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COMMITTEE ON THE BUDGET

Meeting 96/1

3:00 p.m., February 27, 1996

A. D. Ouattara, Acting Chairman

Executive Directors	**Alternate Executive Directors**
	A. Galicia, Temporary
I. Clark	
H. P. Evans	
K. P. Geethakrishnan	
D. Kaeser	
	D. A. A. Daco, Temporary
	A. Barro Chambrier
H. Mesaki	
	A. V. Mozhin
	Y. Margoninsky, Temporary

B. R. Hughes, Secretary
A. Rotenberg, Assistant

Also Present

	A. Fayolle, Temporary
	J. John, Temporary
	M. J. Ryan, Temporary
C. Saito	
	B. Esdar
A. S. Shaalan	
E. Srejber	
	M. Petrie, Temporary
	Han M.

World Bank: R. Lynn, H. Groen, B. Chatterjee, W. Katzenstein. Administration Department: B. K. Dillon, Director; U. Baumgartner, Deputy Director; M. E. Gehringer, A. D. Goltz. Bureau of Computing Services: T. M. Howard. Secretary's Department: M. Miller. Treasurer's Department: G. Wittich, Deputy Treasurer; J. E. Blalock, D. Kelly. Office of the Managing Director: S. Sugisaki, Special Advisor; P-I. Koupaki, J. Prust; Office of Budget and Planning - L A. Wolfe, Director; J. G. Blanch, F. Gaitan, P. J. McClellan, P. J. McPhillips, M. Oka. H. Wiesner, A. A. Zimmerman; Office of the Internal Auditor - A. Coune, Acting Director. Advisors to Executive Directors: R. Kannan, M-H. Mahdavian. Assistants to Executive Directors: R. Bessone-Basto, P.I. Botoucharov, A. L. Coronel, J. W. Dagustun, R. J. Heinbuecher, O. A. Himani, E. Kouprianova, A. W. Scoffier, J. Simonsen, Song J., Y.Tahara.

1. WORLD BANK - EXPERIENCE WITH DEVOLVED BUDGETING

Executive Directors considered a staff paper on the World Bank's experience with devolved budgeting (EB/CB/96/1, 2/16/96).

The Acting Chairman proposed that the Committee focus mainly on the overall experience of the World Bank with devolved budgeting, and that questions related to the Fund be considered at a follow-up meeting.

The staff representative from the World Bank said that "dollar" budgeting was an extension of the decentralized or "devolved" planning and budgetary process that had started as early as the late 1960s at the Bank. It included delegation of some budget responsibility to managers at the vice presidential, director, and division chief levels, and some budget fungibility, or flexibility, among salary, consultant, and travel expenses categories.

Further evolutionary steps had recently been taken, the staff representative continued. As of the beginning of FY 1994, staff budgets—which had been allocated based on staff-year resource requirements and which contained salary and nonsalary components—were distributed as one budget envelope per vice presidential unit. The bulk of staff benefits was included in managers' budgets, roughly 70 cents on each salary dollar, and about 85 percent of the value of the benefits decentralized. The other portion was kept as a reserve at the center. Benefit allocations were made on the basis of average benefit costs, not actual costs, to eliminate comparisons on specific entitlements of the staff. The administration of staff benefits remained centralized, however. In addition, at the beginning of fiscal 1995, office occupancy costs had also been decentralized, giving managers control over office space as well as salary, benefits, and the other categories of expense that had previously been devolved.

The budget for staff benefits stood at about $350 million a year and office occupancy amounted to $100 million a year, the staff representative reported. Overall price adjustments had been introduced to reflect inflation factors for the following year, both at the planning and at the budgeting stage. The Bank's Budget Price Committee examined those factors semiannually. There was no provision for individual price adjustments midyear--if travel costs happened to rise, managers would have to adjust their work programs accordingly. Some aspects of administrative budgets, such as overheads other than office occupancy costs, were still centrally managed resources.

Hence, unit managers had become responsible for managing all costs within their budgets--subject to a few ceilings on such line items as hospitality and representation--and fungibility of resources was permissible across most budget categories, the staff representative said. The removal of position controls at all but the senior levels meant that managers also had more control over the mix of staff and consultants they could hire. However, hiring of regular staff was still required to fall within existing Bank personnel policies, which included gender and nationality diversity objectives and appropriate salary levels for given qualifications. Central recruitment and other personnel offices continued to monitor those aspects.

The objective of budgetary reform was to foster greater accountability and transparency at the level of those responsible for carrying out the programs, the staff representative said. It was intended to instill cost awareness among managers, to create incentives for saving, and to result in a more cost-effective use of resources.

With respect to implementation, a limited two-year pilot project had first been undertaken in the Latin America-Caribbean region, and a considerable amount of training had taken place throughout the organization--even among staff that were already conversant with the basics, having had decentralized budgeting for some time. Chief administrative officers in each unit--who worked closely with vice presidents on program, budget, monitoring and accounting--assisted with training and implementation, the staff representative continued. The Bank's Staff Association, which initially had considerable concerns about the possible adverse effects on staffing, was kept actively involved in the process, and the budget was devolved gradually over time.

Dollar budgeting was not found to have had a significant impact on career staff, although staff profiles were difficult to assess as the Bank was also undertaking a 700-person staff reduction, extending into 1997. Since managers would have to bear the full costs (salaries and benefits) of regular staff, a proliferation of new career staff was not expected. However, a somewhat greater use of long-term consultants had been observed. The number of administrative staff with budget and work program monitoring responsibilities at the Bank had remained unchanged. The number of those staff had not been expected to grow, in any event, as the Bank already had in place quite a substantial infrastructure of staff working in a decentralized mode throughout the institution--about 260 full time administrative staff.

There appeared to be a better matching of staff and work requirements, with ongoing rotations and promotions under dollar budgeting, the staff representative reported. The Bank's gender and nationality objectives were still being observed for career appointments, although that was an area that required constant monitoring by central personnel. Also, dollar budgeting had not been found to impede the hiring of high-quality people, or to have stalled rotations. Some of the Bank's highest-cost staff were task managers who ran missions and led teams in the field, and they were in high demand.

The most notable result of dollar budgeting had been the impact on office occupancy, the staff representative noted. Substantial savings had been realized in lease costs--about $5 million had been saved as a result of managers reorganizing their offices and returning blocks of space to central facilities. On the whole, dollar budgeting at the Bank had been a successful experience and was widely accepted in the institution.

The Acting Chairman, responding to Mr. Geethakrishnan's request for clarification on the scope of the meeting, indicated that the meeting was open to candid assessment of the implications of the Bank's experience for the Fund without that, however, prejudging what the Fund's position on devolved budgeting might be.

Mr. Fayolle, speaking on behalf of Mr. Autheman, made the following statement:

> I do not think that the Fund should change its budget practices to follow a devolved budgeting system--be it in dollars or SDRs--as has the World Bank. In the Fund, there is a close correlation between staff size and the evolution of the budget. As long as we remain capable of centrally assessing the needs of various departments and restraining their demands for supplementary staff, the present budget process can be managed so as to guarantee the desired budget consolidation.

> We would need to consider globalized devolved budgeting only if we lost confidence in our capacity to control staff size and its distribution among departments according to real need. Why should we adopt a system which holds no advantage for us, but whose associated inconveniences would weaken our most precious asset: a stable, high-quality and cohesive staff?
>
> Devolved budgeting guarantees that the budget remains capped, but at the expense of negative side effects, well identified in the staff paper, mainly the substitution of short-term contractual for long-term contractual staff. This creates an incentive for decentralized managers to increase the overall size of the staff at the expense of its quality and collective memory.
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> Embedded in devolved budgeting is a double bias against productivity: the incentive to recruit lower-cost staff and to increase staff size. There should be no ambiguity in our commitment to keep the Fund's size under tight control. We must not use the absence of devolved budgeting to resist budget discipline. The present budget procedure allows us to limit the growth of budget by better means: capping the size of staff and of office space.

Extending his remarks, Mr. Fayolle emphasized that dollar budgeting was a system of decentralized discipline, appropriate for a large and highly diverse organization such as the Bank, where central control was not possible. The Fund was a smaller organization which could control its budget, as long as it controlled its size. The Fund was also a vastly different enterprise whose common mission of economic surveillance was best served by collective memory and congeniality--attributes that could be lost, given the incentive to substitute contractual for regular staff under dollar budgeting.

The Director of the Office of Budget and Planning clarified, in response to a query from Mr. Mesaki, that any differences between the staff paper and what the Bank staff had reported were largely the result of his own efforts to represent the Bank's experience in a language familiar to the Fund, and that the greater emphasis on personnel issues was a response to what had appeared to be of most concern to Fund staff.

Mr. Mesaki, focusing on the institutional differences between the Bank and the Fund, said that there was less need for dollar budgeting in the Fund, and more limited scope for its effectiveness. The Bank's experience showed that, once dollar budgeting had been extended to cover salaries and benefits, each manager had played a more crucial role in hiring staff. At the same time, the recent report on discrimination in the Fund (UNDOC/96/35, 2/16/96) found that personnel management required a more global organizational viewpoint. It was doubtful, in his view, whether central administration departments could pursue appropriate personnel management policies, and maintain staff diversification, under a full dollar budgeting system. He fully agree with Mr. Fayolle on the need to cap and monitor the size of Fund staff and not simply to control total salary expenditures.

Mr. Geethakrishnan said that it was important to keep in mind that dollar budgeting was being examined by the Committee as an instrument of budget consolidation--not as an end in itself--and that any assessment of the Bank's experience required an evaluation of whether the objective of budget consolidation had been met. The staff paper emphasized dollar budgeting as a means to improving managerial performance. One measure of its effectiveness, in the context of a lending institution such as the Bank, would be to look at staff size relative to gross lending. Between 1993 and 1995--the three year period examined by the staff paper--Bank staff had grown by about 400, while gross lending had fallen by about a half a billion dollars. Had inflation been factored in, the reduction would have been even sharper. Moreover, the problem of overstaffing at the Bank had persisted for some time: between 1988 and 1995, total staff had increased from 6,414 to 8,293, or 40 percent, and that excluded local appointments, short-term consultants, assignments less than six months, agency temporaries, and contracts with staff. On that basis alone, the Bank's experience with devolved budgeting did not appear to provide much comfort.

Moreover, the fact that dollar budgeting had not led to an increase in permanent staff but had contributed to more temporary staffing, as reported in the paper, could not be viewed as a positive development, Mr. Geethakrishnan added. He agreed with Mr. Fayolle on the need to preserve an excellent, highly qualified, and dedicated staff, and cautioned against the adverse effects that a shift from permanent to temporary staff would have on Fund recruitment. A related concern, that might be due to a lack of familiarity with devolved budgeting, was that by giving managers the liberty to recruit anyone they wished, the objectivity of staffing decisions could be compromised and it could lead to patronage. That concern was compounded by the breadth of responsibilities that were being delegated to managers, as listed on pages 4 and 5 of the paper. The Fund, in contrast, was a tighter, more hierarchical organization and, while increased delegation of certain powers down the line could facilitate quicker decision making for Directors and division heads, full budgetary devolution was not desirable.

The Committee should devote some time to hearing the views of department and head division chiefs on what areas they thought could benefit from more decentralization, Mr. Geethakrishnan suggested. Without taking on devolved budgeting as an objective in itself, perhaps there was some room for making improvements.

Mr. Clark, indicating sympathy with the previous speakers' concerns, noted that arguments against dollar budgeting appeared to be strongest among smaller, less diverse organizations. On that basis, the government of Canada might be expected to have a stronger case for dollar budgeting, than either the Bank or the Fund. What had begun in 1991 as a one-year trial in a few departments had turned out so well that, as of two or three years ago, dollar budgeting had been introduced throughout the government of Canada to the full extent--including hospitality.

Dollar budgeting had unquestionably worked to conserve dollars in Canada's experience—incentives had been put in place to achieve just that, Mr. Clark said. However, something was also given up, namely the ability to ensure uniform policies, equality of treatment, and so forth, as Mr. Geethakrishnan and Mr. Fayolle had noted. Those arguments notwithstanding, in Canada the balance weighed in favor of dollar budgeting. Judging from the report on the Bank's experience, it appeared that the Bank had gone through a similar process, and that on the whole dollar budgeting was seen to work well there. The empirical question for the Fund was whether it was such a small and homogeneous institution as to not benefit from dollar budgeting to the same extent as larger institutions.

Mr. Kaeser asked the Bank staff to clarify whether dollar budgeting had increased the number of people working on budgetary management. He noted that an increase in the administrative function would be expected, and asked whether the added responsibility might not distract from managers' main task--a complaint often voiced by heads of universities or academic institutes who dealt with budgetary matters. He also asked whether the Executive Directors' offices were included in the budget reforms at the World Bank; whether a large increase in consultants or long-term temporaries had occurred and, if so, what effect the increase had had on the regional or geographic distribution; and, finally, which international organizations had already moved to dollar budgeting.

Mr. Petrie noted, in response to Mr. Clark's comments about the significance of institutional size, that while the Fund was smaller than the Bank, it was still a large organization and broadly similar to the Bank. There was a clear presumption in favor of delegation of authority to lower organizational levels--where the relevant information lay--both in the management literature, and in the advice of leading public sector analysts. The analytical case for decentralization was also reflected in staff expert opinion. A recent Fiscal Affairs Department paper stated: "The final and most advanced phase of public expenditure management involves the use of performance-based accountability to improve efficiency in the public sector through an allocation of resources that is more closely in line with local needs and conditions."

Taking issue with Mr. Fayolle's statement that change was not required as long as central control was possible, Mr. Petrie emphasized the informational difficulties that the Budget Office faced in assessing the needs of departments from the center, including refereeing bids, knowing the requirements of different departments in different areas, and knowing when to move resources from one area to another, assuming such fungibility was not prohibited under existing rules. The benefits of greater decentralization were not limited to dollars and cents. While dollar budgeting carried some risks, it was also a proven way of strengthening the performance of public sector organizations. Removing the constraints on line managers' ability to control their budgets increased their ability to manage more effectively. He did not expect the changes to alter radically the way they conducted their business, but worthwhile improvements could be expected. There was evidence of that in the Fund's own limited experience with devolved travel budgets, and from that of the Bank as evidenced by the significant savings in office space.

With respect to the risks associated with budget decentralization, it was admittedly important to pay careful attention to organization-wide objectives and goals, Mr. Petrie continued. In the Fund's case, personnel issues, such as geographic diversity and staff continuity, were strategic priorities that would have to be managed very carefully.

Recognizing there were Committee members who did not favor a move to dollar budgeting, Mr. Petrie suggested proceeding on a trial basis in selected departments of the Fund. The expectation was that those department heads who were most interested in the pilot would volunteer to participate; therefore, it was a low-risk means of assessing the costs and benefits involved. At the same time, many of the concerns about decentralization could be addressed up-front in the design of the pilot: dollar budgets could be implemented at lower levels of the organization, while ceilings on items such as total staffing, contractors, and outside consultants could be retained at the center, if that was what the Board wished. He suggested proceeding with an early trial, after which the Board could make its assessment.

Mr. Evans said he fully shared Mr. Petrie's views. The objective of dollar budgeting was to help create a more effective and efficient institution. Whether the savings so generated would be used to reduce overall costs or to produce more output was a separate matter that the

Board--or the management--would have to decide. From the World Bank's experience, dollar budgeting had gained widespread support both across the institution and among the Executive Directors; there would be no attempt to turn back the clock. The new President envisaged going further with decentralization in a number of directions that would become apparent in time.

Responding to Mr. Geethakrishnan's concern about the rapid expansion in Bank staff in recent years, Mr. Evans noted that the Fund had also expanded by a similar proportion over the same time, although the Bank admittedly had more to gain from the efficiencies of dollar budgeting--in terms of needed streamlining--than did the Fund. He agreed with Mr. Clark's point that a broad range of institutions, in addition to the Bank, had had positive experiences with dollar budgeting, including the government of Canada, the government of the United Kingdom, the Bank of England, and so on.

Arguing against the point in Mr. Fayolle's statement that devolved budgeting worked against productivity by creating the incentive to recruit low-cost staff, Mr. Evans said that, as a practical matter, devolved budgeting worked in the opposite direction: it gave managers the incentive to economize on those factors that mattered least to them, which could be office space, or class of air travel, or the use of consultants. Finally, with respect to the staff's paper on the Bank's experience, he was unconvinced by the alleged differences between the Fund and the Bank that would limit the applicability of dollar budgeting at the Fund.

Ms. Srejber considered that the information circulated on the Bank's experience with dollar budgeting did not a provide sufficient basis for a full-fledged discussion on whether or not the Fund should change its budgetary practices. The view that dollar budgeting was not as useful for smaller organizations with narrower tasks, and that it necessarily led to increased staffing, was not substantiated by the experience of many different institutions in Sweden and in other countries, as already noted. The central bank of Sweden, for example, had decreased its staff from 1,250 to 750 people over a 15-year period during which dollar budgeting had been introduced and used.

Properly implemented, dollar budgeting could lead to positive results, Ms. Srejber continued. It enabled decentralized decision making for those items that an organization chose to devolve, and created a system for collecting, organizing, and distributing information. Transparency was thus created, which served as a sort of safety valve, reducing the risk that managers might systematically make the wrong decisions. That attribute was substantiated by the experience of public institutions in her country as well. Therefore, while agreeing with Mr. Geethakrishnan that budget consolidation was an important aspect of dollar budgeting, she considered that transparency and efficiency gains were at least equally important.

Seen in the broader context, the Bank's experience was, of course, interesting and very relevant to the Board's future deliberations on dollar budgeting, Ms. Srejber said. Resources had been saved, and the system had led to marked efficiency gains, as reported in the paper. Similar efficiency gains could be achieved by the Fund, and it was the duty of the Board to do what was necessary to realize those gains.

With respect to the fear that a decentralized dollar budget system might impede important values and institutional objectives--such as maintaining diversity of staff, non-discrimination in the hiring process, and personnel policy in general--the system needed to be accompanied by a proper set of centrally decided rules and regulations, Ms. Srejber suggested. Those rules could, for example, state that regular staff could not be substituted for temporary staff. It was up to the Fund to curtail unwanted or unintended side effects by placing limits on managers' scope for pursuing efficiency gains. In that sense, dollar budgeting implied a higher degree of decentralization, and not decentralization per se.

Mr. Esdar asked the staff for information on the size of a typical management unit at the Bank and whether budgetary responsibility was delegated to the division or department heads. He also wondered whether emergency budgets existed for unexpected events, such as in Bosnia; how the joint Bank/Fund staff compensation system was factored into the calculation of dollar budgets; and how the Bank dealt with the problems of increased numbers of consultants and changes in the regional distribution of the staff.

Mr. Mozhin indicated that, before coming to a firmer view on the matter, he would be interested in learning, first, whether the Bank had the same high degree of interdepartmental staff mobility as the Fund did, and, second, whether the introduction of dollar budgeting might be detrimental to that highly valued practice, which added to the Fund's efficiency and which derived from the relative homogeneity of the Fund's core staff.

Mr. Daco, noting that the increased use of consultants and contractual employees had been the most marked change in the Bank's personnel environment directly attributed to dollar budgeting, wondered whether the nationality distribution of Bank staff had changed as a result of dollar budgeting as well. Also, if 260 persons were needed to administer dollar budgeting at the Bank, as the staff had reported, how many would be needed to administer such a system at the Fund?

The staff representative from the World Bank said that it was important to keep in mind that dollar budgeting was the last phase of a long process of decentralized budgeting at the Bank. The basic premise, as others had mentioned, was that those closest to the work knew best how to deploy resources to get the job done--something that could not as easily be accomplished from the center. The objective was to get managers to manage the full array of resources--human, financial, facilities, information--as efficiently as possible.

Bank managers welcomed greater control over their budgets as it gave them optimal flexibility to redeploy resources across projects, the staff representative continued. That was extremely useful, given the diverse and evolving nature of the organization's activities, and the fact that programs frequently had to be interrupted and resources rapidly redeployed. Contingency reserves were maintained at the center to accommodate emergency redeployments without having to seek additional resources from the Board, as in the case of Bosnia.

A number of additional initiatives were under way in the context of dollar budgeting, the staff representative reported. A new cost accounting method was being introduced to estimate more accurately the total dollar cost of projects or mission work, along with the normal budget accounting system. Improvements in management information systems were also under way. The objective was to link income and expenditures in a way that enabled performance-based budgeting and to strengthen planning at the front end of the budgetary process, thereby affording a clearer, strategic view of managers' objectives and how they planned to achieve them. The budget would thereby fit better into the larger context of planning and work programming. Moreover, a system of internal transfer pricing had been introduced--the charging back for internal services--and the Bank was looking into possible outsourcing for selected support services and administrative functions.

With respect to concerns that, by placing responsibility for facilities and benefits on managers, the work of specialized staff would have to be replicated within each unit, the staff representative indicated that managers did not require specialists to deal with most of the new responsibilities they had acquired. For example, they did not need an architect to determine their office space requirements.

Responding to Mr. Esdar's query on whether unit managers had any incentive to turn in their savings, the staff representative indicated that no attempt was made to "claw back" the savings generated by units. While most managers opted to redeploy their savings, in a few cases resources had been returned to the center, notably by the administrative, treasury, and controller functions. Nevertheless, redeployment had served to keep costs down as managers had to finance new initiatives from their own budgets, which meant having to spend less on low-priority activities. That type of reallocation was particularly crucial, given budget reductions at the Bank.

On whether the Fund could expect administrative expenditures to rise under a system of dollar budgeting, the staff representative replied that, projections were difficult, particularly with respect to an institution with which he was not familiar. However, the fact that there had been no incremental increase in administrative expenditures in the latest phase of the reforms in the Bank was owing to that institution's long history of decentralization and the fact that the administrative systems and staff had already been in place. That infrastructure encompassed a host of administrative functions and support activities--not just dollar budgeting--in each vice presidency and department, including planning, work programming, task management, setting up of separate mission tasks, monitoring progress against plans, handling the management information system, and accounting. As the Fund was far more centralized than the Bank, additional deployment of administrative staff would be expected at the departmental level with a move to dollar budgeting. Finally, in response to specific questions posed by Mr. Esdar, he said that the size of a few units at the Bank was as small as 15–20 professionals, but typically closer to 300–500 staff per region, with regional budgets running between $70 million and $200 million, and that Executive Directors' offices had not been put on dollar budgeting.

Another staff representative from the World Bank indicated he would address three areas of concern: recruitment practices; the composition of the long-term consultants population; and staff mobility. A system of checks and balances was at work in the recruitment process at the Bank. The skills mix requirements for each fiscal year were derived from the annual business plan exercise, which gave the recruitment division a head start to search for candidates from those countries that needed better representation. There was also an annual contracting exercise between the recruitment division and the managers in each of the vice presidencies, through which a diversification agreement was concluded—an agreement on the nationality profile of prospective recruitments.

In recent years the Bank had also set up staffing groups--managers and senior technical staff in particular skill areas--that assisted the recruitment division in identifying potential candidates, the staff representative continued. Those groups were directly involved in the screening process, and gave final approval for candidates ready for recruitment, which in effect prevented individual managers from pushing through parochial preferences. Also, managers were assessed, in the context of their performance reviews, on how well they did in terms of staff diversification. Entry salaries were set centrally by the recruitment division. Hence, problems of internal equity did not arise.

Staff profile data indicated that the Bank had actually maintained its nationality distribution over the past few years, even with the recent downsizing, the staff representative reported. The only profile that had changed materially, owing in large measure to a directive from the top, was the number of professional women at the Bank--which had increased from 22 percent to 31 percent over the past few years.

On the recruitment of consultants, the staff representative noted that that function had been decentralized for many years, long before the introduction of dollar budgeting, although consultants' fees continued to be determined centrally. Broken down by industrialized versus developing countries, the nationality composition of consultants was remarkably similar to that of the general staff population, 60:40 compared with 59:41, respectively. However, the proportion of U.S. staff was significantly higher among long-term consultants, 35 percent, as compared with 25 percent in the case of career staff. Staff mobility did not appear to have been affected by the move to dollar budgeting. However, the significant downsizing at the Bank over the next few years would have an impact, because there would be fewer opportunities for reassignment.

Mr. Geethakrishnan remarked that the geographic distribution of recruitment--and not simply nationality profiles--might be more revealing, to the extent that more local staff, including those with green cards, were perhaps being recruited under dollar budgeting, given the incentive for managers to avoid the cost of home leave and other expatriate benefits. He observed that the marked growth in Bank staff since 1988, and growth in every skill category between 1990 and 1994, was not particularly indicative of redeployment at the unit level away from lower-priority activities. He wondered whether the addition of 1800 staff had been a conscious decision taken at the highest level of the organization, or the result of incremental decisions to expand into new areas, such as the environment and human resources.

Mr. Mozhin wondered whether the degree of staff mobility would tend to be higher among less diversified and more centralized organizations, such as the Fund.

The staff representative from the World Bank, responding to Mr. Geethakrishnan, said that the sharp increase in Bank staff between 1993 and 1994 was largely due to the 40 new or reactivating countries that had to be assimilated into the Bank's operations. At the same time, the nature of the work itself had been evolving away from traditional lending toward new kinds of lending for the environment, such as the social sectors. That growth spurt was a conscious decision on the part of management and the Board, as was the decision to scale back to zero real growth in 1995 and to significantly downsize in 1996 and 1997. Growth between 1988 and 1995 did not relate in any way to dollar budgeting which was a latecomer in the Bank's budget reform exercise.

Other than lending activity, the Bank was engaged in about $160 million worth of economic and sectoral work each year, including considerable technical assistance, aid coordination, and organization of consultative groups, the Bank staff representative added. Many of the central vice presidencies--in the areas of environment, human resources, finance, and private sector development--were involved in product design, best practices dissemination, and training; and there was significant research being done at the Bank as well. Nonlending activities totaled about $250-300 million, almost one fourth of the Bank's budget. Finally, with respect to redeployment, dollar budgeting enabled a more transparent look at all costs related to the work; it permitted analysis of budgets and provided a clearer view of where redeployment was desirable and where cutbacks had to be made. Redeployment had become the primary focus, not budget growth.

Another staff representative from the World Bank, responding to Mr. Geethakrishnan's concern that cost considerations might skew the selection of new recruits, noted that the fee structure for consultants took into account whether or not a consultant was taxable. Where the consultant was taxable, fees were quoted on a gross basis, and the unit paid the gross amount, whereas fees were paid on a net-of-taxes basis in the case of consultants from member countries who are signatories to the Convention on Immunities and Privileges. Hence, taking tax considerations into account, the bias worked against the hiring of U.S. consultants. That notwithstanding, there was actually a larger portion of U.S. nationals among the Bank's long-term consultants compared with career staff. Therefore, if costs were really the main consideration, one would have expected a lower percentage of U.S. staff, and not a higher one. Proximity was probably the main determinant, as consultants tended to be hired largely from the local labor market; in that sense, cost did not appear to be a disincentive.

However, as a result of dollar budgeting managers faced a decision about whether to replace a vacant career position with another career staff member, the staff representative continued. On the margin, one might expect some shift toward consultants. The most recent figures on downsizing at the Bank indicated that all categories--not just career staff, but noncareer staff and long-term consultants as well--were on the decline.

Mr. Geethakrishnan asked that Directors be provided with information on the geographical distribution of consultants in the Bank, in addition to their nationality distribution.

Mr. Esdar concurred with Mr. Clark that tradeoffs existed and that some degree of decentralization might be necessary among larger organizations. Noting the frequent changes in the top management structure of the Bank in recent years, he wondered how the Bank ensured a common management philosophy throughout organization.

Mr. Kaeser indicated that he was in favor of dollar budgeting for material resource management. However, he was opposed to devolved budgeting in respect of staffing. The management of staff in his view needed to remain centralized in order to allow human resources to be allocated according to the priorities set by the Board, in agreement with management. Many of the arguments presented by Mr. Geethakrishnan and Mr. Fayolle were convincing, and he opposed proceeding with dollar budgeting on a trial basis, since that would only create confusion.

Mr. Mesaki added that, while dollar budgeting might in principle be cost effective, other things being equal, he was not convinced that cost effectiveness had been the Bank's experience. He did not consider the possible implications of dollar budgeting for personnel desirable, although he wondered whether matters of personnel management went beyond the scope of the budget committee.

Mr. Ryan asked for clarification on whether or not, on a net basis, administrative and budget personnel would be expected to increase or decrease with a move to dollar budgeting. With respect to the higher proportion of U.S. contractuals, while it was admittedly a sensitive topic for his office, he was not persuaded that dollar budgeting had produced the outcome, as some speakers had suggested. In that context, he shared the view of Ms. Srejber and others that there was really no inconsistency between the impact of dollar budgeting and the institution-wide objective of diversification. Nor was there any inconsistency between establishing priorities and allocating budget totals to departments in a top-down fashion, and then allowing dollar budgeting to take place, with the benefits of redeployment. It was evident that there was a divergence of views on the matter of dollar budgeting. Therefore, a trial period would perhaps be useful in drawing out the potential advantages, as well as the possible adverse effects.

The Director of the Office of Budget and Planning indicated that, while the Bank's experience with dollar budgeting was of interest to the Fund, the two organizations were sufficiently different that the particular approach taken by the Bank would not necessarily be appropriate for the Fund. Whether dollar budgeting, as a general matter, was desirable had been answered particularly well by Ms. Srejber. The Fund was considerably more diverse than one might first imagine. Looking at the Fund's primary activity, which was its country work, roughly one third of the staff was situated in the area departments and Policy Development and Review. The rest were either in the technical assistance field or the support departments. At the same time, there were substantial resources being devoted to the areas of translation, technology, external relations, and training.

The Fund was growing in complexity, the number of departments was certainly not being reduced and, as Mr. Petrie had noted, it was admittedly getting difficult to manage matters from the center, the Director indicated. With a fairly flat organizational structure, such as that in the Fund, management at the line level was probably far more effective than management from the center. Also, while mobility could be ensured under any budgetary system with the use of central rules, it was noteworthy that some departments faced the opposite problem, namely, too much mobility in the institution and not enough continuity at the desk. Such matters would have to be balanced carefully. Finally, on Mr. Ryan's question about whether or not there would be an increase in administrative outlays as a result of decentralizing budgets, views at the Fund diverged, with many considering that additional resources would be required to undertake the work, and others believing that there would be net savings to the organization.

The Deputy Director of Administration, on the issue of mobility, noted that if the number of contractuals were to increase, as would be expected under dollar budgeting, then clearly that would lessen the opportunity for mobility among those who remained on regular staff. The areas of greatest concern would be among noneconomists, both because lack of mobility was already an issue and because those areas would be prime candidates for contractual work. Another issue of concern would be lack of mobility among higher-paid staff, to the extent that incentives in the long run led managers to substitute lower-paid for higher-paid staff. The incentives could also work against hiring more expensive mid-career people from the outside, which was an important source of infusion of new blood into the Fund, and which would affect the nationality distribution.

On the issue of contractuals and nationality distribution, the Deputy Director indicated that close to 40 percent of the 400 long-term contractuals at the Fund were U.S. nationals, which was significantly larger than the proportion of U.S. staff at the Fund. That higher concentration would tend to affect the overall nationality distribution at the Fund to the extent that new recruits were drawn largely from the pool of contractuals that performed well. Therefore, how to secure the appropriate nationality distribution in a dollar budget environment under the new incentive structure would be an issue.

The budget and administrative staff in the departments would necessarily increase as a result of dollar budgeting, the Deputy Director said. Dollar budgeting did not involve only substituting the tracking of man-hours or man-years with the tracking of dollars spent on personnel. Decisions would have to be made about how to allocate budgets and what to do with the dollars that were left over within each department, and those functions required some net increase in the number of administrative staff.

Ms. Srejber questioned whether staff mobility would necessarily decline under dollar budgeting. *Judging in terms of productivity—output per unit cost—the balance fell in favor of* internal hiring: staff required much less training, and were better situated to get the job done well and faster, albeit at a higher dollar cost per person. Her experience with dollar budgeting suggested that the problem would more likely be a lack of adequate turnover and fresh blood from the outside. On the question of the administrative burden, her experience also suggested that, while more staff might be required to administer dollar budgets, on balance that extra effort would be more than offset by savings in other areas.

Mr. Petrie agreed with Ms. Srejber that the cost-output ratio, and not simply the dollar cost of a staff member or potential staff member, was the right criterion for managers to be using. On the need for additional administrative staff, while the departments might require more inputs than could be redeployed from the center, to assess the impact of dollar budgeting adequately, one would normally look at the overall efficiency of staff and resource allocation throughout the organization, once the dynamics of the process were in play. Finally, that personnel issues existed and needed to be addressed under current practices did not imply that they could not be dealt with appropriately under a different budgetary environment.

Mr. Geethakrishnan said that, in view of the move toward budget consolidation, and based on the evidence presented, it was fairly clear that dollar budgeting would lead to a sizable increase in contractual staff at the Fund, which would add to the current problems of preserving appropriate nationality and geographic distributions. It was a mistake to assume that such personnel matters could be dealt with adequately in due course, as some speakers appeared to have suggested; it would be much more preferable to address them up front. As he saw it, current problems would be compounded with a trial of dollar budgeting; the bias already inherent in the nationality and geographic distributions of long-term contractual staff would only be exacerbated.

Ms. John, noting the concerns about how devolved budgeting would work at the Fund, agreed with those who considered that personnel issues needed to be addressed before any attempt was made to introduce new systems.

Ms. Srejber agreed with those who supported a trial, adding that it would provide a basis for designing and testing rules and regulations to address problems relating to personnel matters.

Mr. Kaeser wondered whether the central rules and regulations suggested by Ms. Srejber would not deprive dollar budgeting of most of its flexibility, from which the major advantages derived.

Ms. Srejber responded that, indeed, some of the efficiency or cost-cutting gains from decentralized dollar budgeting could be forgone by choice if certain priorities or objectives needed to be upheld by central rules and regulations.

The Deputy Director of Administration confirmed for Mr. Ryan that the share of U.S. nationals among consultants was about 33 to 35 percent at the Bank, and 40 percent at the Fund; 48 percent at Fund headquarters.

Mr. Clark indicated that he was relatively open-minded on the issue of dollar budgeting, which appeared to have worked well in a number of institutions. Success depended crucially on the initial environment, the culture, and dynamics of the institution. To the extent most departments favored dollar budgeting at the Fund, he, too, would be able to support its introduction.

The Director of the Office of Budget and Planning said that he had not intended to imply in his previous comments that most departments were in favor of dollar budgeting. He had merely observed that some departments appeared positively disposed, while others had problems with the staffing issues.

The staff representative from the World Bank, responding to Mr. Esdar's earlier query, noted that the Bank had indeed undergone a number of organizational changes at the upper management level. The most recent change involved the establishment of a group of managing directors, at the second tier below the President, who had line management responsibility for everything that went on beneath them at the vice presidency levels. There was considerable optimism that a more cohesive and common approach to management was evolving at the Bank, although it was perhaps too early to analyze the impact of the changes.

Mr. Esdar indicated that he was sympathetic to dollar budgeting. However, there were some issues that would have to be discussed further and in greater detail before he took a firm view.

The Acting Chairman, summing up the discussion, noted a considerable divergence of views on whether or not dollar budgeting was needed at the Fund. Directors were agreed that an important aim of the budget process, and in particular the role of the budget committee, was to have transparency in the allocation and use of resources among various objectives and units and they noted that some progress had been made over the past couple of years. The objective was to try to find the best ways for the institution to make that a sustainable development.

Reluctance on the part of several Directors to move in the direction of dollar budgeting stemmed from such considerations as the size and structure of the institution, the need for diversity of staff, problems of nationality, gender, and continuity in assignments, as well as the administrative manpower requirements, the Acting Chairman continued. At the same time, several other Directors had underlined the need for the institution to undertake dollar budgeting, even on a trial basis, emphasizing questions of efficiency, transparency, and accountability of managers, all important objectives for the Fund.

Some speakers had proposed experimenting with dollar budgeting in a few departments, maybe for a year or two; and that was an issue that the Committee might wish to address at some stage. Directors also wished to know the experience of other organizations with dollar budgeting, and the Administration Department had been asked to see how dollar budgeting was being implemented in the Bank of England, in the Bank of Canada, and in the central bank of Sweden.

The debate had centered mainly on the requirements for ensuring that personnel policy would not be diverted from its major objective of continuity and diversity under a system of dollar budgeting, the Acting Chairman continued. The Administration Department should look at that problem carefully and report back to the committee on: the implications of dollar budgeting for the diversity, continuity and quality of staff; whether a centralized personnel policy was compatible with dollar budgeting; and what might be the manpower requirements to implement dollar budgeting. Issues raised by the survey of staff views (EBAP/92/158, 11/30/92) and report on discrimination in the Fund (UNDOC/96/35,2/16/96) should also be considered.

The Committee looked forward to hearing from the Administration Department on those important matters before proceeding further, the Acting Chairman said. Also, Directors were agreed that managers should be consulted and administration should proceed on an informal basis to gauge the reactions of a broad sampling of department heads and division chiefs. A follow-up meeting of the Committee would take place in three or four weeks.

The Deputy Director of Administration indicated that a report on the main personnel policy issues arising under dollar budgeting could be prepared within that time frame. However, additional time would be required to report on the experience of other institutions.

The Acting Chairman asked whether Mr. Clark could assist the staff in obtaining feedback from the Bank of Canada in time for the next meeting, to be followed at a later date by reports from Sweden and England. The Committee did not wish to rush into something that could be costly and that might not improve the efficiency of the institution, although the experience elsewhere appeared to suggest otherwise. Therefore, in three to four weeks the Committee would take up the issue again, and would have an opportunity to look at management's proposals for the FY 1997 administrative and capital budgets.

Mr. Evans agreed to proceed in parallel, noting, however, that a comparison between the Bank of Canada and Bank of England might also be helpful. He requested from the staff something in writing for the next meeting on what would be involved in designing a dollar budget trial that included the measure of central control suggested by Ms. Srejber.

The Acting Chairman indicated that the staff had taken note of Mr. Evan's request.

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