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COMMITTEE ON THE BUDGET

Meeting 98/4

10:00 a.m., December 10, 1998

A.D. Ouattara, Acting Chairman

Executive Directors	Alternate Executive Directors
	T. Turner-Huggins, Temporary
R.F. Cippà	L. Pinzani, Temporary Y. Patel, Temporary
K.A. Hansen	M. Elhage, Temporary J.W. Honeyfield, Temporary H. Oyarzábal
J. de Beaufort Wijnholds	T.-M. Kudiwu, Temporary Luo Y., Temporary

A. Mountford, Secretary
N. Hairfield, Assistant

Also Present	
	M.F. Melhem, Temporary
B. Esdar	T. Patel, Temporary O.L. Bernal, Temporary J. Prader Nguyen Q.T., Temporary
K. Lissakers	R. Fernandez M. Daïri E.O. Kornitch, Temporary S. Collins A.G. Karunasena H. Ogushi, Temporary M. Perez, Temporary

Administration Department: B. Stuart, Director; U. Baumgartner, Deputy Director; I. Prebensen, Deputy Director; G. Archer-Davies, R. Broadway, J.P. Gollé. Bureau of Computing Services: W.N. Minami, Director; N. Arya, C. Diener. Office of the Managing Director: J.A. Clément; Office of Budget and Planning: E.-A. Conrad, Director; P.J. McCellan, P. McPhillips, H. Mendis, F. Gaitan, J. Hudson, M. Oka, N. Sachdev. Office of Internal Audit: V. Wertman.

1. BUDGETARY OUTLOOK

The Acting Chairman stated that the purpose of the current meeting was to discuss the budget outlook, and the revised information technology (IT) strategic plan. Given the length of the budget outlook paper, and the short time Committee members had to look at it, he asked the Director of Budget and Planning to give a fairly detailed presentation. That presentation included tables and charts, which have been handed out to Directors.

The Director of the Office of Budget and Planning made the following statement:

> I will focus on the following three points rather than go through the paper section by section: (i) the proposed limitation on work already at hand—or firmly agreed upon—as opposed to attempting a full three-year outlook; (ii) the desirability to return to a more reasonable level of workload in the Fund; and (iii) how to take into account the Fund's new or expanded responsibilities, and what savings and margin for redeployment are available.
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> As to the concentration on the work at hand, there were two reasons that compelled us not to do the customary full three-year or medium-term budget outlook. As you will have noticed, we dropped the words "medium term" from the title of the paper. First, it is unusually difficult to look ahead into the medium term, given the environment in which we are. Second, we did not want to prejudge in any way the outcome of ongoing discussions that will take place in the Board and elsewhere within the next few months on the role of the Fund, and what part of any new initiatives—particularly those in the context of the architecture of the international monetary system—could perhaps be taken by other organizations.
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> Where necessary, we have taken the view that the World Economic Outlook has taken; namely, that there is an expectation that the peak of the Asian crisis is behind us, but that the world economy remains subject to large uncertainties and that a worse outcome is possible. We thought we may be able to return to a full medium-term outlook in 1999 when these things have cleared up somewhat. Let me add a word on the reluctance or caution not to try to project how the future work on, for example, the architecture will impact on the work program of the Fund. Some Directors had cautioned us in the recent discussion of the work program that they would consider preparing staffing projections premature, especially given that for certain items, it may not always be clear what agency would be asked to do what.
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> The issue on the desirability to return to a more reasonable workload level in the Fund has been discussed extensively in this Committee. In February 1998 a special meeting was called where six department heads reported on the workload situation in their departments. Overtime increased significantly since the Asian crisis began, with senior staff and economists reporting between 70 and 90 percent overtime. There was also a problem with economists not being able to take leave or all the leave they had accumulated, which had begun to take a toll on staff health and family life. While noting that there was insufficient time for drafting and reviewing papers, department heads indicated that there was a risk that the quality of work was suffering. Departments were

forced into a reactive mode; they did not have enough time to think about broader issues. Also, there was insufficient time to give careful thought to providing training or for senior managers to provide the necessary coaching and training to their staff. At that meeting, Committee members generally recognized that the Fund was fully stretched, and if there were another major crisis, the staff may not be sufficiently prepared or may not have the capacity available to react forcefully and quickly.

The issue of overtime requires careful examination. Overtime is part of the culture in the Fund. That basic attitude has not changed over the three decades I have been with the Fund. However, there is a shyness in the Fund to talk about this subject. The budget reporting system has a category where—on a voluntary basis—staff members can indicate their hours of overtime. There is a general feeling that this is notoriously underreported. There are also broader issues involved which are more difficult to measure, such as training forgone, postponed or lost annual leave, lack of time to step back from the issues at hand, and excessive travel. As shown in Figure 1, estimated overtime in FY 1998 is over 300 staff-years, compared with a level of about 250 staff-years prior to the Asian crisis, and a more steady level of about 200 to 220 staff-years in the early 1990s. This total includes reported overtime plus our own estimate for that part which is unreported. It does not, however, include any estimate for time lost for some of the more difficult areas to measure as mentioned previously. The Staff Association Committee has made an informal, but perhaps more thorough, study on the issue of overtime, and it came up with a higher number of staff-years. The aim is to bring overtime to a more reasonable level, but not to eliminate it. Given the magnitude of overtime, even a modest reduction is an expensive undertaking. Of course, most of this time is "donated" by the staff to the organization. There is no need to repay it, but some smaller parts of it create a liability for the Fund, which has to be reimbursed at a later time. This is certainly true for leave postponed and, perhaps to a lesser extent, for training that one should catch up with. Thus, the main question is: do Directors agree that at this time there is a need to return to a more reasonable level of work pressure in the Fund, and that part of any increase in staff resources in the future would be needed for that objective?

The third issue is what are the new and expanded responsibilities of the organization, and how should the Fund handle them. Is there scope for redeployment and savings? Based on area departments' statistics, the number of program-intensive countries and those that they expect to become program countries has increased by six countries in FY 1999—to a total of 133—and are expected to increase to 134 in FY 2000. That total includes intensive countries and those that actually have programs. However, if one looks at program countries alone, there is an expected net increase of seven countries in FY 1999. Actually, 12 countries are expected to start programs, but 5 are expected to exit, so the net increase is 7. However, in FY 2000, there is an expectation that up to 22 more countries may become program countries, and 6 may exit, which would be a net increase of 16. We have not yet developed detailed quantitative criteria, or performance criteria, but rough estimates show that a typical program country requires somewhere between 6 and 10 staff-years per year, while surveillance countries require somewhat less. If one assumes that a full program country would require three to four more staff-years than a surveillance country, that would translate to about 25 to 30 additional staff-years in this financial year, and about 50 to 60 additional staff-years in the following financial year. In this context, the Asian crisis has absorbed about 12 staff-years per country, for a total of about 40 staff-years for the three most affected countries. In our projections, however, we have allowed for only an increase of 25 staff-years for the purpose of dealing with additional program countries, including program intensive countries, such as the HIPC countries. In Table 2b (Annex I), which we have just passed out, you will see that even under Alternative 1, it was projected that the work related to program countries would still require a staff increase of 19, which, of course, under a zero growth scenario, would require respective reductions elsewhere.

On surveillance, departments have indicated that the management and resolution of financial crises in many countries have added to their workload, and that they have been asked by the Interim Committee to design more effective contingency mechanisms to support countries that pursue sound policies. Moreover, several departments are involved in developing standards, codes, and best practices. Bilateral surveillance is expected to intensify, and has already happened in countries of systemic importance, including some of the large nonprogram countries. Bilateral surveillance will further focus on soundness of the financial system, supervision of the financial sector, and early warning systems, while multilateral surveillance will focus on capital market developments and following short- and long-term capital movements. We have included a staff increase of 16 in the projection under Alternative 2 for FY 2000; under Alternative 1 there was to be a reduction of 5 staff. An increase of about 15 or 16 staff-years in FY 2000 would amount to four weeks per member country.

On technical assistance, there has been an increase in nontraditional areas, such as designing and implementing standards, codes, and best practices, while the more traditional areas of technical assistance in the financial, fiscal, and statistical areas are continuing to face very high demands, which under present resources cannot be met. Alternative 2 provides for an increase of 10 staff in FY 2000, while Alternative 1 would call for a slight decline of 10 staff over the entire three-year period. We have had detailed discussions with department heads, and management has also met with some of them to discuss in detail their budgetary requirements. As noted in the paper, the increase that is proposed is by no means spread evenly across the Fund. In fact, about half of the departments did not require any increase; they could manage with internal savings and redeployment. More than half of the proposed increase relates to three departments, with MAE and PDR being the frontrunners. Both of them have already been drawn very heavily into the present crisis situation, and also to help prevent contagion. These two departments support area departments, and a small increase in demand for their services multiplies. Of course, some of the other functional departments, including FAD and STA, have received specific requests for improving codes and regulations.

Departments have identified 19 positions that could be redeployed in FY 2000, and about 30 positions over the three-year period. Since 1995, under the policy of constraint and consolidation, a total of 160 positions have been shifted or eliminated, of which, 143 were redeployed, for a net reduction of 17 over that period. The question is whether more could be done to increase savings. The general feeling is that the period of consolidation has largely preempted the room for such measures. Certainly, the new work that we have mentioned could not be entirely financed out of such savings. So the issue is whether Directors agree that there is a business need in the Fund to expend capacity to respond to the new demands from its members, as well as from the international community at large.

The total increase projected for FY 2000 incorporates a proposed staffing increase of 6.9 percent, of which, 2 .5 percent relates to the difference between Alternative 1 and Alternative 2, 2.4 percent relates to an expected increase in the general price increase, and 2 percent to other factors, including salary increases beyond the price index and the contribution to the staff retirement fund. The contribution to the staff retirement plan is proposed at 7 percent, compared to 5 percent last year, and compared to an average contribution of 14 percent, which has not been necessary in the previous three years owing to favorable developments in the asset markets.

It is true that we are proposing to take out information technology expenditures from the administrative budget, thus reducing that budget by $5.5 million, or 1 percent, compared to the previous year's level. However, under the revised strategy, which is larger, it would add, as we have noted in the footnote to Table 5, about 3 percent to the administrative budget.

Mr. Taylor made the following statement:

The proposal before us appears to involve inter alia: an increase next year in personnel expenses of some 9 percent; and an overall increase in the administrative budget (after adjustments for SRP, AM, and IT to improve comparability) of around 9 percent.

These are eye-catching increases.

I see the most important aspects of the "surveillance" role of the Executive Director as being to seek to ensure that the work the Fund does is as relevant as possible to its mandate, and that this work is as effective as possible. Nevertheless, we also have to have an eye to efficiency. In this respect, Executive Directors will never be in a position to determine whether the exact level of expenditure or the number of positions proposed is appropriate. But we should seek enough information to enable us to be reasonably convinced that: management is making every effort to focus its existing work, cut low-priority activities, and make savings through the pursuit of greater efficiency; and where there is a proposal to add resources, these are directed toward appropriate new activities within an overall strategic framework.

Work pressures in the organization have been, and remain, very heavy as a result of more intensive work on a number of countries, because we have taken on some new activities and because we are in a period of reflection and development of ideas that must absorb highly skilled resources. Unpaid overtime and lost leave remains at an unacceptably high level.

It is likely, in this environment, that some additional resources may help. But that is not necessarily so, especially in the short-run. Better management practices and a more rigorous shedding of low-priority functions are equally and probably more important. In this respect, I believe we need more information about the effort management is making to keep the organization reasonably lean. This is particularly important in gaining the understanding and support of our authorities who, throughout this decade, have undertaken significant cuts to their budgets and who continue to be called upon to absorb new functions on the basis that they rigorously pursue efficiency and the elimination of low priority functions.

This proposal is also more difficult to support when it is remembered that we have developed a pattern of "base line creep," as indicated in the attached graph. Last budget round, we agreed to an outyear base line for FY 1999/00 that was 28 staff-years higher than the authorized staff level in FY 1997/98, meaning that the total increase involved in the present proposal over the level of staff two years ago is 119 staff.

It is important not to look only at the proposals for increasing staff. It is more important, in fact, to look at the efficiency of the use of the existing staff. In this respect: net savings of 6 staff in FY 2000 and 10 staff in FY 2001 are expected as a result of separations under the Separation Benefits Fund; in last year's budget, technology initiatives were expected to produce savings of at least 5 staff-years in FY 2000 and more in FY 2001; although the paper makes no mention of expected savings arising out of the efficiency review being conducted by the Office of the Internal Audit, there must be some[1].

If a modest 1 percent overall efficiency gain could be made in each of three years, a further 80 staff positions would be effectively available for new activities before any discrete increase need be sought. The Fund would regard such a modest level of efficiency increase as a poor outcome in most of its member countries.

However, given the high degree of pressure that some staff are under, and given the long lags in recruiting, I would see a case to bring forward a proportion of the proposed increase in staff numbers into the current fiscal year. We need to be more flexible in responding to pressures on the

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[1] The Budget Committee was supposed to be briefed on this issue in the Summer, and it was a condition upon which I for one agreed to the increase in staff in last year's budget. Could staff please clarify the status of the projects undertaken by the OIA, when the Budget Committee is likely to be briefed on the findings, and whether their findings will be incorporated into a revised estimate of staff requirements before the budget is brought to the Executive Board.

organization, both in terms of the mix of people we hire and the speed with which we are able to bring them on board.

Finally, on the capital budget, I agree with the proposed shift of expenditure on upgrading IT systems from the current to the capital budget (but note that it has the effect of making the proposed year-on-year increase in the administrative budget look smaller than it actually is). Upgrading, and making more functional, the Fund's IT system is an essential part of the Fund's operations and I am pleased that the strategy now appears to be moving forward after an initially slow start. However, I am somewhat concerned about the 50 percent increase in the cost of the strategy from $46 million to $69 million. The background paper indicates that the widening of the scope of some initiatives is expected to increase the overall benefits. I trust that a careful cost-benefit analysis has been undertaken to justify the additional expenditure.

Mr. Esdar made the following statement:

As this is the first paper on the new budget, my remarks will be preliminary, pending further information.

In general, it is not acceptable that a significant share of our work is financed by overtime, by not taking leave, and by overstretching the human resources of this institution. One must find other ways to deal with the increased workload. The Fund, with its leading role in the monetary system, has to provide sufficient resources for stepping back and rethinking its own approaches. Also, it should be ahead of developments, and not just react to them. If we could fulfill this role more effectively, we might even save some resources in the long run.

There are two ways to deal with the problem of an increased workload, and both ways should be well scrutinized. First, the solution cannot be to simply provide additional human resources. The Board and management have to step back and consider whether there is some room to improve the effectiveness for this institution, to increase saving, and, more importantly, to prioritize our work. The paper correctly emphasized the need to better address the financial sector in member countries; however, this challenge should not only be met by the Fund, but also by the World Bank and the Basle Committee. Clearly, it is important to get a clear picture of the responsibilities of these institutions. Although there is an agreement in place between staff and management on what the responsibilities are, it is necessary to look deeper into the consequences for the day-to-day work of each institution. There is the concern that these institutions will increase their work force and compete for those people who can provide input in those areas, without paying due regard to the coordination and the gains which can be achieved when things are put together in an effective way.

I welcome the pilot project where the Fund and World Bank go together to ESAF countries and develop appropriate programs. It would be desirable to follow a similar approach in the area of second generation reforms. Many of the areas discussed under second generation reforms have to do with the work of the World Bank. Before we make a final decision, we have to get a clearer view how to address these issues.

There is also some room for increasing effectiveness in the area of surveillance. We hope that the external evaluation will provide some useful insights. However, I disagree with those colleagues who feel that missions are too large. We may want to consider whether our procedures in this regard could be improved, particularly whether our approach to deal with all countries in a similar way really leads to equal treatment. By adjusting our procedures, we could save some resources.

I was surprised that the number of program-intensive countries are expected to increase further. Over the medium term, we should expect that some programs succeed, thus reducing the number of countries requiring intensive work. The Asian crisis has caused the number of program countries to increase significantly; however, over the medium term, some of the resources could be transferred from program work to surveillance work owing to the fact that the programs were successful.

We certainly need more information to make a final judgment whether there is scope for additional cooperation among financial institutions. Moreover, the FY 1999 budget should be regarded as a transitional budget, as mentioned by the Director of the Office of Budget and Planning, given that we do not know what the outcome of certain issues will be, such as the work associated with the architecture of the international monetary system, the transfer of some responsibilities to other institutions, improvements in the effectiveness of certain approaches, and prioritizing some work. Therefore, this transitionary budget should reflect both the possibility of increased work associated with the architecture discussion, but also the possibility that there may be some improvements in productivity and effectiveness, thus saving some resources in the future. Regardless of the outcome in our detailed discussions on the budget for FY 1999, we should keep this point of caution in mind.

Mr. Oyarzábal made the following statement:

I was impressed by the budget paper. As a representative of countries that are recipients of not only consultation missions, but also of technical assistance, and although there is a possibility that other institutions could address some of the issues that the Fund addresses, the budget for 1999 should not be thought of as a transitional budget. The issues and coordination that needs to be developed with other institutions will probably take about two or three years. It might be worthwhile to develop a new budget scheme for the next two or three years, which would take into account this concept of transition. This would also be helpful with respect to what areas might be taken away from the Fund or might be taken up by other institutions. Having a transitional budget for the next two or three years would be useful.

The set of indicators that were utilized to measure the effects of the current workload on staff were impressive. Nonetheless, it would be interesting to see what further efforts could be made for savings and efficiency. Based on the information presented in the paper, we support the proposals to increase costs and also to increase the number of people employed in the Fund.

Ms. Lissakers made the following statement:

We all recognize that the combination of widespread financial crises around the globe, and an intensified architectural debate have increased the work pressures and strains on the staff. The evidence of stress and overload on many staff are indeed compelling. We also recognize that the Board has asked the institution to broaden the scope of both its surveillance and program activities in certain areas. Nevertheless, what is being proposed in this budget is a large increase, both in terms of outlays and staff positions. This increase comes at a time during what was to be a budget consolidation period, when in fact there have been substantial increases over the last two to three years.

It is difficult to make a considered judgment of this request for two reasons. First, it would be useful if in the future the Budget Committee could be given the documents a week or two ahead of time, instead of two or three days before our discussions. We need to have time to read these documents and think through the numbers. Second, the paper offers limited information in terms of where exactly the needs are, and what use is going to be made of staff positions in these additional slots. We understand that the needs of MAE and PDR have increased. We would, however, prefer more detail on exactly which departments have requested increases, and also more detail on which departments are not seeing an increase, or are in fact seeing some rationalization. A redeployment of 19 staff is modest in an institution of 3,000 people.

The budget process is part of a broader issue, as mentioned by Mr. Esdar. There ought to be a rationalization of the distribution of labor between the Fund and the World Bank in the areas where there are overlapping responsibilities, including ESAF and HIPC. For instance, both staff seem to be doing debt sustainability studies, which may not be the most efficient use of resources and expertise. There is also some overlap in the financial services and financial restructuring area. The Fund, by necessity, has been pushed into structural areas and second-generation reforms which may, in fact, over the medium term, be addressed more effectively by the World Bank. Moreover, there are questions about the distribution of work in the area of architecture of the international monetary system between the Fund and various Basle groups. There is a tendency in the Fund to try to cover all issues all of the time. That obviously adds to the work load. Although it is not clear what it is an optimal distribution of responsibilities, a more detailed exposition of these issues in the budget document would have been desirable. Given the large size of the proposed increases, and the deviation from the medium-term consolidation scenario, the staffing decisions need full Board input, not just Budget Committee input. It has to be a part of the Board's strategic decisions with regard to what the Fund should be doing with its resources. The issue of staffing numbers cannot be divorced from the full budget decision.

The appropriate compensation structure also needs to be considered. There was an informal meeting on December 7, 1998 which outlined the World Bank's recommendations. The World Bank has proposed some radical changes in their compensation schedule. Although the Fund should not mimic what the World Bank is doing, given the Fund's different function and role, the Fund should examine what kind of people it needs. I think that we need a different mix of staff. If that is the case, and if our recruiting pattern is changing, we need to consider whether or not the current compensation structure is consistent with those needs. A clearer strategic vision about the Fund's responsibilities and what kinds of resources are necessary to carry out that mission is needed. We cannot make a decision about staffing numbers in the abstract without reference to a larger strategic vision. For instance, there is a good opportunity for the Fund to recruit people with financial expertise, which is desperately needed to increase the Fund's expertise in that area. Although the Fund is actively recruiting in that area, it is not clear that the way the Fund compensates and hires people is the most efficient way. I would like to have a clearer idea of what the outlook is for hiring in that area, and where those resources are going. My understanding is that most of these people will end up in the capital markets division in MAE, which would be a grievous error. The country departments need to have this type of expertise directly involved their country work. To improve the effectiveness of our surveillance, it is essential to hire financial experts. There are rumors that suggest that the area departments are still looking primarily for macro economists. These are the kinds of issues that have to be addressed in the context of staffing numbers.

On IT expenditures, it is sensible to have them in the capital budget rather than in the administrative budget. However, when IT expenditures are removed from the outyears, for comparison, they should also be taken out from the FY 1999 number. This would show that the administrative budget is actually increasing by 8 percent in FY 2000, rather than by 7 percent.

Mr. Fernandez made the following statement:

The budget paper presents a strong case for an increase in the Fund's human resources. All the arguments have been developed in the paper. One the one hand, we cannot ask the Fund to be more active in many fields, and, on the other hand, believe that all this could be done with the same resources. The indicators presented in the paper show that the current workload is not sustainable. However, we are not in a position to assess the appropriateness of the proposal. Previous speakers have already said that information is missing on important points, and I agree with the requests made by Mr. Esdar and Ms. Lissakers.

We would also require additional information in several areas to make a better judgment. First, we would like to have some information on the efforts made in terms of internal redeployment and efficiency gains. Second, we need precise information on where the additional staff positions would go. Third, we need to clarify the roles between the Fund and other institutions. When Bank-Fund collaboration was discussed, there was some support for the proposal to involve World Bank financial experts in Article IV missions. This would also avoiding the problems associated with the Fund and World Bank recruiting the same experts. Fourth, a clarification of what is expected to be permanent and what is expected to be temporary is needed. This issue was discussed last year, and further views are still needed. A transition budget would be helpful; however, there are many issues that require further reflection.

Mr. Bernal made the following statement:

We recognize that the current situation has placed additional pressures on our institution. Therefore, as a preliminary position, we share the staff's analysis. However, we must ensure that the Fund's appropriate answer to all of its demands will be provided in a more efficient way to avoid duplication with other institutions, especially with the World Bank. We recognize that the Fund must be flexible to a changing economic environment to be able to accommodate temporary and permanent conditions.

On IT expenditures, we support the proposal to move it from the administrative budget to the capital budget. However, as mentioned by Mr. Taylor, we also recognize the importance of having a cost-benefit analysis in order to improve our decision-making procedures.

Mr. Elhage made the following statement:

It should come as no surprise that we strongly share the view of management and staff that alternative 1 which is based on the continuation of the budget consolidation strategy is no longer realistic. Our chair has argued on previous budget discussions that, given the tight resource position in the Fund resulting from the ambitious budgetary consolidation effort carried out over the past several years, we do not see how the Fund can continue to respond quickly and effectively to unanticipated events while ensuring that essential ongoing work is not compromised. We should not lose sight of the testimony of the six department heads before the budget committee earlier this year which clearly showed the precarious nature of our staffing situation.

Given the existing work activities and those that would result from the already agreed activities arising out of the decisions on new or expanded Fund's responsibilities recently taken by the Interim Committee and the Executive Board the workload will no doubt increase substantially. In our view, it is important, in discussing the budget strategy to keep in mind that we are likely to continue to be faced with unanticipated problems that require prompt responses. The Asian and Russian crisis and the related work, resulted in a stream of additions to our work priorities that have clearly increased the pressures on the staff. The additional pressures since the beginning of the Asian crisis must be viewed as adding more responsibilities to an already over-extended staff. In this connection, paragraph 3 contains some worrisome information. Some departments have indicated that in the absence of staffing increases, they would need to cut into core activities and other departments find it virtually impossible to react effectively to another potential crisis. Having said that, we want to make it clear, as we stated in the last work program discussion, that we shall not support any additions to resources for new activities that are clearly not in the Fund domain and/or should be handled by other relevant institutions. In this connection, like Mr. Esdar and other Directors we place considerable emphasis on clearly delineating important activities between the Fund and the Bank. Such as financial sector reform including in particular banking issues.

Recent data on workload indicators point out that there are higher levels of intensive country work, higher travel indicators, continuing postponement and accumulation of annual leave, and an increase in the level of uncompensated overtime. From the board's point of view the strain on staff resources is reflected in increasing number of postponements of board discussions because the relevant papers were not ready. It is also reflected in the short circulation period for important policy papers. This is clearly not acceptable. Additionally, the health of the staff is clearly a concern and this point was raised forcefully in the disturbing report issued last year by the Health Services Department.

Given the new demands on the Fund arising out of the changing world environment, an increase in the size of the staff by some 3 percent in FY 2000 is needed not only to deal with the demands resulting from the recent crisis, reduce the work pressures on the staff, but equally important to work with membership on preventive policies that could be helpful in avoiding future crises. This last area, and the associated resource utilization it requires should not be under estimated.

Ms. Lissakers pointed out that, although the Fund was supposed to be in a period of budgetary consolidation, 98 staff positions had been added since 1994. The size of the budget and the number of staff had been increasing steadily during the 1990s—with the exception of 1997—and that trend would be accelerated if the Fund followed management's recommendations.

Mr. Prader made the following statement:

The Fund represents the standard of what economists can be expected to do and to achieve. Nevertheless, I share Ms. Lissakers's point that the lessons of the markets have not been totally included in the work of the Fund and in the profile of Fund economists. The fact that the Fund has lost almost all of its original staff working on international capital market developments is not only due to the attraction of higher salaries in the markets, but also to the fact that their insights were largely ignored by regional departments. This is a view my Director thinks very strongly about.

We recognize that today's proposal is most likely a negotiating position. Although we will go a long way toward supporting management, like Mr. Esdar, we consider that this budget should be transitional. A number of new tasks mentioned in paragraph 4 of the paper, under Alternative 2, are clearly transitional. For instance, the architecture of the international monetary system and standards cannot be discussed forever. I disagree with Mr. Esdar on why there is an increase in program countries. The global economic conditions have caused this increase. However, over the long run, there should be a decline in Fund programs, which will ultimately shows whether surveillance is effective or not.

A comparison between the Fund and French foreign legion is appropriate, as both institutions are set to deal with crises. Over time the French foreign legion was successful, and the Fund should be successful too. Indeed the current situation is extraordinary; however, the Fund should be measured by a standard where, over time, the number of program countries declines.

We support acceptable work conditions for the staff and acceptable salaries. In this context, we should learn from the World Bank and its staff compensation system; however, we should not learn from its mistakes. On the division of labor between the Fund and the World Bank, when in doubt about which institution should handle it, we feel that, on balance, the Fund has done a better job.

Finally, in line with the French foreign legion analogy, I agree with Ms. Lissakers that the Fund should not try to do everything all the time.

Mr. Karunasena made the following statement:

The staff has prepared a comprehensive report with very useful information for our discussion today on the budgetary outlook, but it would have been useful if they had prepared a summary, since the report is almost 28 pages long. The report has explained three points clearly: first, the expansion of Fund responsibilities and, hence, its activities; second, the increased workload on the staff and result adverse impact; third, the proposed alternative scenario to increase staff resources. Also, the staff has raised the important question of whether this increased workload is temporary or not. The answer to this question is crucial in finding solutions. It seems, to a large extent, that the increased demand for the Fund's services is not a short-term or temporary phenomena. However, more information is needed to make that judgment. In the short run, the staff has explained that the ongoing crisis has resulted in high overtime, staff redeployment, and the accumulation of leave. The solution to this basic economic problem is clear; however, the solutions are not clear; they are complex and comprehensive. The staff has discussed ongoing short-term measures, such as reallocating duties and improving productivity through the overutilization of existing resource. However, excess demand is still high; this is a long term problem.

I am concerned about whether we have given sufficient attention to the alternative demand management solution. As discussed in paragraph 9, Alternative 2 has been based on a strong methodology, combining a bottom-up approach and a top-down approach. This seems to have estimated demand more accurately. Is there an alternative that contains an increase in the demand for Fund services? There is no doubt that continuous globalization and increasing economic uncertainties, particularly in the financial market, will increase the demand for services, and also diversify the Fund's services.

Perhaps a further reduction in other activities should be considered, as raised in Mr. Taylor's statement. Moreover, we should also consider the reallocation and sharing of responsibilities with other institutions, such as the World Bank, as already mentioned by some speakers, especially in the areas of debt sustainability, and financial and social sector issues. More attention to the process for providing services to contain the expanding demand for the Fund's human resources is needed. We should consider, over the medium- and long-term, to use more efficiently member country resources through resident office facilities or with modern communication facilities to contain the increase in demand for Fund services, particularly in surveillance and monitoring of Fund programs.

Finally, I support the proposal to shift IT expenditures to the capital budget.

Mr. Wijnholds made the following statement:

Mr. Taylor's preliminary statement raised some very useful questions, and made some interesting remarks, particularly on efficiency gains. I also agree with what Mr. Esdar said. I have two concrete questions that may help to form a better understanding of the arguments presented in the paper. First, the staff has produced an estimate for unrecorded overtime owing to the inaccuracy of the records. How were these estimates calculated? Second, I was surprised about the large jump in the number of projected program countries—an increase of 16 from FY 1999 to FY 2000. Which countries in particular are included in this estimate?

In light of the recent decision taken by the World Bank, I am concerned that—given the proposal for a large increase in staff members—we may endanger the Fund's staff compensation system. I agree that parallelism should come to an end. That does not, however, imply that nothing should change in the Fund.

There should have been more emphasis on the paper on the savings that can be achieved. For instance, there is the scope for savings in the areas of procedures and surveillance. The review process should also be looked at, although that may have to be done in the context of the medium term budget. We also need to look closely at the areas of responsibility between the Fund and other institutions, particularly in the area of financial restructuring. The Fund does have the tendency, as Ms. Lissakers said, to always want to do everything all the time, especially in the area of social and labor policies. There is a need for further clarification on this issue. Mr. Prader is right when he said that the budget was a negotiating position, but in order to negotiate, we need more information.

Mr. Daïri made the following statement:

In light of the work indicators, we need to bring work pressures to manageable levels, and to rebuild a margin of maneuver that is necessary to face any new unexpected challenges. The excessive workload faced by senior staff, large number of qualified staff that left recently, and the decline in training received, pose significant risks to the quality of human capital. We therefore strongly support Alternative 2.

Although it is not an easy task to estimate staffing requirements for new initiatives, there are some judgmental elements involved in the process. It is preferable to rely on the judgment of management and staff in the budget process in accordance with the priorities set forth by the Board. However, it is not clear how this process could accommodate different initiatives if operated under excessive budgetary constraints.

I agree with other Directors on the need to analyze the possibility for an adequate distribution of responsibilities between the Fund and the World Bank in several overlapping areas. I also agree with Mr. Fernandez and Mr. Karunasena on the need to delineate between permanent and temporary staffing needs.

On technical assistance, as shown on Table 2, the rate of growth in the amount of staff-years assigned to different functions varies widely. The average growth rate in the use of staff resources in FY 2000 is estimated at 3.3 percent. Only the staff resources allocated to administrative support and technical assistance grow at below that average rate in both FY 2000 and in the medium term. Although there is some scope for reductions in administrative support staff owing to advancements in office technology, what is the rationale for reducing the amount of resources for technical assistance? Perhaps this is an intended policy to signal member countries that the Fund is expanding its interest to new areas. Continued spending for technical assistance could save the Fund and the international monetary system problems in the future. Technical assistance should not be given a lower priority than bilateral surveillance or use of Fund resources. Table 2b (Annex I) indicates that under Alternative 1, 10 out of the 25 positions to be reduced are in the area of technical assistance. This exacerbates our concern that technical assistance is the main victim of any budget consolidation. At a minimum, technical assistance resources should be increased in line with surveillance resources. Moreover, any decline in externally-financed technical assistance should be offset by increasing Fund-provided technical assistance.

I agree with the proposal to move IT expenditures to the capital budget. However, I would like some clarification on paragraph 10 of the IT strategy paper, where it is indicated that the information technology budget would be $66 million in FY 2000, and then decline gradually to $60 million in the following years.

The Acting Chairman remarked that there would be a brief presentation on information the IT plan after the completion of the first item.

Mr. Esdar pointed out that the revised budget under Alternative 2 provided for an increase in technical assistance—to 385 staff-years in FY1999. That figure comprised about 50 percent of the overall staff work. Thus, a large amount of resources were already devoted to that area.

Mr. Collins made the following statement:

I appreciated the clarifications given by the Director of Budget and Planning at the beginning of the meeting. It would have been useful to have them included in the paper, given that we did not have sufficient time to look at the paper. I was also pleased to hear his explanation as to why "medium term" was dropped from the title.

I would strongly encourage the Fund to develop a mission statement. In the Bank of England, it proved to be an effective tool for focusing on what the core activities of the institution should be, which was then translated into objectives, down to the level of individual staff and the budgetary framework. If the Fund had such a framework, that would simplify these discussions.

During the previous year, the Board has asked the Fund for additional work, and the global environment has demanded more intensive work in a wide range of areas. Some of these demands clearly require more staff, some require redeployment of existing staff; others require the substitution of staff with one skill set by those with a different skill set, and some could entail a reduction in staff, in particular through better Fund-Bank collaboration. The budget proposal does not distinguish these various categories either in aggregate or by department or function. Therefore, it is impossible to come to an informed judgment as to whether the overall result is reasonable or not.

The paper, as referred in paragraph 26, seems pessimistic on whether the Fund will be successful in implementing a framework for crisis prevention. The paper makes no attempt to analyze the consequences for the budget in the event that the Fund is successful in this area.

Although I do not want to be accused of micromanaging, asking for three more people in EXR before the review is completed seems to be premature.

I praise the emphasis on identifying the training that is supposed to be delivered, but has not been because of work pressures. There has to be the right kind of training: training in economics when you have an institution staffed with Ph.D. economists seems odd. What is needed is training where the staff are lacking in particular skills, such as in the area of financial markets, as mentioned by Ms. Lissakers and Mr. Fernandez. I also support their points about recruitment and deployment of those recruits, and not unduly competing with the World Bank in that respect.

It is sensible to shift the IT budget into the capital budget; one has to wonder why it was not shifted before. We hope that by doing so, we are not going to lose control over the IT process. Given the large increase, the capital budget should benefit from a similar degree of scrutiny as the administrative budget.

Finally, the Board has to recognize that it often puts extra demands on the staff, but it rarely takes them away.

Mr. Hansen said that he agreed with Mr. Esdar and Ms. Lissakers that more clarification was needed on certain issues. Moreover, the overlapping of issues between institutions should be studied further, particularly in the areas of social and labor policies.

Mr. Ogushi stated that the Fund should focus primarily on the areas under its core mandate, such as fiscal, monetary, and foreign exchange policies, and capital account issues. On structural reforms, there should be further examination as to what areas the Fund should cover, and what should be handed over to other institutions. That would shed further light on the budget deliberations.

Ms. Honeyfield stressed that the need for additional staff was immediate. The new budget would not be approved until April 1999, and given the length of the hiring process, any additional staff would, at the earliest, start work by late 1999. Therefore, the FY 1999 budget should be revised to include staff increases.

The Acting Chairman responded that the Fund was currently looking at employment files to expedite the hiring process so that new staff could start work on May 1, 1999. However, if departments needed additional resources prior to May 1, then management would have to make a formal request to the Committee or full Board.

Mr. Esdar noted that there was a significant difference between authorized and effective staff. Perhaps that difference could be used flexibly to place people in areas with the greatest demand.

Ms. Patel stated that she agreed with the comments made by Mr. Elhage. The current workload and the pressures placed on staff clearly justified the approval of Alternative 2. She also considered that a cost-benefit analysis was needed to justify the large increase in IT expenditures, and supported the shift in IT expenditures to the capital budget.

The Director of the Office of Budget and Planning commented that the data on redeployment represented formal shifts of staff among departments. The majority of effective redeployment of available staff had been handled in the context of the organization of the Fund, with a split between area and functional departments. In the case of the Asian crisis countries, the large increase in staff—40 staff-years—had not come exclusively from APD, but to a large extent from functional departments. For instance, an economist from FAD could be available for technical assistance, program work, surveillance missions, and research projects. That flexibility was helpful in addressing pressure points in the Fund.

Information on individual department's staffing requests was premature, as the budget stage had not yet been reached, the Director continued. Even if a total staff number had been agreed to, management still had the prerogative to allocate increases depending on functions. Moreover, for some functions, it was not yet clear whether they would be handled by an area or a functional department. The following departments and offices had not asked for any staff increases for the three-year period: APD (only for the first year), BLS, EU1, EU2, GEN, INV, JVI, OAP, OIA, PAR, and STA. SEC and OBP had indicated small declines in staffing needs. Most other departments had requested—for FY 2000—increases in the range of three to six staff. However, MAE and PDR had each asked for an additional 10 staff positions for FY 2000. A precise distribution—department by department—would be available prior to the forthcoming budget exercise.

Ms. Lissakers said that she was surprised that information on the distribution of staff increases among departments was premature, especially as Committee members had been asked to express their opinion about those increases. At this stage, management must have made some judgment about where those staff would be going, or where they were most needed.

Over the past few years, work on financial sector restructuring and surveillance was a new activity for MAE, Ms. Lissakers continued. She asked how many staff had been added to MAE to work specifically on those issues over the past two years, and how many more were being proposed.

The Director of the Office of Budget and Planning responded that MAE had had a reduction of 7 staff in FY 1996, a reduction of 2 staff in FY 1997, an increase of 3 staff in FY 1998, and an increase of 10 staff in FY 1999. They had asked for an increase of 10 positions in FY 2000. For the previous years, part of that increase was for technical assistance work. The increase for FY 2000 was for financial sector work.

The Acting Chairman pointed out that MAE had been downsized during FY 1995 through FY 1997, and the staff increases had started in FY 1998. At present, MAE had no vacancies, and the new positions had been utilized in the areas of technical assistance and financial sector issues. He emphasized, however, that the numbers for the coming year—FY 2000—were preliminary. The budget process started by identifying the requirements for the medium term by broad categories. Then, departments were allocated resources. However, as the budgetary process was an ongoing exercise, staff was being careful not to give definitive figures. Moreover, those figures could change by the time the medium-term budget or budget for FY 2000 was proposed.

Mr. Esdar agreed with the Acting Chairman that staff increases for the coming year were preliminary. To better understand the budgetary process, he proposed that an explanation of that process be provided at the next meeting. As surveillance work was perhaps the most important function of the Fund, he asked how the functional split for financial sector work—from area departments, MAE, and the capital markets division in RES—would be incorporated in surveillance work.

Ms. Lissakers said that she partially agreed with Mr. Esdar. However, she pointed out that a precise functional split was not useful for the budget decision-making process. For instance, the same people who worked on a program country might be doing surveillance work the following year. Surveillance covered many areas, and the lines between technical assistance, surveillance, and program design were not clear. Having a departmental breakdown, rather than a functional breakdown, was more useful.

The Director of the Office of Budget and Planning commented that the budgetary outlook paper was expected to be issued by early January 1999, and that the Board discussion was scheduled for mid-January 1999. The paper for consideration today was an issues paper, and it included more information than previously provided in order to help Committee members make a more informed judgment. The budgetary outlook paper would include even more detailed explanations, as well as the work program that departments had proposed, department by department. The next paper would be on the administrative and capital budgets, which, as usual, would be discussed first by the Committee on the Budget and then by the full Board in mid-April 1999. That paper would focus on FY 2000.

The Acting Chairman, in response to Mr. Wijnholds, explained that the number of program countries for FY 1999 included several countries where there were active program negotiations. For instance, in the African and Asia and Pacific Departments, there were several near program countries, such as Angola, Equatorial Guinea, Nepal and Cambodia. There were also other countries where economic conditions were deteriorating. The number of projected program countries was based on information provided by area departments.

The Director of the Office of Budget and Planning indicated that MAE intended to recruit people with expertise in financial markets, particularly in the areas of banking supervision and prudential regulations, but were aware of the capacity constraints in the market, as well as in the Fund.

The figures for unreported overtime were estimated by OBP, the Director continued. Departments had provided a more accurate estimate, as Fund staff tended to be shy about reporting overtime. Unreported overtime was estimated to be 10 percent higher than reported overtime.

Table 2b (see Annex I), which was handed out at the beginning of the meeting, showed departments' allocation of staff resources by activity under Alternative 1, the Director noted. That table also indicated how departments would work under a zero growth scenario. The net change for the period FY 2000 through FY 2002 was a reduction of 25 staff-years; however, those reductions had not been distributed yet.

Figure 1 on mobilization and use of staff resources, which had been handed out (see Annex II), included both Alternatives for comparison, the Director stated. Based on Alternative 1—which included a reduction of 25 staff-years over the three-year period—and if one assumed a reduction in overtime to 250 staff-years, the chart showed that effective available staff time would decline over the period FY 2000 through FY 2002.

The difference between authorized and effective staff was not uniform among departments, the Director explained. Support departments, for instance, had the option of using temporary staff, particularly in the form of consultancies. It was also possible for those departments to swap their vacancies for short-term employment, or other forms of employment. Economic departments, however, did not have that option. They had to go through the entire recruitment process—either internally or externally—which was a lengthy process. About 3 percent of the total vacancy rate was attributable to the delays associated with the recruitment process. If the Committee agreed, the Fund-wide vacancy rate—about 90 percent—could be used ahead of the budget to initiate recruitment, without actually bringing staff on board before May 1, 1999. The problem with bringing people on board prior to May 1, 1999 was that there were no dollar allocations for 3 percent of the vacancy rate. Moreover, the current projection for expenses covered a utilization of over 99 percent for FY 1999. In other words, the margin had become very thin owing to the fact that departments had made more use of their vacancies for temporary employment. The current vacancy rate was below 3 percent.

Responding to a question by Ms. Lissakers on the large number of positions that had been added since 1994, the Director said that the majority of the increase had been due to the increase in externally financed experts. The number of authorized staff had increased by 131 positions from 1993 to 1994 owing to the increase in the membership of the Fund. Since then, the authorized ceiling had remained unchanged in 1995, decreased by 40 positions in 1996, and decreased by 6 positions in 1997. The number of authorized staff was currently 2,714 positions—16 positions below the 1994 level. There had been, however, an increase in technical assistance staff. That number had increased from 73 in 1994 to 138 in 1997, which caused a large part of the increase in the number of effective positions. Another residual increase was the reduction of the vacancy rate over that period, increasing effective staff to a higher level than authorized staff. That was not unusual, given the large staff increases in the early 1990s and the high vacancy rate.

Ms. Lissakers stressed that, in the end, there were 98 more people working at the Fund than in 1994. The main problem was that there seemed to be no real constraint on the amount of work the Fund accepted, as, for instance, Mr. Wijnholds had correctly pointed out on the expectation for more program countries. Despite the debates the Board had had on program design, and in which Directors had called for higher quality and greater selectivity, it appeared that the criteria for programs had been lowered. There seemed to be no budget—or staff size—constraint. Perhaps Directors had contributed to that in order to support a particular authority. Moreover, management appeared to be eager to embrace all types of initiatives, regardless of whether they were part of the Fund's core mandate. Limiting the size of the Fund to a staff ceiling of 3,000 had been supported by most Directors in previous meetings. Despite the erosion in the margin between authorized and effective staff-years, management was moving closer—and perhaps beyond—to that staff ceiling. The Fund had not rationalized its activities as effectively as possible. Although staff size did not necessarily need to be frozen, especially in light of the existing work pressures, there also had not been pressures on the staff to take no additional responsibilities, and member governments continually asked the Fund to do more.

The Acting Chairman explained that the cap was the authorized staff ceiling. Indeed, the margin between authorized and effective staff-years had narrowed as a result of increasing work pressures and the cooperative nature of the Fund. There had been countries where perhaps the Fund should have refused to send missions; however, Directors themselves had urged management to send missions to those countries. Perhaps Directors should consider the proposal made by Mr. Evans, a former Executive Director for the United Kingdom, to have Directors write to management proposing areas that were redundant. Clearly, there was an optimal size to the Fund, and it perhaps could be leaner. He agreed that the Fund should prioritize more, and perhaps decide to abandon certain activities. On the architecture of the international monetary system, the Interim Committee had set the schedule. Part of that project was to be delivered by April 1999, and the implementation would follow after. Prioritization was a good topic to include at the forthcoming retreat of Executive Directors.

Mr. Prader said that the Fund should attempt to stay within a staff ceiling of 3,000. It should also be made clear that part of the budget was transitional, and that certain areas would be phased out.

Mr. Esdar commented that he had a responsibility to the Fund not to overstretch its resources. However, he was aware of the political pressure from member countries for the Fund to do more. Although the Fund had a good approach for telling governments when it was too early to negotiate a program, it had to find ways to tell countries when it could not fulfill a request. A reasonable cap on staff positions was necessary, but it had to be flexible to provide more resources to the Fund to step back and rethink certain issues.

Mr. Daïri, referring to Table 2d (Annex I), pointed out that there was an increase of 5 staff for surveillance activities, and an increase of 13 staff for use of Fund resources. Those increases were financed by staff reductions of 10 and 6 in the areas of technical assistance and administrative support, respectively, excluding nonallocated reductions. Although he supported a leaner institution, he wondered how the limit of 3,000 positions had been determined. Instead of focusing on the size of the institution, the Fund should focus on staffing policy, in particular on permanent and temporary employment. Staff positions from the previous year should not be used as a basis for future staffing requests. Perhaps there could be scope for accommodating additional staff needs through the use of short-term or medium-term contracts.

Ms. Lissakers commented that she looked forward to the day when staff came to the Board and said that they had declined to do a program, because, in their view, it was an inefficient use of limited staff resources, or when management told member countries that the Fund could not pursue certain activities. The argument that the Fund had tried to limit its own workload was not convincing.

The Acting Chairman said that he would implement Ms. Lissakers' suggestions; however, he hoped that member countries would be understating when their requests were denied.

Mr. Collins reiterated that his office had written a letter to management with a list of about 20 activities where there could be some reductions. He would resend that letter, and encouraged other Director to do the same.

The Acting Chairman remarked that some of Mr. Evans's suggestions had been implemented, and encouraged other Directors to submit ideas.

Ms. Honeyfield pointed out that Table 2b (Annex I) indicated that in order to follow the original budget plan—Alternative 1—resources would be cut in certain areas. It would be helpful if the staff could indicate which areas would be cut, in order to express an opinion on specific activities.

2. REVIEW OF THE INFORMATION TECHNOLOGY STRATEGY

The Chairman of the Information Technology Policy Committee made the following statement:

> *I am pleased to have this opportunity to discuss our preliminary paper* on the revised information technology (IT) plan. In the context of the next round of the budget exercise, staff will be providing a more detailed paper, including a more intensive review of the status of the plan, and an analysis of the revised cost estimates. It would also include more information on the improvement in the effectiveness of the Fund that we anticipate from these various investments.
>
> As indicated in the paper, the information technology policy committee (ITPC) was formed in 1995, and one of its first tasks was to develop a five-year IT strategic plan. The focus of that plan was on the sharing of economic and financial information, including, in my view, the most important

area, which is the information that is contained in Fund documents. This change in the focus of the Fund's IT efforts coincided with an important shift in technology, away from the use of computers for the preparation and analysis of information toward the sharing of information. That first started with the sharing of information within the organization along internal networks, and, more recently, with the sharing of information worldwide on the worldwide web.

In addition, the IT strategy recognized the need to replace a number of old systems. These were systems that had been in place for many years that should have been replaced earlier, and it was recognized that these systems would not last forever. In particular, the economic information system, which is the basis for the publication of International Financial Statistics and other publications, and the Fund's administrative accounting system—Millennium. These are two systems that are very costly to replace, but it is necessary because they are not going to work for more than a few years. The five-year strategic plan was discussed in this Committee and in October 1996, and was subsequently endorsed by the Executive Board.

There have been a number of important accomplishments under the strategy that we have been implementing over the past two years. One of the most important is the change in the governance of IT. With the greater involvement of the user community in the Fund, there has been an improved readiness to accept change on the part of staff. Thus, some changes, such as upgrading the operating system from Windows 3 .1 to Windows 95 and the change in the e-mail systems were accepted much more readily, and, in fact, were implemented with little commotion. Without the kind of framework that is in place to involve the staff, and to give staff input into the changes that are introduced, there would have been more problems.

We have also started the implementation of a number of applications, including the Economic Data Sharing System (EDSS) and the new administrative system in the IMF Institute, which has improved the ability of the Fund to communicate more easily internally and with member countries. The Fund has also established a formidable presence on the worldwide web, even though three years ago it didn't even have a web page. In addition, the ITPC has developed a number of detailed plans for major interdepartmental systems, such as the documents plan and a number of administrative applications.

Spending on the IT strategy has been less than envisaged to date, for the reasons outlined in the paper. One of those is that it took longer than we had originally envisaged to develop a Fund-wide agreement on some of the strategies. Given the progress that has been made in those areas, we now foresee a major increase in IT spending in the next few years. It was no longer going to be possible to continue implementing this plan without a significant increase in IT spending.

Against this background, over the past few months, the ITPC reviewed the IT strategy over the past few months, and developed a revised plan. The revised plan retains the emphasis of the original plan on the importance of information sharing in the economic and financial area. However, it also recognizes that there are a number of important opportunities for improving efficiency in the administrative area through information technology and work practice improvements. Under the original strategy, given that the information technology committee was under the heavy influence of mainstream departments in the Fund (i.e., area and functional departments) the focus was on using technology to improve the core work of the Fund. Unfortunately, that led to the neglect of many important possibilities in the administrative area, which we are now beginning to understand better.

The main investments in the revised IT plan continue to be in the documents area, replacing the economic information system, broadening the use of EDSS, and enhancing the Treasurer's systems. In the administrative area, the main focus includes: improving the system for budgeting and tracking of travel, technical assistance, administrative accounting, and human resource applications.

There is also a major effort in the general management of information, including expanding the use of the Internet, the Fund's internal intranet, improving data collection from member countries, and implementing an encryption technology, which will be very important as we use technological capability for the sharing of information worldwide.

The revised estimates for the IT plan, as indicated in the paper, total $69 million, which is significantly higher than the original estimate of $46 million. The estimates in the original plan were very preliminary. They were prepared in the context of a study that was looking at information technology from a fairly global point of view within the Fund. The revised number is more robust. It is based on a more careful understanding of the scope of some of these projects. The original study by the consultants focused on a core system that would deal with, for instance, in the budgeting area, with the system as it was used by the Office of Budget and Planning (OBP) and the Administration Department. What we found out over the course of the past two years is that there are many systems in individual departments that have been added on to that core system, and there is considerable scope for improving the efficiency of those systems. There are many other examples of projects that we are proposing to increase their scope.

I would like to conclude by emphasizing the very special nature of the IT strategy. It certainly is true that over the course of the next couple of years, as technology changes, we will obviously identify new investment opportunities: investment and information technology needs to be considered as an ongoing exercise. Moreover, this strategy, and the associated work practices, will make a major change in the way that the Fund works. We are also replacing many old systems that are virtually on the verge of breaking down, and the new systems will serve the Fund well for many years to come. Although we do not consider the revised funding requirements a one-time effort, clearly many of these systems will last a long time.

The Director of the Bureau of Computing Services made the following statement:

Thank you for the opportunity to address you on the planned changes to the IT strategy. The rate of change in technology has been enormous, as has been the rate of change in the Fund. When these two elements are combined, they pose an interesting and challenging management problem. For instance, if you bought a computer six years ago, you would normally have expected it to last four to five years. Today, the average useful life of a new desktop computer in the private sector is two years. Thus, we are faced with a capital investment environment in which the technology we are using is changing not at a strategic level, but instantaneously. This requires us to think ahead, and be prepared to make strategic investments. The Fund is moving forward with its hardware and software investments into the next generation of software—32-bit applications. Today you can get a portable computer that is about as powerful as a desktop computer, but weighs less than 3 pounds.

I would like to emphasize that OBP and BCS have been cost-conscious with regard to the planned changes. Every project and step is reviewed. For example, just recently, BCS negotiated with Microsoft the purchasing and licensing of software for desktop computers over the next three years. This new agreement saves the Fund over a million dollars. Also, under that agreement, the price of core software for our desktop computers is fixed for the next three years, and includes all maintenance upgrades.

I would like to explain why the budget is expected to increase as compared with the previous plan. Clearly, the early estimates were preliminary, developed with the help of a consultant. Those estimates included limited participation by the user community. They were primarily based on the Fund's strategic objectives. Over the past several years, there have been extensive studies and detailed papers on several initiatives, including cost-benefit analyses. The current estimate is 3 to 4 times more accurate than the original estimate, and was based on more detailed information.

According to consultants, the Fund's IT approach is considered conservative. Let me give you an example of our conservatism. For the Year 2000 (Y2K) computer problem, the Fund has taken a calculated approach. We started our efforts early, developed a comprehensive plan, and followed industry best practices. If the Fund had taken a different approach, the costs of ensuring that our systems are Y2K compliant would be much higher.

How does one justify an IT budget? Clearly, the mentality in the industry for years was based on an internal rate of return. However, even though automation has increased productivity and efficiency, it is very difficult to replace people.

A recent Harvard Business Review article contrasted how the United States and another country approach IT expenditures. In the United States, IT expenditures were considered separately, whereas in this other country they were considered as part of the work. In evaluating IT projects, the other country did not focus on the internal rate of return; they focused on the potential for performance improvement and increased effectiveness of core work. For instance, the economic data sharing project allows an economist to gather data electronically from numerous sources, such as from spreadsheets and databases. Previously, gathering that same information would require days, and today it is done with a push of a finger. But using the internal rate of return approach, I would not have eliminated an economist. However, the effectiveness of that person, either in quality or timeliness, has been changed. The decision on whether to eliminate a position would be a management issue, and not a technology issue. To cite another example, BCS is also studying the feasibility of sending an electronic document attached to an e-mail, which would be secure anywhere in the world through encryption. The document would arrive faster, and work of copying, collating and shipping paper copies would be eliminated. The document would have a search engine to assist in locating specific topics, could be edited, and could be rapidly distributed to authorized people. This will improve effectiveness, but will not replace staff.

Over the next several years there will be a steady flow of products that will increase productivity. We will continue to look for opportunities to make advantageous use of these products. Finally, I appreciate the opportunity to address you, and to outline a program for using technology to achieve more effective staff performance.

Mr. Daïri pointed out that the decline in the prices for computers had not been reflected in the paper. Moreover, an IT project of that magnitude required outside assessment, such as from an independent consultant. Without such an assessment, he was unable to comment on the revised IT plan.

Mr. Oyarzábal wondered whether the staff had relied to a greater extent on the input from the user community to formulate the strategic plan, and also whether innovation was driven by the market, or by the desire to have the latest technology. Staff comment on how it had reached a balance between making a decision to implement a strategy and its cost would be appreciated. The need for technical assistance to member countries in the area of technology needed to be considered, as technology was playing an increasing role in those countries.

Ms. Honeyfield stated that it was difficult to remove staff positions when technological advances were introduced; however, such advances could help to achieve the goals of reducing work pressures and overtime, and the possible staff increases that were needed in the future.

Ms. Turner-Huggins said that she was pleased with the emphasis of the IT plan on EDSS. However, her office had tried to do some analysis, and had found out that Executive Directors' offices did not have access to certain data, particularly on real effective exchange rates.

The Chairman of the ITPS stated that although the price per unit of technological power had declined considerably, the price for new—albeit more powerful—computers had not. Computer makers released computers to the market when their price was around $2,500, as users seemed to be willing to pay that price for a new computer every three to four years.

However, given the changes in software, a more powerful computer was needed every 2 to 3 years, which was the Fund's time frame for replacing computers.

Meanwhile, labor costs in the technology sector were increasing, the Chairman of the ITPC continued. Moreover, concerns about the Y2K problem had caused the labor market to tighten increasing labor costs even further.

The revised IT strategy was along the lines of the original strategy, which had been developed with the help of consultants, the Chairman of the ITPC explained. Those consultants had looked at the Fund's systems, and had been complementary of its network and its technology base. However, experience had shown that in certain circumstances consultants had not been as helpful as one would have hoped. In fact, there had been occasions where consultants had commented on how much they had learned during their time at the Fund. Although a majority of the Fund's work was being done internally, the IT strategy included benchmarking—having outside consultants assess the Fund's technological base.

Since the establishment of the ITPC, users—including senior staff—had been more involved in IT initiatives, the Chairman of the ITPC said. Senior staff in functional and area departments had come to recognize the importance of technology, and how it affected their work. He explained that the Fund was not motivated by having the latest technological "toys," but by applications that would help improve the way the Fund performed its work. On the documents plan, the Fund should move from a situation where the institutional memory was stored in the drawers of staff members, to one where the institutional memory was electronic and accessible, with due regard to security.

The Fund has made remarkable progress over the past three years, the Chairman of the ITPC stated. For instance, three years ago, when the Director of WHD had returned from Mexico, he was surprised that the Bank of Mexico had already moved to Windows, whereas the Fund had still been operating in DOS (Disk Operating System). Although the Fund has caught up, there were many emerging market countries that were in a more advanced state than the Fund.

Technological advances could reduce pressures on the staff, but it would most likely not lead to reductions in staffing, the Chairman of the ITPC remarked. It was remarkable how much more work was being done than previously, particularly in the area of information sharing via electronic mail and working at home. By improving the technological capability, one could perform tasks more quickly and effectively.

On the question of access to information by Executive Directors' offices, the Chairman of the ITPC emphasized the distinction between the technological capabilities of accessing information, and the Fund's policy on the access to certain information. For instance, in the future, it would be possible to send even highly confidential documents electronically to countries; however, that technological capacity did not affect the fact that those documents were highly confidential.

The Director of the Bureau of Computing Services said that any change in technology required standardization, given that the software and hardware had to work together. The Fund had become well standardized, and that had allowed BCS to upgrade software in an orderly manner.

The Fund was a leader in a number of areas, and was providing technical assistance to member countries, the Director continued. For instance, in the Philippines and Malaysia, BCS was involved in projects where systems were being moved from mainframe computers to microcomputers. Such projects involved setting up networks, and integrating databases and econometric software.

The Acting Chairman made the following concluding observations:

> I have listened carefully to the comments made and questions raised by members of the Executive Board. We will take these into account in the work over the next few weeks, in preparing the paper on the Budget Outlook that will be for discussion in the full Executive Board in mid-January. As the discussion today was quite far-reaching, and the purpose of this discussion in committee format is to enable us to benefit from the preliminary responses of Directors, I will not attempt a formal summing up. But I would like to make a few observations.
>
> Directors have agreed that the work pressures have become more intense and that we must respond effectively to the additional demands that have been placed on the Fund. Nevertheless, some Directors have indicated that they need more information to support the proposed increase (Alternative Strategy 2). Many of the questions asked, and points made today, will help us in preparing the paper for the full Board.
>
> In terms of how to assess the needs for increased staff in the period ahead, I think there is broad support for the approach taken by OBP in this exercise, namely to identify at this stage only those areas where staff are needed to fulfill the new tasks that have been already decided by the Board or mandated by the guidance we receive from the Interim Committee. We should not at this stage attempt to fix firm estimates for additional activities that will, or may, be needed in the medium term as a result, for example, of the on-going work on reforming the architecture of the international monetary system. Therefore we should regard the budget for the next FY as a transitional one, and be prepared to undertake a new Medium Term Budget exercise next year, when the outlook for the years ahead will, I hope, be clearer.
>
> Over the medium-term, we can expect that it will be possible to return to a staffing level that is consistent with budgetary consolidation—for example, we expect that the staffing needs of the departments that are heavily engaged in countries affected by the Asian crisis, will subside in due course.
>
> Directors also made useful remarks and suggestions on each of the areas where we see a need for additional staff in the next year and the following two years; namely
>
> - work on devising the new architecture: On the issue of the new architecture of the international monetary system, there were a number of comments by Executive Directors. It is recognized that additional work needs to be undertaken, both by the Fund and by other institutions. Directors stressed that we should not

overlap with the responsibilities of other organizations, and I can assure you that we agree.

- financial sector reform, including systems of bank supervision and regulation. This can be expected to continue to be an important area for the Fund, for many years to come. In this respect, Directors stressed the need for good Bank-Fund collaboration in this area. Here again I agree, and we have recently made good progress with our Bank counterparts on this. Of course increased collaboration is, itself, a resource-intensive activity. However, good collaboration should also lead to a reduction of duplication of work by the Fund and the Bank, and we will continue to work on this with our Bank counterparts.

As regards new areas of technical assistance, which stem from the Asian crisis and its spillover, Directors generally agreed that there is a need for increased resources, at least over the next several years. On the traditional areas of technical assistance, some Directors have noted that this important activity can be, as Mr. Daïri put it, a "victim" of budgetary tightness and this should be avoided.

In conclusion, the feedback that you have provided today will prove useful to the staff, and the Management, as we proceed to develop further our medium-term framework for the Budget. Obviously Management is sensitive to the strongly-held views of some Executive Directors; equally obviously, however, we have the responsibility to present to the Board a medium-term budget, and a budget for the next financial year that is consistent with that, that is realistic in terms of the responsibilities and mandate of the institution. A number of Directors have stressed that every effort should be made to find additional savings and redeployment, and I can assure you that we are doing so. We will in the coming weeks elaborate further our thoughts on the budget, and will present to the Board a paper on the budgetary outlook that will be taken up by the Board in January.

* * * * *

On the IT Strategy, this was the second discussion by the Budget Committee. Directors welcomed the detailed exposition of the strategy in the staff paper, and in the remarks by Mr. Stuart and Mr. Minami.

Clearly the whole area of IT has been changing dramatically, and can be expected to continue to change in the period ahead. As Directors have stressed, the Fund's investment in IT has been major, and it will continue to be large in the years to come. You have noted also how important this investment is, for the Fund to be able to do its work effectively. Coming just after our discussion of the budget outlook, I am struck by the clear connection. This very large investment in the years ahead will help the Fund to fulfill its mandate in an effective and efficient way. In this connection, Directors generally agreed that it was appropriate to move the IT expenditure from the administrative to the capital budget.

Directors have appreciated that it is sensible to manage the IT process within a clear and explicit framework. I think the elaboration of a Five-Year IT Strategic Plan is making it easier for the Board to understand and evaluate the IT strategy. Directors' comments will be taken into account by the staff in the more detailed paper that will be distributed to Executive Directors next month, which will include:

- a more intensive review of the status of the IT plan,
- a more in-depth analysis of the revised cost estimates, and
- a more detailed explanation of how these projects will improve performance and effectiveness throughout the institution.

Mr. Daïri suggested that Ms. Turner-Huggins' point on access to information should be included in the concluding observations, stating that it should be looked at more carefully.

The Acting Chairman pointed out that it was not the IT strategy itself but the Fund's rules and regulations that prohibited Directors from accessing certain information.

APPROVAL: March 28, 2000

Table 2b. Alternative 1. Use of Staff Resources by Activity, FY 1999-FY 2002
(In staff years)

	FY 1999		FY 2000	FY 2001	FY 2002	FY 00- FY 02	Total	
	Estimated Outturn 1/	Percent	Net Change	Net Change	Net Change	Net Change	Estimated Outturn	Percent
1 Surveillance	617	22.2	-5	7	4	5	622	22.3
Of Which								
Bilateral surveillance	326	11.7	-7	4	2	-2	324	11.7
Multilateral surveillance (incl. WEO)	98	3.5	1	2	1	4	102	3.7
Policy development, research, evaluation	129	4.6	2	2	1	5	134	4.8
2 Use of Fund resources	458	16.5	19	-5	-1	13	471	16.9
Of Which								
Program design, negotiation, implementation	325	11.7	14	-5	-1	7	332	11.9
Policy development, research, evaluation	94	3.4	5	0	1	6	100	3.6
3 Technical assistance	385	13.8	-2	-5	-3	-10	375	13.5
4 External relations	84	3.0	-1	1	0	-1	83	3.0
5 Administrative support	413	14.8	-1	-3	-2	-6	407	14.6
6 Supervision and training	326	11.7	0	3	2	4	330	11.9
7 Paid leave	448	16.1	-5	0	1	-4	444	16.0
8 Board of Gov. and Exec. Board - staff cost	51	1.8	-1	0	-1	-1	50	1.8
Other changes	0	0.0	-3	1	0	-1	(1)	0.0
Subtotal	2,783	100.0	0	0	0	0	2,783	100.0
Reductions to be allocated			-5	-16	-4	-25		
Total	2,783						2,758	

Note: Totals may not add due to rounding.
1/ Preliminary estimates from departments, data subject to review and revision. Authorized staffing and externally financed experts for FY 1999 is 2,854.

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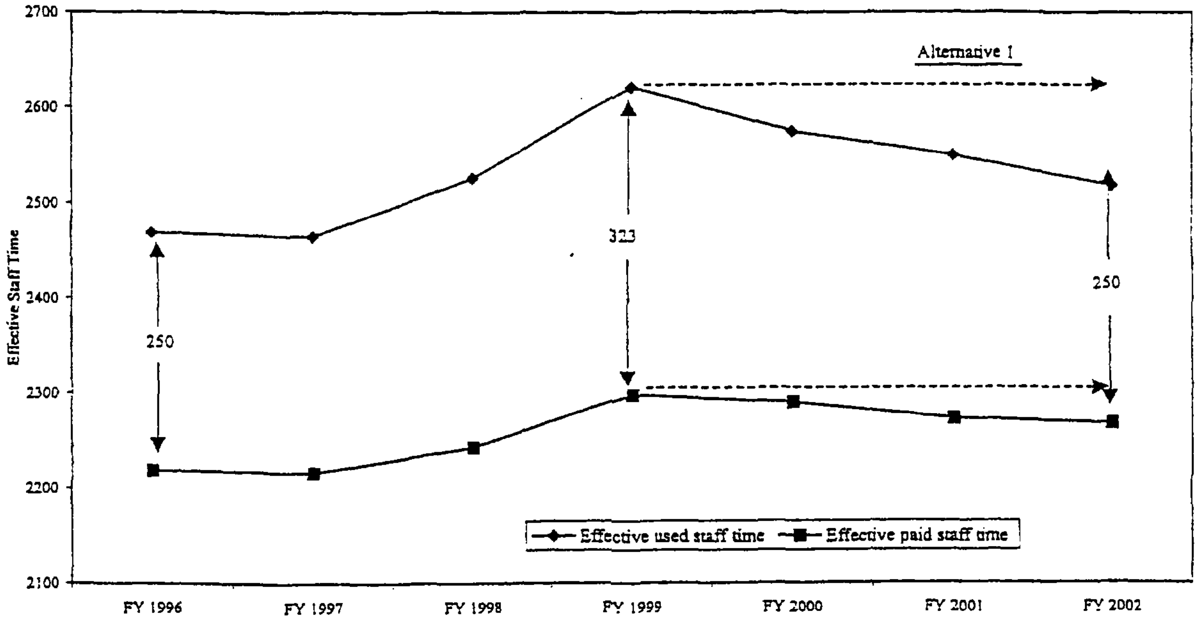
Figure 1. Mobilization and Use of Staff Time, FY 1996-FY 2002
(In staff years) 1/



Source: Data provided in Table 1.

1/ In this presentation, staff years are measured on an "activity" base, i.e., net of leave.

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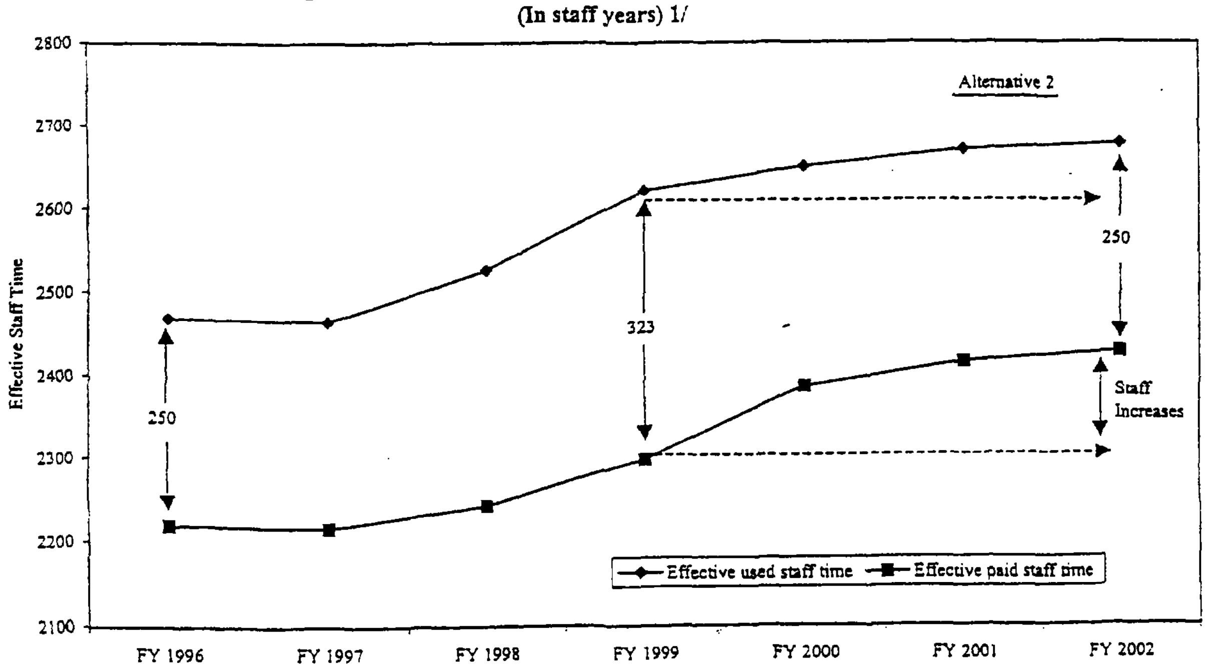

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