more equitable sharing of the administrative costs in a cooperative institution? He hoped that it would not be argued that countries that did not borrow from the Fund did not benefit from the Fund's advice. Thus, to suggest that the whole question of administrative costs should be examined only from the point of view of charges was an issue that needed to be looked at in the context of the future of the Fund. At the margin, if it came to the crunch, he would much rather have an increase in charges than a dilution in the quality of Fund output.

Also, in considering the future of the Fund in the medium term, the important point made by Mr. Yamazaki about the Fund's involvement in concessional financing would have to be taken up, Mr. Arora said. He suggested that, considering the situation that developing countries would face in the future, attention should be given to finding ways to maintain the concessional financing aspect of the Fund's activities.

The IMF Institute had not received as much attention as it should, Mr. Arora agreed. Purposeful use should continue to be made of the Institute, which had done good work. Apart from the six-week course that was run for junior- or middle-level functionaries in governments, he suggested that thought be given to one-week programs for senior officials who were actually involved in policymaking, so that they could benefit from interaction with the senior staff of the Fund.

He strongly supported the proposal to form a task force in the Managing Director's office, to look into the whole question of evaluation, Mr. Arora stated. He had an open mind on the question whether there should be an independent evaluation unit, and considered that the Fund should proceed on a trial-and-error basis, first establishing a task force and assessing experience with it before giving consideration to another approach.

While the Fund's personnel policies and objectives should be discussed on another occasion, as Mr. Dawson had suggested, the problem of staff morale was linked in part to the excessive work load, Mr. Arora stated. The Board should seek to solve the problem of the pressure of work without delay, so that at least that aspect of the morale issue was taken care of, leaving other issues to be taken up later.

Mr. Posthumus made the following statement:

> The Fund, I think, is a very well-managed institution, and a report like the one before us is witness of that, but there is still room to be critical.
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> An increase in the size of the Fund staff by 200 man-years over the next three years is not excessive; there is no doubt at all that we have a serious resource imbalance. We support an addition of up to 90 man-years in the next financial year, because we must do something to safeguard the still smooth sailing of the institution. I have in the past two years already indicated that I found an increase in manpower necessary. But I reserve judgment about a further addition, until more discussion in the Board has

taken place on a number of issues and on the basis of these staff papers. The imbalance has arisen from adding to our tasks, in many cases fully justified, in combination with an inability of management and the Board to set clear priorities. The final ingredient is a reluctance to allow the Fund to grow in manpower, because of concerns that we should remain lean, and simply because of cost considerations. This process has gone much too far and urgently needs correction. More staff is certainly needed, but so are better priorities. Priorities should come from the top, not be left to individual staff members who are forced to choose among tasks assigned to them.

Paragraph 3 of Section II of the budgetary outlook paper on the use of Fund resources gives an indication that the Fund is not only fulfilling its original mandate there. We have concerns similar to Mr. Goos. Of the 48 Fund arrangements in effect at the end of 1990, only 17 were stand-by arrangements. All the others have the character of long-term financial involvement and long-term financing. There are 25 arrangements under the SAF and ESAF, which are not financed out of our general resources. I agree with Mr. Yamazaki that we should discuss soon whether the Fund should continue with heavily concessional financing, but I have the feeling that his enthusiasm may be greater than mine. There is the statement that we are working with countries facing more complex and intractable economic problems requiring assistance over an extended period. Countries in Eastern Europe require close and constant involvement of the Fund for some time. Many countries in the Middle East region will probably seek Fund support to deal with long-term economic problems.

Nowhere in the paper is the question posed whether we are or are not drifting into the mandates of other international organizations. Nowhere also is the question posed whether our resources, drawing temporarily on the reserves of the central banks of our members, are still suitable for what we do with them. Perhaps it is not management's responsibility to pose such questions. But it is certainly the Board's responsibility to do that. The Fund is not necessarily passive in the sense that it has no choice in the extent to which it wishes to respond to whatever demands are made. We might gain more by respecting the mandates of other organizations than by duplicating them.

Today's proposals to increase the size of the Fund's staff will lead to increasing costs. The nonremunerated part of our resources remains constant, as a result of the Second Amendment of the Articles of Agreement, and burden sharing has depleted the room above the legal minimum level of remuneration. As a consequence, charges for drawing on the Fund will increase. We have already a steadily increasing burden, partly shared, of arrears to the Fund. We must discuss the issue whether Fund programs are not becoming excessively expensive and, if so, whether something should not be done about it.

One growth sector of the Fund in recent years is technical assistance. Without any doubt the Fund is performing highly useful services in the area. The fact that we have such excellent staff resources also means that our technical assistance is excellent. We must, however, decide on priorities: staff allocated to technical assistance cannot contribute to our stand-by programs or to our surveillance responsibilities. Where are we to draw the line?

Surveillance is central to the Fund's role in the international monetary system. However, the Fund's effectiveness in this role has not increased over the past few years. There has been a contribution to the G-7 economic coordination process, but this contribution is largely invisible, and I doubt whether it is very effective. The Fund's contribution to the European economic coordination and integration process is ineffective, because it is nonexistent. If the surveillance role of the Fund continues to be unwelcome to such a large group of industrial countries, the question must be discussed of what value our efforts in the field of surveillance are.

On the report on the Fund's personnel policies, I support further Board discussion on this issue. Such signals as are contained in the annual report of the Ombudsman need to be discussed in the Board.

At this time, I would like to stress, however, one point. Recruiting personnel on as wide a geographical basis as possible remains important, subject to the paramount importance of securing the highest standards of efficiency and technical competence. The share of personnel from other countries than the United States remains too low. Every effort should be undertaken, including in the field of salaries, to attract the largest part of the additional 90 man-years from countries other than the United States.

Automation is a highly necessary, and possibly highly effective, means of increasing productivity of staff. I fully support the efforts of the Fund in this regard, including the current goal of standardization and linking of electronics Fund wide. Such links should further facilitate access to information. It can also be a tool in strengthening institutional memory, essential for the efficient functioning of a larger organization. The proliferation of personal computers allows desk economists to efficiently store and retrieve country-specific data. It also allows them to do so in their own, person-specific way. In this connection, I, like Mr. Peretz, was struck by the statement in

Supplement 3 of the staff report, to the effect that country-specific data bases tend to be of limited use to all but the incumbent desk officer. I believe that it is crucial to tackle this problem as soon as we can. Maybe, and here I agree with Ms. Powell and Mr. Al-Jasser, we need more research assistants. Some standardization of structure of the many country data bases and updating procedures is necessary to safeguard vital data and to facilitate staff flexibility.

A comment has been made on the costs of first-class travel. I feel that we will certainly add to the existing unhappiness of travelling staff if we discontinue first-class travel for trips shorter than 9 hours. I support, however, the idea that the Board itself should take this step.

The immediate manpower constraints in the European Department have resulted in a greater participation by the Research Department in country work. I regard that as very positive. Such direct exposure to concrete problems should add to our research capabilities and it is the kind of exposure which distinguishes our research from that in universities. At the same time, the country missions will have profited from analytical strength. The same process can be seen at work in the role of the Research Department in the implementation of the oil element of the CCFF. I hope we can build upon these exchanges to further integrate our research into our concrete and core tasks, because I think that our Research Department has drifted too much into pure research. I would, however, like to see a paper from the Research Department, not coordinated with the other departments, philosophizing on our role in the international monetary system, our gradual move to a development agency, our failure to play a role in an international system which is more volatile than the regulated system of the past, our failure to be called upon to support smaller industrial countries, etc.

Finally, I broadly support the evaluation proposals. I do not support outside, independent evaluation, because I am afraid that that would be completely ineffective, in view of the defensive posture of the evaluated departments such independence may provoke. Several Directors would like to see the report submitted to the Board. I am afraid that the same result as in the case of outside evaluation would occur; in other words, the evaluation might become ineffective.

The Deputy Managing Director said that, as he had indicated earlier, the budgetary outlook paper reflected the activities and the priorities of the institution as they had evolved, and made a judgment on how they would continue over the near term. Their evolution had its origin in Board discussions over time, and their future direction would obviously be shaped by Board discussions to come. Essentially, the paper took where the institution stood and what it was doing, and then assessed whether its resource base was adequate to the task; it did not forecast any major new activities, which was why relatively little had been said about systemic work, as Mr. Yamazaki had noted. The direction of systemic work would be in the hands of the Board in the coming period, as Directors had discussed at the retreat, and the likely resource implications would have to be assessed afterwards.

The paper did expect continued heavy demand, if not a growing work load, in a number of existing activities, the Deputy Managing Director continued, including training. In their statements, Directors in fact had supported the need to increase the amount of training that was provided. On the question that had been raised about whether the lack of manpower growth of the Institute was a matter of priority, it should be noted that the Institute had done a great deal in the past two years or so to streamline its operations. The total manpower of the Institute had remained relatively constant or had declined slightly, but the level of activities had increased and had become more diverse over time. Since redeployment within the Institute was nearing its end, any further increase in activities would involve an increase in manpower.

The other area where the paper indicated a growing work load was that of technical assistance, the Deputy Managing Director added. Directors themselves, in the Board's day-to-day discussions of individual cases, emphasized the need for technical assistance. In meeting that need, an attempt had been made to delineate areas of technical assistance where responsibilities could be divided with the World Bank. If the assistance provided by the Fund in the area of banking supervision had grown, as it had for at least ten years, it was in part because of banking system problems. When such problems arose in the course of surveillance consultations or in discussions on the use of Fund resources, many central banks made calls for technical assistance in that area, which was generally within the clear domain of central banks. In areas like computing, there was no intention to expand the activity per se, but increasingly with some types of technical assistance--for example, on tax administration and tax systems--it was necessary to provide advice on accompanying computer systems. In that sense, the focus on computer work was a derivative of the functional assistance that the staff was providing.

The projections were not based on a forecast of increasing use of Fund resources, the Deputy Managing Director noted, although as he had indicated earlier, it had to be recognized that many of the countries that were currently using Fund resources would be owing the Fund money in the future, which would call in many cases for continued monitoring. Even if there were no new additional programs, in five years' time, 45 countries would still owe the Fund money. To re-emphasize what he had said at the previous session, if he were to draw one main lesson from the past five years, or indeed, from the past decade and a half, it was that the staff must be able to maintain regular contact with members, so as to provide the advice and assistance that would help to prevent the emergence of difficulties that might require the use of Fund resources. Like Mauritius, which he had mentioned at the previous session, Turkey was another case in point of a country where the Fund had provided quite extensive economic analysis on a fairly regular basis, in between consultations, that had been helpful to the member in dealing with its broader economic problems.

In addition, as he looked back in particular over the past five or six years, the Deputy Managing Director said, the institution needed to be prepared to handle a crisis. Mr. Mohammed and some others had shown concern about a ratcheting up of the size of the institution following a crisis period. A lesson that he would draw from the surge in Fund activity and demands on the staff in the past two years was that in periods of downtime, it was necessary in effect to maintain a critical mass of staff in order to be able to respond more effectively when crises suddenly developed. He recalled earlier budget discussions, just a few years before, when it had been suggested that the size of the European Department or the Middle Eastern Department, or the Asian Department, could be reduced. When and where crises would occur could not be predicted, but when they did occur, the staff had to be ready, as had been seen in Europe and the Middle East.

The approach mentioned by Mr. Peretz of a reduction in major activities and zero-based budgeting had been discussed, the Deputy Managing Director said, but not followed. In a broad sense, the information could be retrieved from the budgetary outlook paper, and an attempt made to identify some major activities and the resources associated with them. The resource requirements in the area departments, technical assistance departments, and the IMF Institute were well defined. The central question with respect to the Bureau of Statistics would be whether or not to publish International Financial Statistics. More discrete areas that could be looked at included the Fund's work on trade and capital markets, where two divisions could be eliminated. The need for offices in Europe could be reassessed. But those would be relatively marginal adjustments. The products of the two divisions stood on their own when they were brought to the Board, and they also contributed to the other work of the institution.

Technical assistance had received a great deal of attention, the Deputy Managing Director noted. As Mr. Kafka and those who had joined him had said, it was not simply a matter of providing policy advice and advice that was decision oriented, but of providing advice in helping to build institutions, an aspect that had received more attention in program cases. Traditionally, institution building had been thought of as being synonymous with long-term technical assistance, yet one could question whether the outcome was to strengthen institutions. That was one reason why the Central Banking Department, for example, had shifted from long-term technical assistance assignments in the area of banking supervision to shorter-term, targeted assignments, which it considered to be effective. Other institution-building techniques were also being developed, such as the approach to technical assistance in the banking field in Poland and other East European countries, and in countries like Angola and Namibia, where general guidance on broad policy issues in the banking and fiscal areas, as well as specific advice on tax systems or on central banking structure, were provided.

As Mr. Kabbaj, Mr. Kafka, and some others had stressed, giving priority attention to countries that were using Fund resources in providing technical assistance should not in any way preclude technical assistance for countries that were not using Fund resources, the Deputy Managing Director stated. In many ways, for countries not using Fund resources, technical assistance could be seen as having a preventive character that reduced the prospects of their having to use Fund resources.

On the chances of exploring support from other institutions for providing technical assistance, the Fund had, in fact, over the past two years begun to increase its long-term technical assistance, with the help of the support provided by the UNDP and also by Japan, the Deputy Managing Director said. Management had discussed with some Directors the possibility of additional arrangements with other central banks or other governments to find support for financing technical assistance. Another area for consideration was the extent to which the World Bank could use some of its technical assistance resources to fund some of the technical assistance being provided by the Fund that complemented the World Bank's own technical assistance. An attempt was also being made to delineate areas where the responsibilities for technical assistance could be divided between the Fund and the World Bank.

Directors had focused their attention also on the question of resource requirements--whether an additional 200 man-years was the right number and how the additional resources would be used, the Deputy Managing Director noted. More detailed budget estimates would have been helpful, but the character of the paper had been determined by the timing of the discussion, which itself should ideally have taken place in December, had it not been for the decision to take a broader approach to the budget and personnel issues. In addition, up-to-date information was not available in December to give a sense of direction on the medium-term prospects. The medium-term outlook paper had not been completed for presentation to the Board until after departments had made their initial submissions in January. The plan was to submit the detailed background material in the context of the FY 1992 budget.

In the future, the idea was to explore a more medium-term approach by departments to their work, particularly by area departments, the Deputy Managing Director said. For instance, in the past, the travel schedule had been set six months ahead, which made it hard to construct a budget for the year ahead, let alone a budget for three years ahead. If departments looked further into the future, the kinds of resource demands made on the institution over a period of time of one to three years could be evaluated.

The number of 200 man-years was qualified in the paper as being on the order of that size, the Deputy Managing Director observed. A specific request would be made later, although he himself was already comfortable with the number, based on the available information. He only wished it were possible to work with a single analytical framework, as Mr. Spencer and Mr. Filosa had suggested, but the analysis had to be made from various perspectives and based on different types of information. As for whether, as Mr. Cirelli had asked, the increase would be equiproportional, that would suggest a very passive approach to managing an institution, an approach not followed in the Fund.

The indicators supporting the broad objectives of reducing existing imbalances had become clearer, particularly in the past month or two, as data for the previous year became available, the Deputy Managing Director noted. Training had not taken place according to the norm; vacations that would normally have been taken had not been; leave time had been lost permanently; for an increasing number of staff, travel time had exceeded 50 days during the year, a figure that was at the upper end of how much time individual staff should be on the road. The deterioration in all those indicators, based on some rough figures, indicated that manpower additions would need to be on the order of at least 40-50 man-years. Beyond that, departments had requested additional staff, and although based on careful review, their requests need not all be met, the number that should be met remained very large. The FY 1982 budget would add precision in respect of the specific areas where the number of staff should be increased.

The other, more qualitative need for additional manpower concerned evaluation, the Deputy Managing Director said. There was no doubt that the internal process of evaluation had been stretched in the past two years. For example, the conditionality reviews had been postponed; also, it should be possible to meet the request to look at comparative experiences in Eastern Europe, and at other subjects too, on a more regular basis. That was what was meant by the reference in the paper to evaluation as a more regular part of the Fund's work.

Certainly, it would be desirable to have the Exchange and Trade Relations Department participate in every use of resource mission, in line with area departments' wishes, the Deputy Managing Director said, but its participation had had to be cut back, particularly in the past two years. To have continuity of missions, an objective that Directors had mentioned a number of times during the course of the year, the same staff had to work on the same country for a sustained period, with a loss of flexibility in moving staff around to pick up peak work load.

He emphasized that the number of about 200 man-years did not include estimates of manpower requirements for either an evaluation unit or a strengthened evaluation exercise, the Deputy Managing Director added, nor were the proposals for an institutional memory and a more systematic assessment of membership experience taken into account; those were concepts that had to be developed for the future. At the current stage, most of the additional resources that were being requested would be allocated to the area departments and the functional departments, including Exchange and Trade Relations, Central Banking, Fiscal Affairs, and the Institute.

The question of phasing in the increase in manpower was still being looked at, from the point of view of how quickly departments could absorb it, the Deputy Managing Director noted. The one area where resources could be increased fairly quickly was that of technical assistance, and the magnitude of the increase and the question of front-loading would essentially come down to a question of the number of additional persons with highly specialized skills who could be employed to provide technical assistance. The capacity of area departments to absorb regular staff in a short period of time itself was a constraint. In addition, the ability to recruit would have an impact. But to the extent possible, it would be helpful to be able to front-load that resource increase, or in some way receive an indication that future increases were possible, in order to assist in planning the allocation of staff to departments. Those plans would be influenced not only by the allocation for one year, but also by its increase over time, an aspect that would be dealt with in the administrative budget document.

The answer to the question that had been raised of whether additional resources would solve the staff resource imbalance was that it would not, the Deputy Managing Director said--not without other efforts. That question had been discussed at length, which was why the papers before the Board took a fairly broad-based approach to the issues of resource imbalance, including the paper on personnel policies and objectives.

On the question of whether supply created its own demand, or, as the SAC had asked, whether adding people would simply create additional pressures for the staff, the Deputy Managing Director remarked that in a sense, as Mr. Mohammed had said, there was an element of internal compulsion. Again, that was why an integrated approach was being taken. More attention would have to be given by managers in each of the departments to personnel considerations when they made decisions on missions and other work, to be sure that there was not too much interruption of personal lives. And managers needed to spend more time on managerial issues, and on helping to strengthen communication both ways. High priority would have to be given to making sure that departments met that dual objective.

The efforts of the past few years of redeployment and avoiding duplication had been of significant help in limiting the overall growth rate of the institution while permitting fairly high growth rates in some areas, the Deputy Managing Director said. But the potential for substantial redeployment or reduction in staff requirements depended mainly on how automation evolved over the years ahead. Mention had been made of the size of the Administration Department, the Secretary's Department, and the Treasurer's Department. The handling of administrative matters, documentation, and the way in which it was stored, transactions with member countries, and the related question of the complexity of the Fund's facilities, would all have to be addressed in the future as automation systems evolved, including the way in which the main support departments worked with each other. That exercise, and its full manpower implications, would have to take place over a three to five-year period.

In addition, the Deputy Managing Director remarked, the reality of redeployment was that the number of people who were capable of being redeployed could be limited, which was why it was desirable to enhance training to improve the prospects for mobility of those staff who had reached a peak in one area and could be transferred productively to another area. When it was not possible to redeploy a staff member, it became a question of the person's separation from the institution. That issue would have to be taken up in the context of personnel policies, to consider to what extent separation should be encouraged, what incentives should be provided, and what their impact would be on other staff.

The two activities of evaluation and strengthening institutional memory and assessment were separate but complementary, and would reinforce each other, the Deputy Managing Director noted. An independent unit would not, as some Directors had recognized, preclude strengthening internal evaluation. Thus, part of the work of the task force would be to look at the Fund's internal evaluation systems to assess how good they were and where they needed to be strengthened. However, the issue of the independent evaluation unit would have to be addressed separately.

On data duplication, the data banks had been developed to meet specific needs, the Deputy Managing Director said. A great deal of time and effort had been devoted to seeing how they could be integrated into a single database. Trying to force all databases into one would in fact be largely inefficient and counterproductive. Priority was being given to concentrating on improving communications between databases and national capitals to avoid duplication of reporting. The weakness in the country databases which were maintained in the area departments stemmed from staff imbalances, and the need to strengthen them would have to be taken into account in deciding where to add staff.

The growth of automation over the past two years had been slowed down, in order to assess the direction to be taken in the future, the Deputy Managing Director commented. Steps were under way to put in place equipment that would permit better handling of documents, and eventually greater integration of the production, transmission, and storage of documents. The approach in that area had to be a cautious one; it involved a significant amount of training to enable people to adapt to the new technology.

The Chairman said that he had no particular concluding remarks to add to those of the Deputy Managing Director, whose answers reflected the philosophy of management in handling the various issues. He was extremely grateful to the Executive Board for having perceived so well that what was being sought was a way in which the Fund could adapt itself to the realities of the past decade. Demands were high, but they were at least partly the price of the success of the institution, and the price of the confidence that industrial countries and developing countries alike had in the Fund. The Fund would have to continue to try to meet those demands and those challenges, as it had done so far, maintaining what Mr. Dawson had called its nature and culture as a lean institution--streamlined, efficient, and flexible.

There was only one point on which he would beg some indulgence, the Chairman stated. Everybody in the institution knew that management had resisted for two or three years, if not longer, the recognition that the demands, or part of them, were of a permanent character. He did not apologize for that. It had been right to bring pressure to bear for redeployment and streamlining, and to press heads of departments and their staffs to have a true medium-term view of their needs, which had now been captured in the documents before the Board. But the moment came when sticking to such an attitude no longer had merit and could be counterproductive, and he believed that that moment had long since passed. He asked Directors to keep that in mind in making their own judgment on the budget for the next financial year. At present, a reasonable front-loading would certainly be justified, as the reinforcements were long overdue. At the same time, Directors could be assured that what they were being asked to consider would be totally in line with the Fund's philosophy, practice, and tradition of efficiency and flexibility.

Mr. Wright noted that he continued to be slightly troubled by the indication that the analysis behind the specific numbers suggested for the FY 1991 budget would be provided only in the administrative budget document itself. As Mr. Peretz and a number of other Directors had said, the problem was not with the principle of an increase in staff resources, but with finding an analytical basis on which to justify an increase of a given size. It would be much more helpful if, as Mr. Peretz had suggested, that analytical framework could be set out in a document provided to the Board before the FY 1992 administrative budget proposal was made. In other words, he would prefer a two-stage process that would give Directors an opportunity to discuss the proposals, albeit in broad terms, before the actual budget was taken up.

The Chairman commented that he saw the merits of Mr. Wright's suggestion but noted that the Board's discussion of the Administrative Budget would have to be held within six weeks.

The Director of Administration observed that the Administrative Budget had to be submitted to the Executive Board by April 1, or in three weeks' time.

Mr. Wright remarked that he understood from what the Deputy Managing Director and others had said that a great deal of the preparatory work on the increase in staff resources had already been done. Therefore, he wondered whether it would not be possible, even within the time available, to offer more guidance to the Board on the precise figures underlying the budget proposal. He had in mind the point made by Mr. Peretz on the need for authorities, as well as Directors, to take a view.

The Chairman responded that an effort would be made to provide the necessary justification in the budget papers that would be presented.

The Deputy Managing Director added that it might be helpful if the presentation of the administrative budget document for FY 1992 also gave a more precise idea of the likely need for additional resources beyond FY 1992. The areas of the greatest demand where pressures needed to be reduced could be identified as precisely as possible and the various criteria for meeting them spelled out. Directors would then be able to evaluate the direction of future budgets.

Ms. Creane said that she shared Mr. Wright's concerns and that she would like to have at least some tables supporting the budget projections before the Administrative Budget was brought to the Board.

The Chairman noted that it seemed unlikely that that could be done before the Administrative Budget was issued, although a simultaneous presentation along the lines that had been suggested could be made that would be as helpful as possible to Directors in justifying the decision that they reached.

The Director of Administration explained that the practical problem was that although considerable analytical work had been done on departments' global submissions, the precise numbers of staff to be allocated to different departments had not been finalized, pending the outcome of the Board's discussion of the budgetary outlook. That final allocation was vitally important from the individual departments' point of view, and he would not want to prejudge it by presenting Executive Directors with a rough approximation, because the consequence would inevitably be that departments would be misled. It might perhaps suffice if a separate, short note was issued, together with the Administrative Budget, that identified in skeleton, tabular form the allocation among departments and the way in which it was linked to the various priorities and programs set out in the budgetary outlook paper.

Mr. Esdar considered that Mr. Wright's suggestion was very helpful. Another point that should be discussed in advance was that raised by Mr. Goos on the legitimacy of expected demands in relation to the Fund's mandate, especially with respect to the duration of such demands and the possibility of temporary solutions to overcome shortages.

The Chairman responded that all the demands on the Fund were related to its mandate; they could not be broken down according to the six purposes set forth in Article I. Staff working on surveillance under Article IV also worked to carry out other purposes. Clarification and justification were in order, but a different presentation of the basic budget would not be possible. An effort would be made to offer Mr. Goos the reassurance he sought. But the problem that had to be faced was to give the Fund the appropriate means for discharging its central responsibilities; the Fund was not operating at the margins of those responsibilities.

In response to a question by Mr. Peretz, the Chairman noted that an additional stage--and a very useful one--had already been added to the budget process. Good documentation and strong justifications were essential, but he questioned the need for an additional stage of discussion prior to consideration of the Administrative Budget, given the heavy agenda and the constraint imposed by the calendar. Full justifications would be provided as soon as possible, so that Directors could prepare and present a case to their authorities, while at the same time ensuring that too much time was not spent on issues that were, in his view, relatively clear.

Mr. Peretz commented that he would make the same point to reach the opposite conclusion. It seemed to him that it might be helpful to management if the Board had another round of discussion before a firm budget proposal was put forward. Judging from the discussion, a certain amount of concern and desire had been expressed for having a number of options displayed, including the implications of zero growth and, more precisely, how the proposed extra staff would be deployed. A more general question had also been raised by Mr. Goos, namely, how many of the visible demands actually should be met.

It would be helpful to him, Mr. Peretz said, if the possibility of a two-stage approach could at least be left open, even though in the event he might not request it. But if the further documentation that was being requested was presented as part of the administrative budget document, that possibility would be ruled out. He asked how firm a requirement the date of April 1 was for submitting the budget.

The Director of Administration noted that the Fund's financial year ended on April 30, and that unless the congressional process of a continuing resolution were adopted, a budget would have to be issued at the end of March and approved before the end of April. In the past three or four years, a medium-term outlook discussion had been added to the budget process that, perhaps understandably, was taking on a life of its own. But the result seemed to be that the budget was moving along two tracks, and it might be useful, at least for the future, to clarify the steps in the budget process.

The Budget and Planning Division was currently under heavy strain to produce the Administrative Budget and was hardly in a position to divert resources from that critical task, which, in accordance with established procedures, had to be issued by the end of the month for discussion in the subsequent month, the Director of Administration said. Staff resources were not available to explore larger issues, such as the future role of the Fund, which could take up considerable time, including time by the Board in reaching a consensus.

The Chairman suggested that, in order to facilitate Directors' thinking and decisions, and as soon as the basic budget tables were available, an informal seminar could be held to prepare for the Board's discussion on the Administrative Budget proper. As long as Directors did not ask for the papers to be circulated too far in advance, it should be feasible to call such a seminar, provided Directors saw merit in the idea.

In response to Mr. Peretz's other points, including the issue of a zero budgeting approach, the Chairman observed that such an exercise would not be very fruitful for an institution that, it was almost unanimously recognized, needed to know by how much it must grow. For other institutions--like the one he had managed for some time--that type of strategy had great merits. But the answers to some of the questions that would be raised were obvious. For instance, would the Board agree to place all countries on the bicycle, agree to avoid quarterly reviews--a proposal that might have certain merits--agree to renounce certain forms of technical assistance, and agree to roll back the proposal to increase the resources of the Institute? The membership would not be well served if the answers to those questions was in the affirmative. The Board knew what the demands on the Fund were, what it could do, and what it was doing. It was better not to lose too much time going through the motions.

Mr. Posthumus said that he had a strong feeling that a decision had already been reached on the additional manpower needed to undertake the Fund's current programs. The Fund, like other large institutions, was a supertanker that could not change course during an informal meeting within an afternoon or three weeks, quite apart from the question whether the Board could agree on priorities. Although a consensus view had so far escaped the Board, as the Chairman had noted, it was worth making another try. It was for that reason that he had proposed giving the green light for a budget for FY 1992, with whatever figure--70, 80, or 60--for the additional man-years to be employed, and for the discussion to continue over a period of five or six months. That procedure would be preferable to one that involved a hasty, prior discussion, or a postponement of the budget, which would be a most unwelcome approach, quite apart from the bureaucratic impediments.

Mr. Dawson stated that his chair would insist on having a further analysis of the three-year outlook. As for the annual budget for FY 1992, according to the budgetary outlook paper, the basic proposal was to increase the staff by 10 percent as soon as possible. He saw no consensus for that proposal in the Board. He was not even sure that he could accept the level of increase mentioned by Mr. Posthumus--60, 70, or 80--for the coming financial year, because, at that level, reprogramming or redeploying resources remained a possibility. Numbers on the order of those suggested for the three-year period were more likely to exhaust the limits in terms of the ability to redeploy resources. Meanwhile, as mentioned by Mr. Peretz, the issue of redeployment in a number of specific areas could be addressed, on the basis of further analysis. It was his understanding that the management of the World Bank, as the result of a similar Board discussion, had acquiesced in a proposal to prepare a zero-based option, even if that was not the option that would be chosen.

As he had said at the outset, he was trying to be open minded, Mr. Dawson remarked. There was clearly an increased level of pressure on the staff, and there might well be a case for some increase in resources. But he could not possibly sign on, even implicitly, to any increase of the nature put forward in the budgetary outlook paper, which raised more questions than it answered. As for the hypothetical or rhetorical questions raised by the Chairman about activities that might be candidates for cutbacks or shedding, he was reminded of another feature of the U.S. budget process, besides the continuing resolutions, namely, the Washington Monument game. Whenever the Department of the Interior was asked to cut its budget by 5 percent, the first proposal made was to close the Washington Monument.

What was lacking was a sense of the vulnerable areas in the Fund's activities, Mr. Dawson said. The final outcome might well be a significant increase in the rate of growth of staff resources compared with recent years, although he believed that the Fund staff had been growing somewhat more than the Bank staff in the past few years. He was somewhat disturbed at the apparent attempt to have the budgetary outlook paper provide the basis for the annual Administrative Budget, which was essentially to be a front-end budget. In a sense, the proposed outlook did not constitute a three-year plan; it was a proposal to take a series of actions that were justified, or made to look less sizable, by being presented in terms of a 3 percent growth rate in staff, when, in fact, the growth rate was 10 percent and front-loaded.

If he was forced to take a position, Mr. Dawson concluded, he would have to oppose the proposals in the budgetary outlook. He would be glad to discuss them further, along the lines suggested by Mr. Peretz and others.

The Chairman noted that it was not a question of approving the proposals. What was before the Board was an open, fair view of the medium-term needs of the institution, in a paper on the budgetary outlook that had been prepared, after more than one year of careful analysis of the problems and trends, to facilitate the discussion of the budget for FY 1992. In that connection, he saw merits in the proposal of Mr. Posthumus.

Mr. Posthumus explained that he had not suggested that the proposals in the budgetary outlook for the coming three-year period should be accepted. He had proposed only that the staff should prepare a budget on the basis of a certain number of additional personnel for FY 1992--the precise numbers were immaterial--and on the basis of the tasks that were already being carried out, and that the discussion on the needs for the longer term should continue. Like Mr. Dawson, he could not approve the proposed three-year program.

The Chairman noted that Directors were not prepared to take a position on any increase, including for 1992, and he respected their view. It would be understood, however, that it was necessary to proceed to bring forward a budget for FY 1992 that would be in line with the information provided to the Board. It was necessary to ask for authorization to recruit a certain number of people in 1992, and strong justification for the request would be provided. The Board would then have to carry out its responsibility and approve part or all of the Administrative Budget.

He would appreciate having an opportunity later to sit together with Directors in order to refine the prospects for FY 1993 and FY 1994, the Chairman added, in light of the evolution of the Fund's tasks, the possibilities for recruitment, the way in which the Fund responded to the first round of reinforcements, and so on. Possibly the resources that were seen to be needed for the next three years would finally be put in place only over a five-year period.

The presentation in the budgetary outlook paper was candid and professional, the Chairman considered. Perhaps it had taken too long to prepare. If so, it was out of concern not to ask for more than was needed after a strong effort at streamlining and at identifying permanent needs and temporary, acceptable pressures. But the moment came when decisions had to be taken. He was certain that the Board would take the right decisions, based on the right justifications, on the occasion of the April discussion of the Administrative Budget. That being said, to facilitate the budget discussion, he agreed that an informal, seminar-like meeting should be held as soon as the requests for FY 1992 were ready.

Mr. Towe said that his understanding was that most Directors were in favor of looking at a zero-based option. The Chairman's explanation of why that option would not be appropriate was difficult for him to understand, since it was certainly appropriate for Directors to evaluate, in the context of the medium-term budgetary outlook, the types of questions that he had raised. However, it was unlikely that the budget process could be changed in the three weeks ahead. Indeed, it was unfortunate that, while most Directors had agreed that the work load of the staff was excessive, an additional large work load in a short period of time was being contemplated. Therefore, he believed that the approach suggested by Mr. Posthumus might be the right one.

Mr. Yamazaki said that he welcomed the clarification that was being made of the nature and outcome of the discussion. His concern, similar to that of Mr. Peretz and Mr. Dawson, was that although the medium-term budgetary outlook, which had many controversial features, had been discussed, no conclusions had been reached. As a matter of fact, many caveats had been expressed.

It went without saying that a decision would have to be taken, in due time, on the Administrative Budget, Mr. Yamazaki added, based on adequate preparation. But it should not be taken for granted that the proposals that had been discussed had found approval in the Board; they had not. Further deliberation was called for on many of the proposals, for example, that with respect to evaluation. Most Directors had recognized the importance of evaluation, but several had stressed the importance of an independent task force and direct reporting to Executive Directors, given its relevance to the Board. Furthermore, the mandate of a task force, whether or not it should be established, how it should function, and how it should be budgeted, had not been discussed.

The fact that the Chairman had not summed up the discussion was helpful in indicating that the exchange of views that had taken place had not yet led to any conclusions, Mr. Yamazaki said. Further discussion was in order so that Directors and their authorities could present their views, in particular on some of the important proposals, including the evaluation or task force unit. He hoped that those proposals could be discussed fully before they were taken up in the budget proposal, although he would not insist on discussing subjects that were not to be incorporated in the budget.

Mr. Cirelli said that he associated himself with Mr. Posthumus's view. While everyone had agreed that some increase in the staff was necessary, no consensus had been reached on the size of the increase. It would be preferable to examine the figures to be put forward on the breakdown of the increase by departments; if the Board was not convinced, Directors would seek a consensus with the Managing Director.

Mr. Peretz said that he hoped that there was general agreement on the need for a more fundamental discussion of subsequent fiscal years over the months ahead. The immediate question was to obtain sufficient information to be able to judge the right increase in staff numbers in the FY 1992 budget. An informal discussion, before formal proposals were put to the Board, would elicit a wider range of views on which to move forward.

Mr. Fogelholm said that the Chairman's decision to have an informal discussion before the Administrative Budget was taken up was wise and would in fact facilitate that formal discussion, especially if the justifications were convincing, which he felt sure they would be. He understood from the Deputy Managing Director's remarks that the figure in the budgetary outlook paper of 200 man-years might not meet the demand, since it excluded staff for the institutional memory and other projects described in the paper.

He had drawn a conclusion from the discussion, similar to that of Mr. Peretz, Mr. Fogelholm said, namely, that the Board seemed to be at a high level of preparedness and willingness to continue the discussions that it had begun at its retreat, or seminar. He would urge that the thread of that debate be picked up, on a suitable occasion, because a number of underlying uncertainties and problems needed to be discussed in the open, so that a more common view could be had of the priorities of the institution. Of course, quite a number of informal discussions would be required before that point was reached, but a start should be made.

The Chairman said that he agreed with Mr. Fogelholm on the need to find time to return to the fundamental issues that had been discussed at the retreat. Several of those issues had come up during the present meeting. For instance, the need to take into account the impact of higher administrative expenditures on charges, and the post-ESAF era. Again, he asked for the Board's indulgence if management and staff, under the terrible pressure of work and negotiations, did not have enough time to tackle the fundamental issues that Directors wished to see raised. Those issues were ever present in mind, and an effort would be made to find a way to submit ideas on them to the Board.

That being said, the Chairman reiterated that an effort would be made to schedule the seminar that he had proposed should be held, to facilitate the smooth discussion of the budget, as suggested by Mr. Peretz.

Mr. Arora considered that the suggestion made by Mr. Posthumus offered a way out of the impasse, given the importance of submitting the budget on time and of staff and management having a definite idea of how to move ahead. That suggestion, combined with the Chairman's proposal for an informal discussion before the budget, should give Directors sufficient time to reflect on the future direction of the Fund, on which there was no way to avoid taking a view.

Mr. Dawson said that he agreed with Mr. Peretz that a consensus was emerging and that in fact the discussion had met the test mentioned in the opening paragraph of the Chairman's remarks at the beginning of the meeting, namely, to help management make the final decisions in preparing for the discussion--in seminar--of the FY 1992 Administrative Budget. Nevertheless, it must also be made clear that the discussion had raised a number of questions. The budgetary outlook paper had not gathered a similar sort of consensus as a basis for the medium term, but had rather indicated the need for more information on a number of questions.

He discerned a certain openness on the part of the Board, Mr. Dawson said. Mr. Peretz had said that he was ready to be convinced, and others had said they were open minded. He was open minded and ready to be convinced also. He sincerely believed that the demands placed on the staff of the institution had become greater and that, in the end, the conclusion as far as the FY 1992 budget was concerned might be along the lines mentioned by some Directors. Conceivably, thought should even begin to be given to subsequent fiscal years. But again, the case had not yet been made for making a commitment either at the present meeting, or in the context of the FY 1992 budget, for a multiyear expansion, which was how he had interpreted the direction of the paper before the Board.

The Chairman said that the only purpose of the budgetary outlook paper had been to provide Directors with nothing more, and nothing less, than a clear assessment of where the Fund stood and to offer management's view of the needs of the institution. No commitments had been asked for with respect to reinforcement of the Fund over the medium term, either for two or for three years.

The Director of Administration noted for the record that Rule J-4 specified that not later than April 1 of each year, the Managing Director shall present for the approval of the Executive Board the annual administrative budget of the Fund. Obviously, whether the Board accepted the budget in the form in which it was presented was not a matter on whether it could be expected to give an assurance at the present meeting.

APPROVED: October 30, 1991

LEO VAN HOUTVEN
Secretary