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AGENDA**

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December 28, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Medium-Term Plans and Resource Estimates—
The Managing Director's Statement**

The attached statement by the Managing Director on the medium-term plans and resource estimates will serve as background for the meeting of the Committee on the Budget tentatively scheduled for Wednesday, January 5, 2000, and is tentatively scheduled for consideration at a meeting of the Executive Board on Wednesday, January 12, 2000.

Mr. Conrad (ext. 38724) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

1

To: Members of the Executive Board

December 28, 1999

From: The Managing Director

Subject: **Medium-Term Plans and Resource Estimates**

In accordance with established budgetary procedures, I am presenting in the attached statement my assessment of the scale and priorities for the Fund's activities over the coming three-year period.

A companion paper prepared by staff and containing more detailed information on the planning outlook by program initiative is issued separately (EBAP/99/148, 12/28/99). A second companion paper providing descriptions of the work programs of each of the departments and offices, for the period FY 2001–FY 2003, will be issued shortly.

Attachment

INTERNATIONAL MONETARY FUND

Medium-Term Plans and Resource Estimates—The Managing Director's Statement

December 28, 1999

1. Executive Directors will recall that, when the last budget outlook was discussed in the Board in January 1999, it was still too early to predict the outcome of the then ongoing discussions on the new architecture of the international financial system. **We have now made progress in agreeing on the agenda of the Fund for the coming medium-term period.** The weeks leading up to the last Annual Meeting were an extremely busy time for the Executive Board. I cannot recall a period when so many new policy initiatives were discussed and agreed upon, and then endorsed by the Interim Committee.
2. You will recall that **the most important initiative** was the transformation of the Enhanced Structural Adjustment Facility (ESAF) and the Heavily-Indebted Poor Country (HIPC) programs into the Poverty Reduction Growth Facility (PRGF) and the enhanced HIPC Initiative. In the meantime, as you know, the HIPC Initiative and the Poverty Reduction Strategy Papers (PRSPs) have benefited from further discussion in the two Boards, including a joint session which has helped to clarify the scope of the work that we are undertaking with the relevant countries and others, as well as considerable work by Fund and Bank staff. Another major new development was the effort made to incorporate, into the Fund's work, **the lessons learned from the recent crises.** The work on financial stability assessments, and standards and codes reflects our need for greater stability and the emphasis on the safety and soundness of the financial system so that our members can better prepare themselves for the challenges of globalization. Our work on debt structures is to reduce countries' vulnerability to external shocks.
3. Based upon these developments, **the work program of the Fund for the medium term is now taking shape,** although there remain a number of components of the architecture to be discussed further. In addition, we have reviewed the results of two major external evaluations, namely the reports on surveillance and research, which have provided considerable support for much of the Fund's work in these areas and at the same time made a number of useful suggestions for improvement, several of which have been incorporated in the work program described below. Furthermore, we have seen the internal evaluation report on technical assistance and discussed in the Board the means to strengthen policies for this important service to our membership. Our work with the media has also been reviewed by external consultants, which has pointed to the need to strengthen our external relations effort.

I. MAJOR INITIATIVES AND ENHANCEMENTS

4. **Three major new initiatives have been added to the Fund's agenda:** (i) the establishment of the PRSPs as the basis for our concessional lending and the HIPC Initiative, jointly with the World Bank, and the replacement of ESAF by the PRGF; (ii) the Financial Sector Assessment Program (FSAP) also being conducted jointly with the World Bank; and (iii) the international standards and codes work, carried out with the active involvement of a number of other standard-setting agencies including the World Bank. In addition, there is a need to **expand or enhance some of our traditional program activities**, which are spread widely across the Fund, but are concentrated in three areas: (i) surveillance; (ii) technical assistance; and (iii) media relations.

5. **The budgetary implications of these new and enhanced initiatives are significant.** I am concerned that these new tasks be integrated into the ongoing work program **without unduly displacing other priority services to our membership, or adding further to the workload of an already overburdened staff.** This will require careful planning and prioritization, even more than usually so, because in several instances, especially the PRSP and enhanced HIPC and FSAP Initiatives involve the closest coordination with the World Bank. Let me note at the outset that steps have continued to be taken to improve the efficiency of Fund operations (see below). We must, however, realize that **the magnitude of the work that the Fund has been asked to undertake is now clearly larger than can be accommodated through internal savings and redeployment.** Therefore, unless we significantly curtail our existing program work, something which I think most Executive Directors would not wish to pursue at this point, we must face up to the need for additional resources.

6. On the first initiative, the newly transformed **PRGF and the enhanced HIPC Initiative**, the Fund is proceeding with the call that the institution move forward with concessional lending to our poorest members and debt relief. As you know, in this area, we are continuing to deepen our cooperation with the World Bank, and with regional development banks, as well as with donors, official agencies, and civil society. The Fund is relying heavily on the World Bank, given their primary focus on poverty alleviation. However, we need to ensure that the Fund remains engaged in a policy dialogue with our members, and that the poverty reduction strategy is consistent with member countries' budgets and the macroeconomic framework of the PRGF-supported programs.

7. The second initiative, which is also a joint effort with the World Bank, focuses on comprehensive assessments of the financial sector, and involves more in-depth coverage of pertinent issues to ensure the health of our members' financial systems. This program has already been discussed by the Board and has been assigned a high priority. It encompasses the **Financial Sector Assessment Program (FSAP)**, which is being implemented jointly with the World Bank and is intended to assess strengths and vulnerabilities in the financial sector. The FSAP includes assessments of the *Code of Good Practices on Transparency in Monetary and Financial Policies* and the *Basel Core Principles of Effective Banking Supervision*, and other financial sector standards and best practices. For the Fund, the end

product of this program is the **Financial Sector Stability Assessment (FSSA)**, including modules for Reports on Standards and Codes (ROSC), which will be undertaken in the context of Article IV surveillance. It will link the Fund's financial sector work closely with the consultation process, and will seek to link financial sector vulnerabilities with macroeconomic policy. The FSAP will also provide guidance for the design of policy and structural benchmarks in use of Fund resources programs; assessments of observance and implementation of internationally accepted standards, codes, and good practices; and related technical assistance.

8. The third initiative is the promotion of **international standards and codes**, which is focussed on those areas where the Fund has direct or shared responsibility (data dissemination, fiscal and monetary transparency codes, and Basel core principles). This initiative is intended to contribute to promoting the implementation and observance of international standards and codes of good practice in order to strengthen the international financial system as an integral part of surveillance and Fund-supported programs.

9. In addition to these three major initiatives, I propose a number of significant **enhancements to existing programs**, partly in response to the recent external or internal reviews. In the area of **surveillance**, there is a need to strengthen regional as well as bilateral surveillance; to enhance surveillance of international capital markets; and, to focus on the assessment of external vulnerabilities and increase the involvement of the private sector. For **technical assistance (TA)**, the priority focus is on supporting the major initiatives, establishing stronger links for this work with surveillance through Technical Consultations (TCs) and Technical Cooperation Action Plans (TCAPs), and strengthening the quality, effectiveness, and impact of the technical assistance program in light of the Board's recent TA policy initiatives. In spite of the proposed staffing increase, this new focus will entail some shift in emphasis away from traditional technical assistance in monetary and financial sectors, in order to keep this program within our capacity constraints. We also need to continue to enhance our capacity for the provision of economics training to country officials. In addition, I propose to strengthen considerably our external relations work, both at headquarters and in the field, to **promote public understanding of, and garner the needed support for, the Fund's work**.

10. As you know, we have also responded swiftly to the urgent major needs in post-conflict regions such as Kosovo and East Timor by providing policy advice and technical assistance to the authorities, and by supporting the efforts of the international community. In the Balkans, in particular, we will need to continue to monitor the situation carefully, both in Kosovo and in the remainder of the Federal Republic of Yugoslavia, with Fund involvement being possibly called upon at short notice should the political situation evolve.

II. RESOURCE NEEDS

11. Taken together, these initiatives represent a **quantum increase** in the Fund's work program. Based on extensive discussions with departments, I have concluded that an increase of **227 staff years (8.1 percent)** is needed over the coming three-year period. **I firmly believe that this represents the minimum level of additional staffing required**, if the institution is to proceed, as planned, with the implementation of these initiatives. This estimate includes: (i) the direct impact of the three major new programs (130 staff years); (ii) major enhancements in three ongoing programs (62 staff years), largely in response to the reviews in these areas, as well as traditional work program activities (11 staff years); and (iii) the consequent need for support and related activities for all initiatives such as recruitment, supervision, program management and general services (24 staff years). Because of the concentration of new work in the immediate future, as shown in the table, **most of the increase or 183 additional staff years (6.5 percent) will be needed in the first year.**

12. In my statement issued on October 28, and the subsequent meeting of the Committee on the Budget on November 1, it was agreed that the PRGF and enhanced HIPC Initiative carries immediate resource implications. I informed Executive Directors that I planned to **authorize the three main departments engaged in this initiative (i.e., AFR, FAD and PDR) to immediately hire up to 30 additional staff.** This was based on authority vested with management to use vacancy time within the authorized staffing ceiling. However, I had indicated at the time that this was a temporary measure that, in due course, would require a permanent adjustment to the authorized staffing ceiling. This measure has helped enable the Fund to proceed as quickly as possible with the debt relief program and to formulate the first structural adjustment program in the PRGF format.

13. I am also aware of the need to continue our commitment to realizing savings and pursuing redeployment on an ongoing basis. In this regard, even after the ongoing efforts of the past five or so years, some further **savings of 23 staff years** and continued **redeployment of 43 staff years**, planned for FY 2000 and FY 2001, have already been deducted from the proposed net additional staffing requirement. The savings are mostly due to the reorganization of support services in the Fund. Functional and area departments also reported redeployment that is reflected in the staffing needs put forward as part of the program outlook notes. A separate paper entitled "The Scope for Budget Savings in the Fund—Note on Selected Issues" (EB/CB/99/7, 11/24/99) that was issued prior to the last meeting of the Committee on the Budget, covers this subject in further detail.

14. To continue our commitment to savings and internal redeployment, we are **reviewing our internal review process** and expect to **report back to the Board in January 2000.** Proposals in this area and any savings that can be realized will be reflected in the proposed budget for FY 2001.

15. Nevertheless, it must be acknowledged that work pressure and stress on the staff are again becoming excessive. The proposed staffing increase does not make any explicit allowance for a reduction in the workload but, at a minimum, should help avoid exacerbating

Staffing Proposals Under Option 1 by Program Initiative, FY 2001-FY 2003

	Medium-Term Staffing Needs			Of which: FY 2001 Estimates				
	Staff Years			Staff Years			Dollars (in million) 2/	
	Direct	Support 1/	Total	Direct	Support 1/	Total	Administrative	Capital
A. Major Initiatives								
1. PRGF and Enhanced HIPC	57	7	64	48	8	56	11	3
<i>Of which:</i> Resident Representatives	7 - 11			6 - 10				
Technical assistance	2			2				
2. Financial Sector	32	4	36	22	3	25	5	1
3. International Standards and Codes	41	4	45	34	6	40	9	2
<i>Of which:</i> Technical assistance	4			4				
Subtotal	130	15	145	104	17	121	25	6
B. Work Program Enhancements								
4. Surveillance	26	3	29	12	3	15	3	1
<i>Of which:</i> Regional Surveillance	8			4				
International Capital Markets	4			3				
Involving the private sector	3			2				
5. Technical assistance	18	3	21	17	2	19	3	1
<i>Of which:</i> TCs and TCAPs	8			8				
<i>Of which:</i> Economics training	6			6				
6. Media and Public Relations	18	2	20	15	2	17	3	1
Subtotal	62	8	70	44	7	51	9	2
C. Other Programs								
7. Traditional, other, and support programs	11	1	12	11	1	12	1	1
Total	203	24	227	159	25	183	35	9

1/ In addition to support, this category includes personnel targets, e.g., supervision and training.

2/ These costs only cover dollar needs pertaining to net additional staff, e.g., salary, benefit, travel, office space, furniture, communications, technology, and language services. The costs associated with the current base of Fund staff including salary and price increases, and volume adjustments to support Fund activities are not covered in these estimates.

Note: Totals may not add due to rounding.

the pressures. I remain extremely concerned about the work pressure situation in the Fund and have therefore asked the Working Group on Work-Related Stress to analyze the situation and directed the Human Resources Department (HRD) to provide a **practical plan for reducing negative work-related stress**. Given the importance of this issue for ensuring the staff's health and quality of life, professional development, and long-term productivity, as well as the quality of the Fund's performance, a report on the **findings of this working group**, including HRD's assessment of any specific resource implications that may be identified, **will be issued to the Committee on the Budget in early 2000**. I hope we can revisit this issue at that time.

16. A first summary of the proposed staffing and dollar budget implications for the coming three years was presented in the Committee on the Budget paper on "Medium-Term Plans and Resource Estimates" (EB/CB/99/6, 11/24/99) and discussed at its meeting on December 9, 1999. I am appreciative of the constructive comments made and questions raised by Executive Directors at that occasion. I hope that the **additional information that has become available** in the meantime, including the further discussion of the PRGF and enhanced HIPC Initiative, as well as the material now circulated by staff on the six programs, will help Executive Directors better gauge the considerable resource implications of these programs. Further information being provided to the Board by staff is included in the paper on "Medium-Term Plans and Resource Estimates—Program Outlook Notes" (EBAP/99/148, 12/28/99). In addition, background information on departmental work programs will be included in the forthcoming paper "Medium-Term Plans and Resource Estimates—Work Program by Department, FY 2001–FY 2003."

17. HRD is preparing to meet the need for a large number of new staff. The number of participants in the Economist Program (EP) has been increased. More importantly, however, we plan to **step up recruitment of mid-career economists and financial sector specialists** worldwide.

18. Turning to the need for a **supplementary budget**, you will recall that, at the November 1 meeting of the Committee on the Budget, some of you had suggested that we proceed with this course of action as early as possible for the PRGF and enhanced HIPC Initiative. At that time, however, our resource needs for the current financial year were not fully known. We have now had the opportunity to more fully assess the situation. It is estimated that a supplementary budget of **\$9.3 million (1.6 percent) for salary, travel and related expenditures, primarily due to the work in progress on the major initiatives** is needed for FY 2000. This would include the authorization to **increase the staff ceiling by 30 staff years** in order to replace the above-mentioned temporary increase. The need for these additional resources is discussed in the paper entitled "FY 2000 Administrative Budget—Request for a Supplementary Budget Appropriation and Increase in Staff Ceiling" (EBAP/99/144, 12/23/99). The supporting paper on "FY 2000 Midyear Review of Administrative and Capital Expenses" (EBAP/99/145, 12/23/99) provides background information on the current status of the Fund's budget. If the proposed supplementary budget for FY 2000 is approved, this would directly reduce the corresponding needs over the

medium-term period. Specifically, the proposed staffing increase for FY 2001 and the medium-term period would be reduced by 30 staff positions.

19. The major initiatives upon which we are now embarking represent the most pressing needs of our members. Therefore, I am seeking **your support for my call to proceed with Option 1** as outlined in the paper "Medium-Term Plans and Resource Estimates" (EB/CB/99/6, 11/24/99) for the coming medium-term period, **as well as the need for a supplementary budget** in the current financial year. In the circumstances, unless Executive Directors **are prepared to adopt** a less aggressive schedule for implementing one or more of the major initiatives, this is the option that management proposes for consideration as being consistent with the tasks we have been asked to undertake and the ongoing work that addresses the present needs of our members.

