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COMMITTEE ON THE BUDGET

Meeting 99/5

3:00 p.m., November 18, 1999

S. Sugisaki, Acting Chairman

Executive Directors	**Alternate Executive Directors**
S.M. Al-Turki	
	Y. Moussa, Temporary
	W. Szczuka
N. Eyzaguirre	
	C. Harinowo
	J. Jonas, Temporary
	P. Brukoff, Temporary
A. Mozhin	
	J.C. Estrella, Temporary
	M. Takeda

A. Mountford, Secretary
S. Djumena, Assistant

Also Present

S. Collins
H. Oyarzabal
B. Wei

Human Resources Department: U. Baumgartner, Deputy Director. IMF Institute: G.C. Dahl. Policy and Review Department: R. Kincaid. Secretary's Department: S. Bhatia. Technology and General Services: N.S. Arya, C.R. Blose, S.H. Choi. Treasurer's Department: J.E. Blalock, D. Kelly, G.M. Fitzpatrick. Office of the Managing Director: E. Conrad, P.J. McClellan, C.L. Vehorn, N. Sachdew, J. Hudson, P.J. McPhillips, T. Wolde-Semait, F. Gaitan. Office of Internal Audit and Inspection: A. Coune, R. Munoz.

1. REVIEW OF BEST PRACTICES IN BUDGETING

The Director of the Office of Budget and Planning (OBP) explained that the impetus for the staff papers had come from discussions with the Committee and the Board during which a number of suggestions had been made that concerned budget and planning practices in the Fund. In response, management had asked the staff to take a look at the Fund's budgeting practices and those of a number of comparator organizations. Additionally, the paper benefited from an internal review as part of the general service review carried out by the Fund's internal audit office, which had made a number of recommendations. Also, the external audit committee had commented on that review and reinforced some of the recommendations.

The staff had selected 15 practices that, with some degree of agreement among practitioners, represented best practices in their respective fields, the Director said. While some were more policy oriented, such as the analytical presentation of expenditure by programs, others were more technical, such as the carryover or the contingency fund.

The staff had tried to present the technical material as accessibly as possible, by splitting it into two papers: one drew practical results for the Fund and some issues for further discussion, while the more technical material and the results of the staff visit to other organizations was placed in a background paper the Director remarked.

The staff had found that all of the other institutions used their own custom-made budget systems the director stated. It was not easy to judge whether one system as a whole was better than another. Some institutions were also envious of the Fund's system.

Mr. Takeda made the following statement:

> I find staff's efforts to look into the best practices in budgeting in other comparator organizations very commendable, and I agree with the thrust of the staff paper. The 15 items listed in the paper are steps in the right direction, and we support staff's continued efforts to improve the budgetary process.
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> However, let me add that the details need to be worked out carefully. I believe the staff is already well aware of the fact that a particular budgetary practice considered best in other organizations might not always work well in the Fund. It is good to be ambitious, but at the same time we need to be realistic. Instead of trying to achieve a lot from the beginning, an attitude of learning by doing might yield a better result.
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> It is difficult to comment on individual items at this point, since information given in the paper is general. Although, the benefits of some of the items are unquestionable even at this level of generality. I expect some of these items to be fleshed out further and reflected in concrete proposals in the future, at which point we will be able to better assess the usefulness of each item.

Mr. Jonas made the following statement:

> Like Mr. Takeda, we would like to thank the staff for these very concise two papers, and we also think that the 15 items are a step in the right direction. We were particularly attracted by the first item, the presentation of the funding

request in the form of programs, because we know that the Fund is now becoming involved in more initiatives. Particularly, it may be useful to have that kind of presentation of the budget, because it could allow the Board to better prioritize among programs. Also the benefits of more intensive interaction among the departments should not be neglected.

In this connection, the program-based approach to budgeting is closely connected to the identification of the statement of the mission of the organization. Perhaps the staff could comment on to what extent Article I of the Articles of Agreement could serve that purpose.

Mr. Harinowo made the following statement:

I join previous Directors in welcoming the initiative. This is really a good exercise to improve what we have.

I have several questions in this case.

One, I agree that the budget is related to the program. However, maybe there could be a problem in the monitoring of the budget and on how to associate the program with those responsible for it, as the responsibility for the execution lies with the department heads, who do not own the program.

Second, it is really a good idea to set up an emergency budget, of 1.5 to 2 percent, as is the case in some other institutions. In many organizations, departments have already included some kind of emergency funding. I believe it would be more efficient if we pooled those funds into one account so that the departments could prepare the budget in a more rigid way. If there was any additional need, then the departments would need to ask management for additional resources.

Ms. Brukoff made the following statement:

We think that the paper that staff has presented today lays out some positive principles that can guide further efforts to improve the Fund's budgetary practices from the standpoint of Board oversight, efficient resource allocation by management, and resource utilization by end users. More work is ahead to operationalize the principles that are deemed applicable to the Fund, particularly in the area of budget formulation which most directly affects this Board's ability to analyze and discuss the organization's budget in a meaningful way. Many of the proposals in this paper seem constructive, so I will limit my comments to those aspects that could use substantially more elaboration, those that seem applicable to the particular circumstances, that seem less applicable to the particular circumstances of the Fund, and one critical area which we were surprised to find no discussion on.

First, staff endorse the principle of budgetary transparency in this paper, and we welcome this as a sign that there is now agreement on the direction which we should be heading. However, we are also keen to have a better sense of how this will be achieved in practice. Taking a program's approach to budget formulation is an interesting proposal that may be used as an analytical tool, but we wonder if this might not provide as much scope for masking expenditure plans as for illuminating them, especially if both are used simultaneously.

We would not support the introduction of contingency funds, which we feel moves in the wrong direction with respect to providing the Board with more transparent oversight of the budgeting process. We appreciate that there is a logic for having such contingent resources in an organization that is faced with a binding administrative constraint on altering existing spending plans. That is not the case here, where management does have cushions available, for example, through unfilled vacancies, and where a mechanism exists for requesting additional resources through supplementary budgets.

Indeed, if a contingent mechanism of this kind were deemed necessary by others, it might be more constructive to start by making more explicit where in the budget, as it currently stands, any unallocated resources may already exist before going ahead and forming a new pool of resources for this purpose.

On the question of dollar budgeting, we appreciate that this approach is not favored by some, but we would still see some scope for extending the practice. If a particular Fund department saw this as a useful tool for resource management, why not let them do so?

On the question of allowing limited carryover of unspent balances, we found this a quite interesting discussion and would view this as an avenue worth pursuing.

Missing from the paper was any discussion of the desynchronized manner in which the Board is asked to take decisions on this organization's budget ahead of information or consideration of major expenditure categories such as staff compensation. We would appreciate an additional paper from the staff that treats this problem explicitly and offers solutions, and we think this is something which should be taken up by this committee in a formal discussion. Notwithstanding these agreements with some of the paper's recommendations, we consider this effort to be a useful step toward improving the Fund's budgeting process, and we look forward to continued staff efforts in this direction, as well as the external evaluation of these and other internal practices that have been endorsed by this Board.

Mr. Moussa made the following statement:

We want to commend the Office of Budget and Planning for its extensive study of budget and practices in leading public institutions in the United States and abroad with a view to introducing program budgeting at the Fund. While we understand the usefulness of the envisaged new budgeting system, we also recognize that its implementation has to overcome technical difficulties, and we have to remain vigilant about its bearing on Fund policies toward developing countries in particular. I would like just to raise three issues.

First, we recommend that caution be exercised as regards the idea of learning from best practices. Indeed, other practices are called best because they are widely adopted or because they have proven more efficient. We would suggest that the OBP borrow from sound or good practices rather than best practices.

Furthermore, we want to draw attention to a critical consequence of program budgeting. After assessing the costs and benefits of the Fund's activities, programs are supposed to be ranked and selected accordingly. We, therefore, feel that some of the programs be eliminated in light of short-term success criteria. As a result, we want to emphasize that the time horizon for evaluating the performance of the Fund's program should necessarily be the long run. We want, also, to stress that interrelationships among programs may complicate their appraisal of the cost effectiveness of single programs.

Lastly, it is our understanding that there are two ways of evaluating the performance of Fund activities. One is inward-looking, as it measures performance by simply comparing outputs with inputs. In a further step, performance may be understood as outcome. In the latter sense, what needs to be measured is the impact of the Fund's programs on the recipient countries. Whereas an outward-looking appraisal, namely measuring outcome, would tell more about the relevance of Fund policies, we acknowledge that technical difficulties are compounded by the fact that countries themselves may have a different evaluation of the success of Fund programs. In addition, cause-effect relationships are hard to establish. For instance, is the Fund solely responsible for the country's downturn? How about adverse impact of exogenous factors on a country's economy? In conclusion, we are fully aware of the fact that difficulties pertaining to definition of criteria and measurement of results are inherent to any performance appraisal exercise. The task ahead is a challenging one for the OBP. Therefore, while we consider that the Office of Budget's ongoing efforts to improve the Fund's budgeting system are commendable, we also invite the OBP to further explore the adequacy of new tools to the Fund's specific mission.

Mr. Al-Turki made the following statement:

Staff presents a number of useful proposals to further improve budgetary procedure in the Fund. In particular, I welcome the suggestion to present funding requests by organization-wide programs. This should facilitate cost-benefit analysis of each program and allow the Board to make more informed decisions. It is essential, however, that the estimated costing of programs be realistic and take full account of all direct and indirect costs.

In this regard, the preference would be to include in each program a small margin for contingencies. But I could go along with the staff's proposal to have an umbrella contingency fund instead.

I also support the linking of objectives to results. However, as staff notes, quantification of outcome may not be feasible. We have to be careful that, in identifying intermediate indicators, the Fund does not end up sacrificing quality of its programs for quantity. or proposing too many reforms just to meet some indicators.

I can go along with the proposal to permit limited carryover of unspent balances into the next year. This should help in reducing the end-year rush to spend. As staff notes, however, the impact of this measure will likely be limited in the Fund. The practice in the World Bank of a symmetrical approach of overspending as well as underspending is interesting, and I would like to hear more about how it works and its applicability to the Fund.

The ongoing effort to introduce a network-based financial management system and the planned reviews selected internal processes and expenditure areas should enhance efficiency and facilitate the budget implementation over the medium term. I also broadly agree with staff proposals regarding the medium-term budget outlook.

Finally, since we are talking about budget and costs, it would be useful if staff could provide some cost estimates for the implementation of the proposed changes.

Mr. Estrella made the following statement:

We welcome today's discussion to review best practices in budgeting to identify how the Fund could improve its own budgeting process. No doubt, it is always good to review our budget formulation, execution, monitoring, accounting, and evaluation. The staff is seeking Directors' views on 15 items they have identified as being desirable to implement in the Fund. In general, we agree with most of the staff proposals. But since this report was only available to us very recently, our comments will be of a preliminary nature.

On budget formulation, we can agree in principle to present funding by program. However, we prefer to present such a budget as a separate plan and approved separately. and informally. from our annual budget. This will, no doubt, serve to improve our annual budget formulation, as is the case with our multiyear capital budget.

Regarding linking objectives to results, as the staff explained, it is difficult to be implemented. Therefore, we have some reservations but are open to further discussion.

Regarding the provision of contingency funds to face unexpected needs, we can agree with this proposal provided that it is very limited, as proposed by the staff, e.g., 1 to 2 percent, preferably to start with only 1 percent.

On budget execution, we agree to strengthen the responsibility and accountability of the department budget managers.

Regarding budgeting in dollars for contractual employment, we would want further clarification from the staff, especially regarding the effect of this approach for the international diversity of the Fund staff.

On allowing limited carryover of unspent balances into the next year, we can agree under the following conditions: it should be very limited, and it should be limited only up to three months of the next fiscal year.

Finally, we agree to strengthen the medium-term budget outlook in the manner proposed in paragraphs 24 to 29. However, regarding the formulation of mission statements, we would like to clarify that in our view, the Fund-wide mission statement are the Articles of Agreement.

Mr. Szczuka made the following statement:

We also welcome the fresh look at the budgeting procedures in the Fund and generally agree with the thrust of the proposed changes. In particular, the program orientation is something which we fully endorse, but we also understand the limitation of practical implementation. The program orientation should mainly serve as an analytical tool but could also improve the efficiency of both the overview of the Board and the efficiency of spending allocation.

The input-output link would be desirable, but we understand that this is very difficult to be implemented in a knowledge-based institution like the Fund.

We fully endorse the effort to increase transparency in the budgeting procedure and also to enhance the participatory approach to the budgetary process.

On more specific recommendations, we support on a preliminary basis the use of the dollar-based budgeting for the contractual employment. And, we would be open to considering the carryover on a limited scale.

With those comments, I would like to move now to specific questions.

On the proposed contingency reserves, I wonder how it was possible for the Fund to survive more than 50 years without such a reserve. What are the reasons for establishing such a reserve now? Could we not have more fungibility or flexibility within the existing Fund budget structure?

On the transparency issue, I wonder whether consideration has already been given to the practical implication of the scope of the budget publication.

On the issue of overspending, I was quite surprised that penalties for overspending do not exist. If this is the case, it should be corrected immediately.

I was also quite disappointed that we have to wait for two or three years to see some results of the new information system. I wonder whether this process could not be speeded up, given that the current system seems to be outdated.

Finally, Mr. Conrad mentioned that we are praised by others for having the capital budget separated. I understand that in the case of the government budget, the fiscal transparency documents recommend consolidation of the budget. Is this a different situation for the Fund and for the government's budgets, and is it really such a good thing to have the capital budget separated from the current budget? To what extent is that the best practice as stated in the paper?

Mr. Eyzaguirre made the following statement:

My observations are very preliminary. I agree with the thrust of the staff report and appreciate very much its clarity.

To avoid repetition, let me start by saying that I support most proposals, except the ones I'm going to comment on now.

I was left with doubts about the assessment in relation to performance indicators and reporting requirements. I noted that in the annex, the Fund is included in a table, together with the Organization of American States and the United Nations, but the institutions that I presume are more similar to us, like the World Bank or the ADB, depict a somewhat different picture. In particular, as regards the assessment in relation to performance indicators and the reporting requirements, the Fund seemed to be somewhat lagging behind those organizations. I would like some clarification on that.

I understand that we are described as a knowledge-based organization. I'm not completely sure that describes fully what we do. We have a lot of operational activities. We have programs; we lend money to countries. There are conditionality criteria, and therefore we can look to a number of indicators afterwards. Therefore, we should not start limiting ourselves by the fact that knowledge is an important part of our endeavor. I believe it is possible to be somewhat more ambitious in terms of evaluating the quality of the results.

My second point is in agreement with the U.S. Chair and Mr. Szczuka, as I would favor going forward with dollar budgeting. Last but not least, I remain to be convinced about the merits of contingency reserves.

Mr. Mozhin made the following statement:

I would like to join others in welcoming the efforts of the Office of Budget and Planning aimed at improving the efficiency of the budgeting practices in the Fund. We have 15 areas where improvements could be made. I don't have any disagreement with the proposals as they are formulated in this paper. Although, I tend to believe that many of these principles will not be easy to operationalize.

The Director of the Office of Budget and Planning commented that the only organization that followed a strict program budgeting approach was the organization for intellectual property protection in Geneva, the WIPO. This was a relatively small organization that had a number of distinct tasks and was able to organize itself according to those tasks. That meant that the administrative organization coincided with major programs and that, therefore, there was no problem in presenting the budget in a program classification.

For the Fund the staff had in mind a presentation for analytical purposes in the form of programs, such as for the new Poverty Reduction and Growth Facility (PRGF). That was a program approach in which representatives from three departments had explained their involvement in that program during the previous Committee on the Budget meeting. However, that did not mean that the budget, when it came to administrative responsibilities and pinning responsibilities on budget managers, would be expressed in programs. A reconciliation table would rearrange the staffing needs from the program to the department and would explain which part of the program would be carried out by which department.

The Director explained that it was generally felt that output was extremely difficult to measure in organizations whose work was based on intellectual work and advice. This was probably also the case in the Fund, and therefore the staff would be very cautious about quantitative measurements. In particular, the staff would not be measuring the effectiveness of programs. However, as regarded the new PRGF and area departments requesting more resources, it would be appropriate to ask how many countries in those departments would qualify for intense HIPC work within the next 18 months, and then use that as a broad guideline a year later to see how many of those countries had become active. Some quantitative, but mostly qualitative, measurement was useful to assess the intensity of work.

The staff representative from the Office of Budget and Planning noted that in the World Bank, as in other institutions, budget managers had the flexibility to deal with certain situations. If that budget process was approved for the Fund, then the carryover would have limits in terms of percentages or dollars. An approval process would be required, although the manager would be able to spend more than the allocated budget. The central budget office would receive clearance for that and certify the extraordinary strains on that budget manager. The budget managers would not have the flexibility to reallocate resources themselves. The impact would be an overspending in that one budget manager's item in one department. Across the institution underspending would also take place, because precise estimates were not available more than a year in advance, but those tended to balance out.

The major impact, which came as a surprise to the World Bank, was that the psychological benefit and the motivation were quite significant, as the budget manager did not need to worry about unspent funds during the current year, since these would not be lost.

In the Bank, there had been quite a significant amount of underspending, but the impact in general was more favorable than expected. Most of the other institutions that the staff had visited had implemented carryover budgeting for some time. That had diminished the problems focused on shifting and reallocating funds at the end of a year and allowed more focus by the managers on their work.

The staff representative remarked that that was not necessarily considered a best practice formula, although a number of institutions did utilize it, and it would be up to the Board to decide to what extent that would apply at the Fund. However, he reiterated there was a lot of end-of-year activity on the part of budget managers in the Fund.

He noted that the budget manager would have to give sufficient reason to carry over funds. Those would typically consist of elements outside of a budget manager's control. Currently, the budget managers would have to go through their Director and approach the Office of Budget and Planning. That office would then look to other department Directors to see whether other funds existed to reallocate. The essence was in the implementation, and if the implementation controls were not tight, then that would be a problem.

The staff representative from the Office of Budget and Planning pointed out that his office had sponsored a number of information system improvements. The discussions with departments and the development of specific requirements were ready to begin implementation. A fit analysis had already been carried out, and the staff had found that the requirements were met. A further pilot testing of the system had been successful and was running on a central basis within the OBP, but it had not been disbursed to departments Fund-wide. The staff were also looking at other related systems but hoped to begin implementation at the beginning of the next year.

Another staff representative from the Office of Budget and Planning said that all of the organizations visited by the staff were trying to emphasize more accountability and had wanted the budget managers to say up front what they planned to accomplish and then to come back at the end of the year to see if that was accomplished. While some organizations had gone much further than others, all wanted to implement some type of evaluation, either as performance indicators or a far-reaching reporting system, that would go beyond the financial reporting.

The Director of the Office of Budget and Planning noted that, as last year, the budget documents would not be confidential but readily available to further the notion that a presumption existed that that was an open matter. That had some implications on the design of a system. However, he said, that the staff needed some guidance on what was expedient for the Fund as regarded the appropriate detail of information being made available; e.g., last year's closed account had been published on the internal net but could also be put on the Fund-wide net.

Ms. Brukoff added that it would be useful to have a more transparent process of presenting the budget to the Board for discussion and analysis as well.

The Director of the Office of Budget and Planning explained that the staff's specific proposal about extending the dollar budget for contractual staff was very limited. The staff thought that that should apply to short-term employment as it was not useful to hire a contractual for one day to be accounted for in staff time. At the same time, some items were expressed in dollars for the same type of work. That was a gray area that could be clarified. That process would extend to contractual staff, for replacement from agencies, and for short-term technical assistance experts.

The Acting Chairman explained that dollar budgeting would not be used as a general personnel policy, but only concerned short-term contractual staff. For regular Fund staff and long-term headquarters-based consultants, management would draw on the resources from members, central banks, and other related agencies.

The Director of the Office of Budget and Planning explained that throughout the year, requests were made to management and thereby to the Office of Budget and Planning for certain items which were not foreseen at the time the budget was originally made. That is a reality in any agency. Recent examples were the Board deciding that an external consultant should be engaged in the review of quotas, and an area department finding that a member country at a critical juncture would benefit from a seminar on economic options. While management supported that approach, the seminar exceeded the budget of that department. These cases occur throughout the year. There are two choices. Either resources are found within the budget, which mean that the budget would not be spent exactly as had originally been proposed to and approved by the Board, or a small contingency fund of about 1 or 1.5 percent of the budget would be used, at management's discretion, for initiatives that could not be easily absorbed but that did not warrant a new facility. However, the opinion in the literature is divided on that subject.

As regarded the issue of a mission statement, he explained that that belonged in the sphere of planning, which preceded budgeting the Director said. He had asked departments to formulate a mission statement on an experimental basis during the medium-term budget submission. All had come up with a statement. However, while some were consistent, others were not. The benefit of a mission statement was that it forced departments to rethink what they were doing and to gather support within a unit for that mission. Some departments argued that it was not possible to have a mission statement if the Fund as a whole did not have one. However, the Fund's Articles of Agreement were not formulated in an upfront and motivating tone, with which it would be easy to identify.

Mr. Takeda said that he thought of the contingency fund as a disciplinary device imposed on management. Management could no longer agree to all the useful projects proposed by various departments because they needed to pay attention to the overall contingency fund allocated to them. The use of contingency funds would then need to be reported to the Board.

Mr. Szczuka agreed with Mr. Takeda that the contingency fund could improve transparency but he doubted that it would lead to a reduction in hidden reserves at other levels.

Another staff representative from the Office of Budget and Planning replied that in other organizations the contingency fund was usually 1 to 2 percent of the budget. However, in the EBRD, there was an overall Bank-wide contingency fund in addition to a small contingency fund for each department manager. Each use had to be justified.

The organizations with contingency funds spoke very highly of them in terms of making the budget more efficient, especially for unanticipated events, the staff representative said. At the same time, there had been some concern about abuses of contingency funds, meaning that the contingency fund needed to be designed very carefully. The staff had suggested that if the contingency fund were adopted by the Fund, it would not be used for personnel, but only for unanticipated needs such as seminars.

Mr. Eyzaguirre asked why the contingency fund is not devised in such a way that those resources are, on average, saved.

The Director of the Office of Budget and Planning said that the staff had visited the Federal Emergency Management Agency (FEMA), whose mission was to be prepared for emergencies. The staff had found that the type of spending that was required for an emergency could not be safely incorporated in any annual budget. If the Fund permitted the carryover of small, unspent balances by departmental budget managers, then that would require that the Fund also carry over a corresponding amount from the total budget into the next year. In the past a surplus in the budget usually disappeared. The carryover would require that some or all of the surplus be preserved and be available in a subsequent year's budget. He agreed that the contingency budget could function in that way.

Mr. Merz made the following statement:

> As other speakers, I would also like to thank staff for providing us with this fresh look at the budgeting in the Fund and for succeeding in the identification of various items to improve budgeting practices after visiting and questioning a broad range of "comparator" organizations.
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> We are more or less in agreement with the main recommendations presented, in particular with regard to the proposed increase of transparency to the Fund's budget process and to the proposed strengthening of the medium-term perspective of the budget-planning process. We would also like to add the importance of creating mechanisms for identifying savings potentials and for increasing incentives to save. Such goals are certainly covered by the envisaged funding requests by programs and by the proposed undertaking of rotating reviews of selected internal processes and expenditure areas. The proposal to allow a limited carryover of unspent balances into the next year will also increase savings, although by a limited amount.
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> With regard to budget execution, it will not come as a surprise that this Chair opposes the consideration to budget contractual employment in dollars rather than in person-years. Although this policy is intended to be limited only to contractuals in the Fund, and although I have also noted the rational elaborated by Mr. Conrad, we fear that this will be a precedent for changing the rules of the game for all staff. As staff noted, there had been an extensive debate of pros and cons of dollar budgeting for all staff—which I don't want to repeat here—with a clear Board majority against it.
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> Let me conclude with one question: what will be the next step in implementing all these recommendations? We expect the Board's involvement before making final decisions, particularly because of our major concerns with respect to the intended dollar budgeting for contractual employment.

The Acting Chairman noted that management was not in favor of dollar budgeting for staff and long-term consultants. The Fund should not consider the dollar amount as very important when hiring staff, but should hire the best quality staff from anywhere in the world.

Mr. Collins made the following statement:

> I am very grateful to the staff for the work they have done. We have been listening to the points we have made in the Board, and I'm sure they also wanted to go down this route anyway. There is quite a way to go; with you, I think it is a very good start.
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> I can agree with many of the Directors, especially with Ms. Brukoff and Mr. Eyzaguirre.

Just a few points for emphasis.

One is on the question of evaluation of results and quantification versus looking at qualitative outputs. I accept that that is very difficult, but not in each area of the Fund, as Mr. Eyzaguirre has emphasized. We found in the United Kingdom that outcome-based evaluation can be quite productive in certain areas. I would be grateful if the staff would continue to research that.

We support more transparency, and I particularly endorse Ms. Brukoff's point about budgetary transparency. The disconnection in the timing of the annual pay round and the annual budget is one example where the Board does not get the whole picture when needed.

On the contingency fund, I am with those Directors who are against it, on the grounds that we need to introduce more fungibility into funds. The first reaction to any new demand is to prioritize, and think about what can be dropped from the budget rather than to take more money out of a contingency fund. For example, the external consultant on the quota review, while being unexpected, should have been presented to the Board with precise costs and if it would fit into the budget or if a supplementary appropriation would be needed. The PRGF is another example. Even though there was a good start, we did not have the whole picture of how much that initiative was going to cost.

On the question of carrying over unspent balances: from our experience in the United Kingdom, it's a good idea. Like the World Bank, we have found it reveals more underspending than previously expected.

We strongly support the implementation of rotating reviews of internal processes of expenditures, but it is critical to ensure that they are undertaken along with zero-based budgeting lines. I am not suggesting to carry out zero-based budgeting every year, but a special look at a particular set of activities is done.

We like the program approach, but it must be closely associated with the more traditional resource-based approach to ensure that all aspects are fully captured.

The question of program budgeting links closely to the question of mission statements. I am quite keen on developing a mission statement for the Fund as a whole. That, however, has to cascade down from the highest hierarchy level. I don't think Article I ought to be the mission statement, as it is a little out of date. I'm not suggesting we revise Article I, but we have to accept that the words are general. If the Board agreed that poverty reduction was an option, then that should be legitimized as a mission statement. Especially as some of the staff have doubts about the Fund getting into poverty reduction as it is not part of the Fund's mandate. This would help the staff to understand their own personal objectives and that of the organization as a whole. A working group could be asked to study the viability.

Dollar budgeting for contractors is a good idea. I do not understand the argument about the Fund being an international organization and therefore it is inconceivable to use it for the rest of the staff. We have a head count budget, which is translated into dollars according to an estimation in the appropriate rankings throughout the organization or in individual departments. That is approaching a dollar-based budget in an indirect way. I don't see how that would hinder hiring the best people from any country in the world. I hope we can have a look at that after February 2000.

I look forward to considering the rest of the Budget in the future.

Mr. Takeda noted that while he agreed with Mr. Collins that prioritization was important, rather than resorting immediately to a contingency fund, he did not think it would be realistic for the Board to start discussing every time the staff came up with a new initiative. The Board needed to be flexible on that issue.

Mr. Collins explained that he was referring to big issues, rather than seminars, for which the Board should be presented with the consequences of what it would approve.

Mr. Jonas noted that the World Bank had stated poverty alleviation as its own mission, and that it would create some confusion if that was also going to be the overall statement of the Fund.

Mr. Palmason made the following statement:

This chair very much welcomes management's efforts to improve the Fund's budgeting practices. The areas identified by staff are steps in the right direction, and it should not be discounted that some progress has already been made. I can agree that the approach to budget reform ought to be evolutionary rather than revolutionary. However, it may be necessary to stay on the revolutionary side of evolutionary in order to succeed in making the Fund's budgetary process more effective and transparent.

This Chair is particularly concerned whether the proposed changes will suffice to connect the work program and the budget more effectively. This is important if the Board is to make more informed, and more timely, decisions with respect to the priorities ahead, taking into account the financial constraints.

Moreover, even if the proposed changes are sufficient, I fail to see how future decisions by the IMFC would be sufficiently informed in this respect. As an example, I think of the enhanced HIPC and how this process appears to have been initiated without adequately exposing the resource implications for the Fund.

With regard to the medium-term outlook, I find it rather soft to only propose that "an effort be made to return as soon as the situation permits to a true medium term outlook," as is stated in paragraph 25 of the main paper. We have to do better than this.

Regarding the proposed contingency fund, I find the 1–2 percent proposed rather substantial, given that it is only meant to cover items like unexpected travel and conferences. In any case, I thought there was some slack already built into the present budget. In absolute terms, 2 percent of the budget would exceed 10 million dollars. To put things into perspective, it is more than one-third of the budget allocation to the External Relations Department. If this contingency fund were to be implemented, it should not be an automatic expansion of the budget, and it should preferably be at the discretion of the Board.

Regarding dollar budgeting, the paper states that the pros and cons have already been extensively discussed by staff and the Board a few years ago, and that there was a clear decision against it. But does that justify not reopening the issue in the context of a fresh look at budgeting in the Fund? Things change, as we have learned from the history of the ill-famed PEPCO building.

In addition, I have two questions:

First, given that the new state-of-the-art budgetary practices in New Zealand, Australia, and the UK were, to a great extent, the inspiration for this study, why did staff not include those in the sample instead of looking inward to other international organizations?

Second, in the *Overview of Major Steps in the Fund's Budget Cycle*, it is explained that the budget formulation process starts about nine months ahead of the financial year. In August, the OBP issues budget outlook guidelines to departments. Departments submit their work program plans by late September, but the Budget Outlook Paper is not brought to the Committee on the Budget until December. What happened to the Srejber Initiative to involve the Board at an early stage, which I thought was supposed to take place in early summer before the issuance of the initial guidance from management to department heads?

Finally, in view of the above, I wonder if the ongoing review of budgetary practices might not benefit from an external evaluation, which would truly be a fresh look at the Fund's practices. I am confident that such a review would confirm that most of what is being done is indeed very sensible and up to date, and, in that sense, it would substantiate the quality of the work. But, at the same time, it might also add new dimensions to the budget reform process.

Mr. Luo made the following statement:

I agree that the Fund should learn from the useful experience of other organizations and national authorities. However, I doubt whether the "best practices" are existing. As staff mentioned in the paper, a particular budgetary practice considered "best" by a given organization may not work well in another organization. Therefore, in this field, I would prefer to take a more cautious attitude toward handling the Fund's budget issue.

On budget formulation, I agree that we continue to make programs a main basis for resource allocation. In the meantime, opportunity should be given to the departmental managers to input their ideas on resource allocation issues. I also think that we could consider setting up a contingency fund to face unexpected needs. However, a more practical feasibility study is needed before we decide to put it into practice. I have also noted some other Executive Directors' concerns on this issue.

On the dissemination of the Fund's budget information, I suggest that we consult and coordinate with the World Bank in this field.

The staff representative from the Office of Budget and Planning explained that the capital budget put forward a separate appropriation proposal for a series of projects. The Board could then make a decision on these projects individually each year, together with the administrative budget. The Phase IV project was not related to the best practices proposals that the staff were putting forward now. Large building projects did not fit into a fixed budget schedule, and those were always proposed separately.

The Acting Chairman noted that he did not need to make any formal concluding statement for a seminar-type budget committee discussion.

However, he said that the discussion had been useful, and he welcomed the careful attention that committee members and other members had given to the issues raised in the two staff papers, the Acting Chairman continued. He had noted the support of most speakers for the 15 items where the Fund should try to improve the budgetary processes.

He saw the improvement of the budgetary procedures as an ongoing process that would require an ongoing dialogue between management and the Board in the period ahead, the Acting Chairman said. That would be particularly important in the next budget, when the Fund would have to face the significant consequences—including for staffing and the dollar budget—of the several new initiatives that had been recently decided upon.

APPROVAL: 1/16/01