FOR
AGENDA

EBAP/97/127

CONFIDENTIAL

December 30, 1997

To: Members of the Executive Board

From: The Secretary

Subject: **The Budgetary Outlook in the Medium Term—
The Managing Director's Statement**

The attached memorandum by the Managing Director on the budgetary outlook in the medium term is tentatively scheduled for discussion on Wednesday, January 14, 1998.

Mr. L. Wolfe (ext. 37502) or Mr. McClellan (ext. 38239) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

To: Members of the Executive Board

From: The Managing Director

Subject: **The Budgetary Outlook in the Medium Term**

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 next three years, as well as the associated administrative and capital budgetary needs.

A companion paper providing descriptions of the activities and resource utilization of each of the departments, bureaus and offices, for the period FY 1999-FY 2001, will be issued separately (EBAP/97/128, 12/29/97). A separate paper on the midyear review of the FY 1998 Administrative and Capital Budgets (EBAP/97/121, 12/17/97) has been circulated to Executive Directors.

Attachment

INTERNATIONAL MONETARY FUND

The Budgetary Outlook in the Medium Term
The Managing Director's Statement

December 29, 1997

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EXECUTIVE SUMMARY

During our budget discussions a year ago on the budgetary outlook in the medium term, it was agreed that the policy of budget consolidation then in place for three years should be continued. Reflecting this understanding, the FY 1998 administrative budget reduced the authorized staff ceiling by 3 staff years and further reductions of 5 and 10 staff years were proposed for FY 1999 and FY 2000, respectively, with the understanding that a final decision on the budgets for these outer years would be made at future medium-term budget reviews.

During the past six months, there has been a significant increase in the demands placed on the Fund by its membership, culminating in the extremely intensive work that has been required in Asia. This effort has required the investment of considerable resources by a number of departments, as well as the temporary transfer of some resources to the Asia and Pacific Department. Looking ahead, the ongoing effort to strengthen surveillance on a number of fronts will continue, most notably in the prevention of crises and contagion effects, the associated need to strengthen the soundness of financial systems, the orderly promotion of the liberalization of capital movements, and the work associated with the data dissemination standards. This work will need to be supported by continuing, and hopefully increasing, the resources devoted to technical assistance in a number of traditional areas as well as on capital account liberalization and on second generation reforms. Additional resources will also be needed to support the program of internal economics training, for the new Singapore Regional Training Institute that will commence operations next financial year, and for a few selected activities. Overall, some 35 additional staff positions will be needed over the next three years although this need will be reduced to 15 staff positions as a result of expected efficiency gains that will accrue from the ongoing information technology initiative, and from the proposed doubling of the Separation Benefits Fund budget.

Three staffing options were considered by management. Given the prospective work load facing the institution. management believes that it would not be prudent to continue downsizing the staff in the coming year as proposed a year ago, and that the option to increase the staff ceiling by 7 positions in FY 1999 to meet the immediate work pressures but then reduce the ceiling by 5 positions in each of the following two years—was the most appropriate budgetary stance in the current circumstances. Such an approach would balance the need to maintain the policy of budgetary consolidation over the next three years (by reducing the authorized staff ceiling slightly over this period) with the requirement to keep the stress and work load levels of the staff within tolerable limits. Proceeding with Option 2 would also depend on the work load, particularly in Asia, returning to more manageable levels in the near term and would be reconsidered a year from now at next year's medium-term review.

In terms of administrative expenses, Option 2 would increase the administrative budget in real terms by about 1 percent per annum when compared to the likely increase in the Washington Consumer Price Index; when measured against the Fund's basket of commodities, the increase would be unchanged in real terms.

I. INTRODUCTION

1. This statement sets forth my evaluation of the Fund's administrative and capital budgetary needs in the context of the likely work program of the institution over the next three years. This exercise provides management and the Executive Board with the opportunity to review and discuss the prospective demands on the institution, and to consider whether the Fund's size, structure and resources are adequate to meet the anticipated work load in the context of the consolidated budgetary strategy introduced nearly four years ago. In developing the proposals contained in this statement, I have given careful consideration to the recent and ongoing intensive work associated with the economic crisis in Asia, to the views of departments, bureaus and offices, and to the overall guidance of the Interim and Development Committees and the Board of Governors. I have also taken note of the early-November 1997 discussion on the work program of the Executive Board, and the suggestions and comments made during the Committee on the Budget meetings of October 28, 1997 to discuss the work priorities for the next three years (EB/CB/97/3, 10/24/97), and of December 11, 1997 to discuss the paper on the budgetary outlook in the medium term (EB/CB/97/4, 12/5/97).[1] These inputs, along with the discussion of the Executive Board scheduled for January 14, 1998, will help me to finalize proposals concerning the FY 1999 Administrative and Capital Budgets, which will be considered by the Executive Board in April 1998.

II. RECENT BUDGETARY STRATEGY

2. During the last 10 years, management has consistently implemented two related managerial principles: keeping the size of the institution as compact as possible, while continuing to meet the essential demands of the membership with timely and high quality work. These principles are central to our budgetary philosophy and their use has placed the Fund in the position of facing the challenges of the future without having to defend itself against the charge that the institution has become bloated and inefficient. I would like to thank Executive Directors for supporting these principles.

3. These same principles remained in place even when the membership grew rapidly in the early 1990s.[2] To meet these new demands, and to ensure that the work pressures on the institution (manifested by increases in paid, and particularly unpaid overtime, a growing underutilization of leave, and a rise in excess travel by a growing number of staff) returned to sustainable levels, a substantial increase of about 500 staff years (22 percent) in the staff

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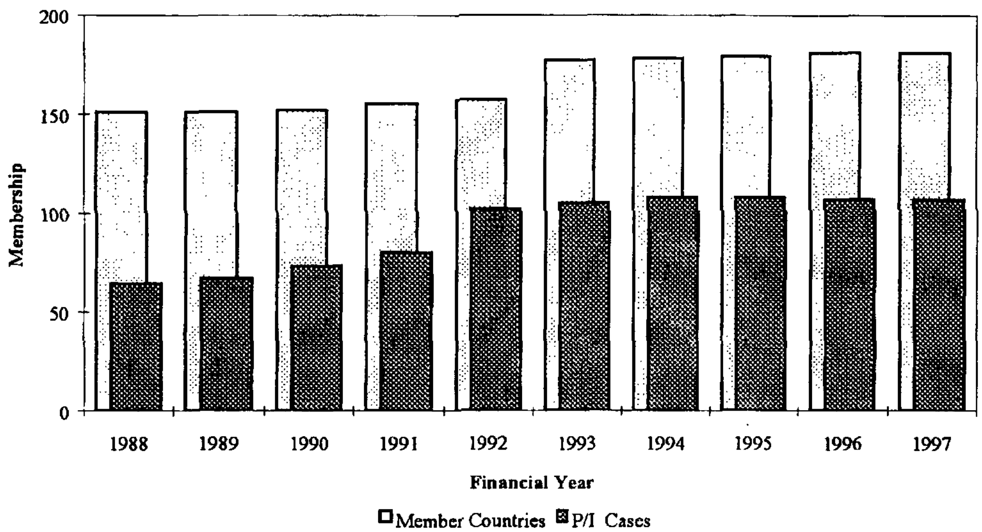
[1]A statement of each organizational unit's work plan for the next three years is contained in the background paper, *Budgetary Outlook in the Medium Term—Activities and Resource Utilization, FY 1999–2001* (EBAP/97/128, 12/29/97).

[2]During the three year period to FY 1994, the number of member countries increased by 15 percent and the number of program/intensive countries rose by 36 percent.

ceiling was authorized by the Executive Board during the three years to FY 1994. Nearly all of the additional staff years were directed toward country operational work. Figure 1 illustrates the growth in the work load as measured by the number of member countries and program/intensive countries.

Figure 1. Fund Membership and Program/Intensive Cases, FY 1988-FY 1997



4. This increase in resources provided the institution with the necessary capabilities to meet the growing and increasingly complex work load generated by our newer members, as well as allowing some progress toward meeting the personnel and internal management targets that were approved by the Executive Board in the early 1990s.[3] However, it quickly became evident that time would be needed to absorb fully the large number of new staff joining the institution during a relatively short period. Accordingly, in November 1993, the Executive Board endorsed my proposal that the next three years (FY 1995-FY 1997) should be a period of budgetary consolidation—keeping the authorized staffing at current or slightly lower levels (on a budget-to-budget basis) and keeping administrative expenses relatively flat in real terms.[4]

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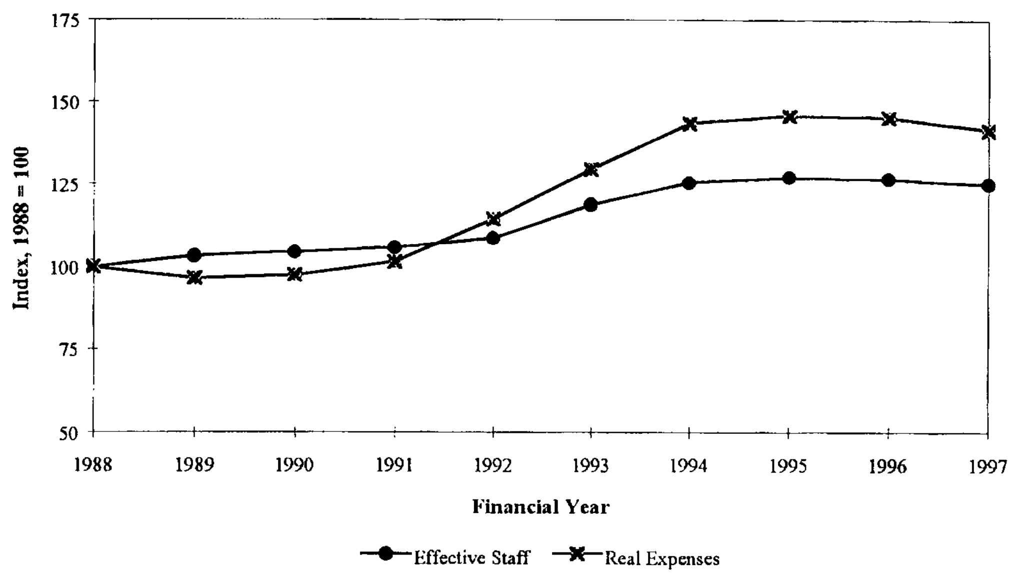
[3]Reducing excess travel and unpaid overtime to more reasonable levels, allowing staff to utilize their annual leave, and providing sufficient time to allow for effective management supervision and increased internal training.

[4]Three separate definitions of staff resources (regular and contractual staff) are used in the

(continued...)

5. As the data in Figure 2 illustrate, this strategy has been implemented. During the

Figure 2. Effective Staffing and Expenses in Real Dollars, FY 1988-FY 1997



three-year period to FY 1997, the **authorized staff ceiling** was reduced by 1.7 percent (some 46 staff years); in terms of effective staffing, there was a marginal decline of 0.3 percent. The smaller reduction in effective staff funded from internal resources reflects the steady filling of positions that were created in large numbers during the early years of the decade. During this period, there was a steady increase in the availability of external financing for technical assistance, and these funds were used to increase the recruitment of experts. As a result, total effective staff (including staff funded from internal and external sources) increased by 1.7 percent. In terms of **dollars**, administrative expenses increased from \$448.3 million in FY 1994 to \$471.6 million in FY 1997, an increase of \$23.3 million or 5.2 percent. During this same period, the Washington Consumer Price Index increased by about 7 percent, while

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[4](...continued)
administrative budget. The **authorized** staffing level is approved by the Executive Board at the beginning of the year: it represents a ceiling that cannot be exceeded. The **budgeted** staffing level subtracts estimated vacancies from the authorized level and is used at the beginning of the year as a basis for estimating the appropriations. The **effective** staffing level is the estimated or actual outturn measured during, or at the end of, the year. In addition to regular and contractual staff, the Fund also employs a number of vendors—see Appendix I.

the Fund's "basket of commodities" rose by some 10 percent. Table 1 provides information on the Administrative Budget and staffing levels for the period FY 1991–FY 1997.

Table 1. Administrative Budget, FY 1991-FY 1997

(In staff years and millions of U.S. dollars)

	Authorized Staffing	Effective Staffing				
Financial Year	Fund Staff	Fund Staff	Externally Financed Experts and Overhead Resources	Total	Executive Directors and their Staff	Administrative Expenses
1991	2,231	2,153	19	2,172	197	278.9
1992	2,349	2,211	44	2,255	197	338.1
1993	2,599	2,419	59	2,478	206	389.1
1994	2,730	2,553	73	2,627	223	448.3
1995	2,730	2,588	88	2,676	233	462.2
1996	2,690	2,577	116	2,693	234	470.8
1997	2,684	2,545	127	2,672	232	471.6

Note: Totals may not add due to rounding.

6. As Directors are aware, the demands placed on the institution by our membership during the three-year period through FY 1997 continued to grow reflecting, among other things, a small rise in the number of member countries, a somewhat larger increase in the number of countries classified as program/intensive, and a significant increase in the number of requests for technical assistance and training. Some of the resources needed to undertake this work came from the filling of vacant positions, the maturing of newly recruited staff, and a very welcome increase in external financing for technical assistance activities. However, there

was also a substantial number of staff years redeployed to meet high priority tasks—in total, some 70 staff years were redeployed to our front-line work, mostly from support activities.

7. Taking on this work load while keeping the increase in administrative expenses below the rate of inflation required the careful monitoring of expenses and the implementation of cost-saving measures. During these three years, increases of more than $30 million were required to meet higher salary and related benefits, excluding the Fund's contribution to the SRP. This increase was offset, in part, by a reduction of $8 million in the level of SRP contributions and somewhat lower business travel costs.

III. ACHIEVEMENTS IN FY 1998

8. During the medium-term budgetary outlook discussions a year ago, I proposed that the consolidated budget policy then in place be continued for the next three years. This proposal assumed that the prospective work load facing the institution at that time would remain at sustainable levels. With regard to staffing, and reflecting the views of the Executive Board, the approved FY 1998 administrative budget reduced the authorized staff ceiling by 3 staff years, and redeployed some 25 staff years to meet new and ongoing high priority activities. It was also agreed that the planned reduction in the staff ceiling of 5 staff years in FY 1999 and 10 staff years in FY 2000 would remain in place pending the next medium-term review at the end of 1997.

9. In this year's budget statement, I proposed four high priority work objectives for the medium term. These were: (i) the continued strengthening of our multilateral, regional and bilateral surveillance activities with special attention to the data dissemination standards, the liberalization of capital flows, banking sector issues and related financial sector work, and governance issues generally; (ii) conclusion of the work on the ESAF/HIPC initiative, and on the mobilization of financial resources; (iii) bringing to a close the work on strengthening Fund resources (the Eleventh General Review of Quotas, the SDR and NAB initiatives); and (iv) implementation of the five-year strategic plan designed to strengthen the Fund's information technology environment and operations.

10. Although the year is only two thirds complete, I am pleased to report that the institution has made significant progress on all four objectives.

- In the area of **surveillance**, the recent Annual Meetings in Hong Kong recognized that the continuation of strong Fund surveillance over all 182 members is essential if we are to achieve the objectives embodied in the September 1996 *Declaration on Partnership for Sustainable Global Growth*. In this context, we will continue our efforts to establish a closer and more continuous dialogue with our members as a means of improving our analysis and policy advice. Box 1 provides a summary of Fund surveillance activities.

Box 1. Fund Surveillance

In recent years, Fund surveillance has become **both broader in coverage and more continuous.** The Mexican crisis in 1994/95 was a watershed event that led to several steps to strengthen the focus and continuity of Fund surveillance. At the staff level, this has required more regular staff visits between consultations for key countries and more continuous monitoring and reporting of country developments. At the level of the Executive Board, more frequent follow-ups and regular informal country matters sessions have ensured continuous involvement in key cases. With the objective of improving its focus, Fund surveillance has become more selective: consultation cycles have been lengthened for some countries, and there are ongoing efforts to streamline documentation. Current events in Asia highlight the importance of effective Fund surveillance and provide a backdrop against which lessons will be drawn over the coming months for further strengthening.

In recent years, in addition to its core macroeconomic concerns, bilateral Fund surveillance has paid increased attention to the following issues:

- **The provision of economic data to the Fund and to the general public.** Discussions with members have focused to a greater extent on data issues, which have been reflected in staff reports. In 1996, the Fund established the Special Data Dissemination Standard and maintains information on subscribers on its Data Standards Bulletin Board.

- **Financial sector vulnerability.** In close coordination with the World Bank and against the background of the work of the Basle Committee, increased attention has been paid to financial sector issues in both surveillance and Fund-supported programs. Technical assistance has also remained substantial.

- **Capital account issues and private capital flows.** Against the background of often poor data, the staff has focused increasingly on capital account questions in assessing the vulnerability of economies.

- **Second-generation reforms.** Increasingly, both surveillance and Fund-supported programs have been focusing on reforms needed for sustained, high-quality growth, including a transparent regulatory framework, a sound financial system, an efficient judiciary, an educated and trained workforce, a flexible labor market, and improvements in the quality and composition of fiscal adjustment.

Multilateral and regional surveillance has gained importance in recent years:

- The **World Economic Outlook** and the **International Capital Markets** reports have remained the key vehicles for multilateral surveillance.

- Six-weekly **WEMD sessions** have been strengthened: the coverage has widened beyond the traditional focus on industrial countries and the informal Board discussions have been supported by an increasing amount of documentation prepared by the staff.

- Beginning in 1996, the Board has periodically discussed **Members' Policies in the Context of Surveillance**, which provide an opportunity to look back at a few key issues in surveillance in the recent period and draw lessons for Fund surveillance.

- Increasing attention has been paid to **regional surveillance**, including annual discussions with the institutions of the European Union on progress toward EMU, as a basis for informal Board seminars, and regular staff discussions with regional institutions in other areas, including the two regional central banks of the CFA franc zone.

- With regard to **ESAF/HIPC** matters, we have made considerable progress, although we need to support these efforts by the necessary mobilization of financial resources to ensure a continuing role for the ESAF and implementation of the HIPC initiative.

- In the area of **strengthening Fund resources,** we have obtained agreement on a 45 percent increase in IMF quotas, and on a doubling of SDRs while allowing all members to participate on an equal footing. We have also made significant progress in finalizing the work on the NAB.

- Finally, we have begun the implementation of some of the proposals included in the five-year **information technology strategic plan** formulated a year ago. A more detailed examination of the strategic plan and our efforts to date are summarized in Appendix II.

11. What was not anticipated when the work program for the current year was discussed some nine months ago was the heavy volume of work by the staff, management and the Executive Board on the economic crisis in Asia. Indeed, this effort has been a keynote of our work during the last three or four months which also incorporated the recent introduction of the Supplementary Reserve Facility. To meet this immediate need, considerable resources have been redeployed to work on this initiative by a number of departments, and it was also necessary to transfer temporarily some resources to APD. A representative post has been opened in Thailand, the posts in Indonesia and the Philippines are being strengthened, and a post is being considered for Korea. These measures, along with a major effort by a large number of the staff, made it possible to meet these immediate demands. However, the intensity of this work can only be sustained for a short period and, in the absence of a return to a more normal situation, it will be necessary to allocate additional resources to this work and possibly increase the overall size of the staff. While every effort would be made to redeploy staff from lower priority activities, the Fund is overstretched at present and there is very little, if any, spare capacity in the institution.

12. Overall, I believe that the record of the institution during the last eight months has been exemplary, particularly given the situation in Asia and the current environment of budgetary consolidation. At the same time, there is still much that we need to do. It is in this context that I now turn to the future.

IV. INSTITUTIONAL OBJECTIVES AND MEDIUM-TERM WORK PRIORITIES

13. As most Executive Directors are aware, the continued implementation of the consolidated budgetary policy has been a subject of debate during the last few budget meetings. A majority of the Board has endorsed the current policy. However, some Directors have expressed concern that the continuation of this strategy in the near term is not necessarily in the Fund's longer term interests, and may well prove to be incompatible with the prospective medium-term work load, whereas other Directors would prefer that budget consolidation should be tightened. As noted earlier, I believe that the Fund should be kept at a manageable size, and increasing the level of staff resources should be seen as a last resort. The easiest response to an increasing work load is to add additional resources and, in some specific cases, this can be justified. However, the advantages to be gained by increasing the capacity of the Fund to respond to new membership demands has to be balanced against the long-term cost of these resources. Furthermore, continually adding resources to meet new demands obviates the need to review ongoing activities to see if they remain relevant to the central work objectives of the institution. The all-too-common result is that organizations tend to grow and become increasingly unwieldy, inflexible and slow to respond to new demands.

14. Accordingly, I continue to support the view that a restrained budget fosters priority setting at the business unit level and leads to a more efficient allocation of resources through improved management performance. In such an environment, major new demands will first be considered by management and, if approved, normally be addressed within a business unit through internal priority setting, streamlining and work practices, and productivity gains from IT initiatives supported, if necessary, by the temporary redeployment of resources from other activities. Any proposal to add permanent staff resources to the Fund would need to be based on clear evidence that the transfer of existing staff resources to high priority activities would not reduce unsustainable work pressures. A proposal to add resources would normally be incorporated in the annual budget although there are times when such decisions have to be made during the financial year. To assist managers with internal redeployment, several improvements in the budget procedures have been introduced—a more detailed discussion of these improvements is contained in Section IX. I would like to acknowledge the broad support from Executive Directors for these initiatives and the useful suggestions of the Committee on the Budget on further ways to improve the budget process.

15. Directors may recall that in last year's medium-term budgetary outlook discussions, I outlined a number of institutional objectives that need to be met if the Fund is to fulfill its unique mandate. These objectives need to be kept in mind when considering the prospective work load, the work program priorities, and the likely resources that will be needed to balance the demands of the membership and the ability of the institution to meet them. Given that a number of Directors have recently joined the Executive Board, I thought that it would be useful if these objectives, which continue to remain valid today, are reiterated in this statement. These objectives (presented in Box 2) also provide a common starting point for jointly considering the Fund's future resource needs. It is important to recognize that these

Box 2. Institutional Objectives

- The Fund must continue to foster a close working relationship with each of its member countries and be responsive to members' needs within the overall environment of globalization by providing intellectually sound and timely policy analysis and advice to senior officials of member countries, and by ensuring that our resources to assist members, in particular our liquidity position, continue to remain adequate.

- The Fund must be able to respond quickly and effectively to unanticipated events and problems such as the recent events in Asia. This requires maintaining staff and institutional structures that allow an immediate response while ensuring that the essential ongoing work of the Fund is not compromised.

- The Fund must continue to build on recent efforts to be more open and transparent, and to disseminate widely its views, analyses, and research.

- The Fund needs to remain decision oriented—this is best achieved by keeping the institution's decision-making structure simple.

- The Fund must ensure that personnel policies are in place to continue to attract and retain a well-trained, motivated and diverse multinational staff able to react quickly to new challenges. It is also necessary to ensure that the intellectual capital of the Fund, its greatest asset, is maintained at a level sufficient to meet the challenges of today, and that the working environment supports this objective.

- The Fund must keep up with the pace of technology advances in order to provide the staff and the Executive Board with effective working tools that allow regular increases in the productivity of the institution. The achievement of these gains requires investment in new technology and continued modification of existing work practices and management systems, together with relevant staff training.

- The Fund must continue to work closely with the World Bank (and other international institutions) to ensure that maximum efficiencies are obtained by minimizing duplication and allowing specific initiatives to be undertaken by the organization which is best positioned to work in a given area.

objectives, although listed separately, are interlinked in the sense that progress toward meeting one objective will necessarily require progress in others.

16. I continue to believe that the Fund's greatest asset is our intellectual capital, and that it must continue to be nurtured. This is best accomplished by providing a healthy working environment, as well as ensuring that the work load does not place unsustainable pressures on the staff. In this regard, it is important that we take note of the recently published report of the Health Services Department on the current health situation in the Fund, and continue to take the necessary measures to ensure that the high stress and work load levels experienced by a number of the staff return to more tolerable levels. For several years now, I have observed that the ability of the institution to take on new challenges is second to none. However, we also need to continue to be vigilant and continue to eliminate lower priority activities as a means of balancing the work load. Over the past year or so, management and the Executive Board have made a determined effort to minimize the requests for new studies, policy reviews,

etc., through improving the process of prioritization of the institution's work program. The efforts of Executive Directors during the last year (including the most recent discussion on November 5, 1997) to keep the work program of the Board at sustainable levels by postponing or eliminating the work in some areas have been particularly valuable in this regard. We need to continue this policy and to double our efforts to make sure that we do not place impossible demands on the staff.

17. In keeping with the initiative to prioritize further the prospective work load, my statement of a year ago on the medium-term budgetary outlook included a summary of the priority work areas for the Fund. These work priorities were endorsed by the Executive Board and were an important input in the formulation of the FY 1998 budget. A revised set of work priorities was prepared (EB/CB/97/3, 10/24/97) and discussed by the Committee on the Budget on October 28, 1997. Nearly all of these priorities are relatively well known. However, as noted at the recent Committee meeting, enumerating the work priorities in one place provides management and the Executive Board with a "check list" that can easily be reviewed and amended, and thus serve as the basis for the formulation of the more detailed statement on the medium-term budgetary outlook. At the October 28 meeting, the Committee expressed support for this general approach and also endorsed the medium-term work priorities, albeit with some suggestions for change. These suggestions have been incorporated into the work priorities which are enumerated below.

18. The following high priority activities are central to the Fund's work program for the medium term—all of these are linked to the cooperative strategy to strengthen global expansion.

- **Multilateral, regional and bilateral surveillance**. As in previous years, surveillance remains at the heart of the Fund's operations, and we will continue to focus on increasing the effectiveness of our surveillance of members' policies. Particular emphasis in the Fund's surveillance work will be placed on:

    - **Prevention and management of crises**. In consideration of the recent experience in Asia, it will be important to focus on identifying and considering lessons that can be drawn from this experience as a means of preventing similar situations in the future.

    - **The soundness of financial systems**. With regard to surveillance on the soundness and stability of banking systems in the context of bilateral and multilateral surveillance, work will include: assessment of the macroeconomic effects of any problems in the banking system, identification of vulnerabilities in the broad framework for sound financial systems that could potentially have major macroeconomic implications, and the recommendation of corrective policies.

- **Liberalization of capital movements**. The work in this area will focus on promoting the liberalization of capital flows with due regard to the pace and sequence of concomitant reforms in policies and institutions, as well as amending the Articles of Agreement to give the Fund jurisdiction over capital account movements in accordance with the request of the Interim Committee in its recent communiqué.

- **Openness in policy making**. The Fund will intensify its efforts to encourage transparency and accountability in economic policy formulation.

- **Governance**. Improved governance will be supported by encouraging greater disclosure and transparency in the management of public resources, and by promoting stable regulatory environments.

- **Data dissemination standards**. To strengthen further the Special Data Dissemination Standard, the Fund will continue to encourage its broad adoption as appropriate and review its coverage to ensure that it effectively promotes the timely availability of economic information to the public. Efforts will also focus on establishing the General Data Dissemination System, aimed at improving the data quality and dissemination for a broad range of Fund members.

- **Progress toward EMU**. To reflect the fact that EMU is one of the most important changes in the international monetary system for some time, attention will continue to be devoted to its implications for this area, as well as the legal and operational effects of EMU for the Fund, and its implication for surveillance of our members.

19. In addition to the Fund's surveillance responsibilities, work in the following areas will receive top priority:

- **Use of Fund resources**. The essential work associated with the use of Fund resources—at present, some 60 percent of our members are classified as program/intensive—will continue. Of particular importance in this work are the ongoing efforts associated with the work in Asia, the ESAF and HIPC initiatives, and the necessary mobilization of financial resources, as well as expanded efforts on the implementation of second generation reforms.

- **Resident representative/regional offices.** Continue to support the work of the newly established regional office in Asia as well as the ongoing work of the resident representative program.

- **The Fund's financial resources and the SDR system**. Implementation of the recent decisions on IMF quotas and on a special allocation of SDRs.

- **Information technology (IT) implementation**. Continued implementation of the five-year strategic plan designed to strengthen the Fund's information technology environment and operations.

20. There are a number of other activities where the prospective work load is such that the current level of effective resources allocated to these endeavors should be maintained. These activities include:

- **Technical assistance**. The continued provision of technical assistance to members in the traditional areas of central banking, fiscal policy and statistics, as well as for the training of officials of member countries. Some redirection of priorities will be required to meet new demands arising from our expanded surveillance efforts and the associated second generation reforms.

- **External relations**. Activities designed to explain the importance of Fund activities to the NGOs and the public in general, particularly at a time when these activities are expanding into new areas.

- **External training**. The delivery of increasingly cost-effective and relevant courses (including those related to second generation reforms) through the expanded use of new technologies, including distance learning, and through the establishment of regional training institutes.

21. There are some areas where the level of work may be less intensive in the medium term and where some reduction in staffing levels may be possible in the outer years. These include:

- **Country analytical work**. Utilize the efficiency gains that will result in the next few years from the ongoing work in the Fund, particularly from the data sharing and harmonizing of country databases initiatives, and from the soon-to-begin effort to improve the authorship, production, dissemination and retrieval of Fund documents.

- **Administrative support**. Savings will be pursued in selected administrative support and related areas generally through updating our work procedures, and through productivity gains that will result from the implementation of the IT initiatives now under way.

- **Program/intensive work**. The area departments have suggested that the work associated with program/intensive countries will likely peak in the next year or two and then begin to decline slightly in some regions as the adjustment programs now in place in many transition and other countries begin to take hold.

- **Building related activities**. Completion of the Phase III extension of the headquarters building and the related departmental transfers by the end of FY 1998 will allow reductions in the level of resources now engaged in this construction activity. Most of these reductions will come from the capital budget. Some staffing resources may be needed for the design work associated with Phase IV.

22. The above priorities cover most of the Fund's activities although there are a number of ongoing support activities (e.g., language services, health and travel support, etc.) that have not been included but are of central importance to the work of the Fund. To place all of these activities into perspective, the next section provides an overview of the Fund's work program for the coming three years. In considering the prospective work program, Directors will need to take into consideration the importance that the Executive Board places on continuing to exercise budgetary restraint.

V. THE FY 1999–FY 2001 WORK PROGRAM

23. The purpose of this section is to provide Executive Directors with a broad overview of the work program facing the Fund during the period through April 2001, and to do so within the agreed work program priorities and the institutional objectives outlined in the previous section. I also believe that the intent of this exercise is to focus on the broader objectives of the Fund's work and not to become overly involved with details on activities that are undertaken by Fund staff on a daily basis. This is best left to the discussion on the actual budget proposals that follow this medium-term strategic review. I am also conscious of the fact that the majority of the Board's time is taken up with country and policy matters and that a number of important and ongoing activities undertaken by the Fund are not normally discussed by Directors. The following work program presents some information on these less well known activities and thus provides a useful opportunity for Directors to review the work in these areas.

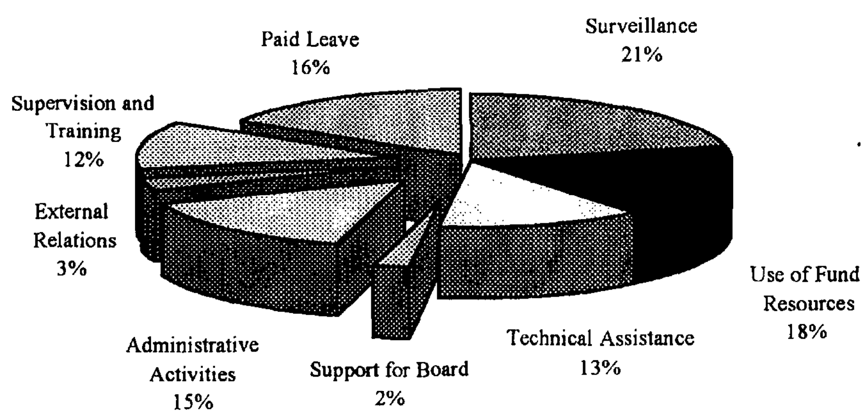
24. Over the past few years, there has been an ongoing effort to improve the Fund's budgeting procedures, and these improvements have been acknowledged by Executive Directors as a means of increasing transparency.[5] In an effort to set priorities in a broader framework, a rolling three-year budgetary approach was introduced a few years ago, and this provided the opportunity for Directors to be involved more fully in the process. Recently, the Committee on the Budget suggested a further modification to the budgetary procedure to provide an earlier opportunity for Directors to express their views on the work priorities to be

[5]A more detailed description of these changes is outlined in Section IX and Appendix III.

included in the annual update of the three-year framework. To accommodate this request, a meeting of the Committee on the Budget will be scheduled early in the summer of next year.[6]

25. As part of the effort to increase transparency, a revised classification of work activities was introduced last year with the active participation of the Committee. The revised classification, which uses monthly data on staff utilization collected in the Budget Reporting System (BRS), provides a more precise view of the Fund's three major "front-line" activities; namely, surveillance, lending and technical assistance, as well as the various activities required to support these major outputs, e.g., external relations, administrative support, supervision and training, etc.[7] Figure 3 provides an indication of the resources allocated to each of these categories in relation to the overall work of the Fund.

Figure 3. Distribution of Activities by BRS Category, FY 1998
(In staff years)



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[6]More recently, an Executive Director raised the idea of assessing the strategic priorities of the institution in a forum other than the Work Program of the Executive Board or the medium-term budget discussions. Consideration is being given to the most appropriate way of meeting this proposal—one possibility could be to take up this discussion in an informal setting.

[7]Front-line activities are those that are directly related to the work with our member countries—surveillance, use of Fund resources, and technical assistance and training—and are undertaken primarily by the area departments and functional and special service departments. These front-line activities are sustained by support activities—public relations, supporting the staff and the Executive Board in operational and administrative matters, and other managerial functions such as budgeting, auditing, etc.—and are undertaken primarily by the information, liaison and support departments.

A. Surveillance

26. The Fund is entrusted with overseeing the effective functioning of the international monetary system and exercising firm surveillance over the exchange rate policies of its members. It performs the mandate by examining the economic and financial policies of individual members, and adopting specific principles for the guidance of all members with respect to these policies. At the same time, the Fund assesses the consequences of individual country policies on the functioning of the global economic system. In recent years, globalization of the international economy has posed new challenges for the Fund and has required the strengthening of our surveillance of members' policies. The recent Annual Meetings noted the "essential" importance of adhering to the cooperative strategy to strengthen the global expansion and concluded with a consensus that global opening and integration offer the only path to worldwide prosperity and that strong IMF surveillance over the policies of its members remains essential. In this context, the Fund's surveillance mandate was extended when ministers and governors endorsed the Fund's role in promoting the liberalization of capital flows.

27. Surveillance-related activities form the largest category of the Fund's work load, accounting for about 21 percent of staff resources, about half of which are devoted to our bilateral surveillance efforts. Multilateral surveillance work, including the World Economic Outlook (WEO) and the International Capital Markets Reports exercises, is also included in this category. The Fund's statistical services are an essential element of surveillance given the importance of timely and reliable data in the surveillance function. Finally, general policy and research work, other than that attributed to lending or to technical assistance activities, is also incorporated in this category. A summary of the Fund's surveillance activities is provided in Box 1 on page 11.

28. A high priority **bilateral surveillance** objective continues to be the strengthening of surveillance and the need to focus increased attention on large non-program economies that are of systemic importance to the international monetary system. The Fund's strategy for strengthening its bilateral surveillance is based on the following themes: (i) improved flow of information through more regular and timely provision to the Fund of economic and financial data by members, and through the ongoing development of dissemination standards for use by member countries; (ii) continuity of surveillance to ensure early detection of risky or unsustainable economic situations through the maintenance of a closer and more continuous dialogue with our members and through improved analysis and more pointed policy advice; (iii) increased attention to the soundness of financial systems, the liberalization of capital flows, good governance, etc.; and (iv) expansion of the openness, transparency and candor of surveillance.

29. As part of the Fund's effort to strengthen surveillance over the next three-year period, priority will be given to strengthening the Special Data Dissemination Standard (SDDS) and implementing the General Data Dissemination System (GDDS). In FY 1999, the primary

emphasis will be on introducing the GDDS to the membership through development of a comprehensive *Guide* and presentation of regional seminars. The work on dissemination standards will be complemented by the ongoing statistical review function which will, at the Board's request, focus more directly on issues of data quality. During the meeting on December 8, 1997, Executive Directors noted some improvements in the provision of information to the Fund for surveillance. However, they re-emphasized that data quality and timeliness were extremely important, and that further improvements were necessary. At the December 19 meeting to review the SDDS, Executive Directors welcomed the progress made so far in the implementation of the standard and hoped that more members would subscribe over time.

30. In our future work on **multilateral surveillance**, the World Economic Outlook will focus on countries' efforts to strengthen prospects for sustained noninflationary growth and address policy weaknesses, particularly in areas identified in the Interim Committee's *Declaration on Partnership for Sustainable Global Growth*. In addition, it will focus on the main causes, leading indicators, and triggers of exchange rate and financial crises in emerging markets, as well as consider policy and regime adjustments that can reduce the risk of crises and help prevent contagion effects. The International Capital Markets reports will continue to provide an in-depth review of recent developments in major international and emerging capital markets, with emphasis on the implications of the growing integration of emerging market economies into global financial markets and of recent crises in some of these economies.

31. Work will also continue on **regional surveillance** matters and regional integration, on trade and exchange and payments systems, and on the need to foster trade liberalization under the multilateral framework of the World Trade Organization (WTO). Implementation of the cooperation agreement with the WTO will be pursued as a means of ensuring consistency of policy advice.[8]

32. In addition to the efforts associated directly with the data dissemination standards, the **statistics** program for the next three years will focus on the technical assistance and training activities necessary to support the implementation of the data dissemination standards and other improvements in specific statistical areas required by the Fund's operational and members' policy needs. In the information technology area, work will continue on the replacement of the Economic Information System (EIS), and the linking of the various data bases through a data-sharing initiative.

33. The category of **policy development, research, and evaluation** in support of surveillance covers the preparation and review of substantive policy-related papers and other

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[8]The introduction of EMU will require that Article IV consultations with individual countries will need to take into account the monetary policy of the European Central Bank (ECB) while the appropriateness of the ECB's monetary policy will need to be assessed against the economic situation in a number of countries.

periodic reports, as well as research directed toward improving knowledge in particular areas of Fund interest, including studies on subjects that relate to individual countries. Looking to the future, work on improving the international monetary system (including the role of the SDR) and on other systemic issues will continue. In addition, work on: the indebtedness of, and financial flows to, the developing countries; aid flows from bilateral and multilateral agencies; the impact of the globalization and unification of financial markets; the liberalization of trade initiatives; trade and exchange and payments systems; completion and distribution for comment of a draft of the revised *Government Finance Statistics Manual*; and coordination of policy advice with that provided by the World Bank, the WTO and other international organizations will also be undertaken. Work on the implications of EMU for the international monetary system, as well as its legal and operational effects for the Fund and our members will also receive increased attention.

34. Looking ahead, it is clear that we will need to do more in the surveillance area generally, and in three areas specifically—the prevention of crises and contagion effects, the associated need to strengthen the soundness of financial systems, and the orderly promotion of the liberalization of capital movements. [9] We are all aware of the recent developments in Asia and of the efforts that have been invested by the institution over the past few months to meet this challenge. These events have demonstrated the importance of adopting appropriate exchange agreements in the face of growing integration of financial markets. The Fund must also devote increased attention to issues of banking soundness, to the early detection of systemic problems, and to the prompt implementation of policies as a means of preventing the onset of widespread banking problems. Implementing a framework for this work will clearly expand in the medium term. Through our surveillance efforts, the Fund is uniquely placed to encourage and monitor adherence to supervisory and prudential guidelines. Finally, and as recognized by the Interim Committee, the near universal membership of the Fund and its central role in the monetary system makes this institution uniquely qualified to assist in the liberalization of capital flows. As I mentioned in Hong Kong, the vision contained in the Interim Committee's statement will be implemented in an orderly manner and at an appropriate pace to avoid premature actions that lead to reversals. During the coming months, high priority will be given to the work on the amendment of the Fund's Articles of Agreement.

35. The developments of the last few months have emphasized the need for additional resources for the strengthened surveillance work, and the fact that many of the resources will need to be found externally in order to obtain the necessary skills in the areas of regulation and prudential oversight of the financial sector. Limited savings could result from the recent decision to implement a longer consultation cycle for an additional 10 countries, bringing the total number on the extended cycle to 20 members. Although it is too early to reach a firm conclusion on the size of the staff requirements for the extra work in this category, a preliminary estimate of up to 25 additional staff positions over the next three years would not

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[9] Fund surveillance will be the focus of the next major external evaluation to be undertaken in 1998.

appear unreasonable. Adding these staff positions (which would be frontloaded over the next budget cycle) would increase the number of staff years now allocated to surveillance activities by a little more than 4 percent at a cost of an additional $10 million over the next three years.

B. Use of Fund Resources

36. This category, which consists of all country-related work except surveillance and technical assistance, accounts for about 18 percent of staff resources and is broken down into four subcategories: (i) program design, negotiation and implementation; (ii) mobilizing other financial resources; (iii) financial operations; and (iv) policy development, research and evaluation work related to use of Fund resources.

37. The bulk of the work on use of Fund resources falls into the subcategory of **program design, negotiation, and implementation** and is undertaken principally by the area departments in collaboration with the Policy Development and Review, Fiscal Affairs, Monetary and Exchange Affairs and the Treasurer's Departments. This activity covers all work dealing with members' requests for use of Fund resources, the negotiation of conditions under which members borrow resources, the monitoring of programs and repayments, and the work on overdue obligations. The number of countries classified as program/intensive (an important indicator of the work load in this category of activity) by the area departments is expected to peak within the next year or two before declining somewhat in the latter part of the new budget cycle (see Table 2). There is also likely to be an increased emphasis on the use of medium-term programs, especially for countries in transition.

38. Over the next three years, work associated with the continuation of ESAF including special ESAF operations under the HIPC initiative will continue, and will require the continued investment of considerable resources. The work will include the monitoring of ESAF program design with increased emphasis on second-generation structural reforms, governance and social policies. For the HIPC, further steps in this initiative will be undertaken, including the possible establishment of new procedures for the preparation of debt sustainability analyses and enhanced collaboration with the World Bank. As was the situation this year, the work on the implementation of the initiative will continue to be heavy given the case-by-case approach.

39. An evaluation of several aspects of ESAF-supported programs was recently undertaken by external experts. The evaluation focused on three topics: (i) developments in countries' external positions during ESAF-supported programs; (ii) social policies and the composition of government spending during ESAF-supported programs; and (iii) the determinants and influence of differing degrees of national ownership during ESAF-supported programs. A meeting to discuss this evaluation is tentatively scheduled for January 1998.

Table 2. Basic Determinants of Country-Specific Work Activity: FY 1981-FY 2001

(Number of countries)

	FY 1981–92 Actual (average)	FY 1993 Actual	FY 1994 Actual	FY 1995 Actual	FY 1996 Actual	FY 1997 Actual	FY 1998 Estimated	FY 1999 Projected	FY 2000 Projected	FY 2001 Projected
Fund members (end of year)	149	177	178	179	181	181	182	184	184	184
Other Article IV cases 1/	1	3	3	3	3	3	3	3	3	3
Total surveillance countries	150	180	181	182	184	184	185	187	187	187
Of which:										
12 month cycle	...	137	169	170	172	172	173	167	167	167
Bicyclic	...	31	0	0	0	0	0	0	0	0
18/24 month cycle	...	12	12	12	12	12	12	20	20	20
Other cases with Fund involvement 2/	2	3	4	6	4	2	2	2	2	2
Total countries with Fund involvement	**152**	**183**	**185**	**188**	**188**	**186**	**187**	**189**	**189**	**189**
Fund involvement by work intensity:										
Program/Intensive cases	66	105	108	108	107	107	115-119	116-120	114-118	109-113
Of which:										
Cases with financial arrangements	52	67	70	71	75	66	77	91	95	84
Other intensive cases	14	38	38	37	32	41	40	27	21	27
Surveillance-only countries	86	78	77	80	81	79	70	71	73	78

1/ Includes the nonmetropolitan territories of Aruba, Hong Kong, and the Netherlands Antilles.

2/ Includes countries in pre-membership status and other territorial entities.

40. The resident representative program is included under this category, given that resident representatives are assigned primarily to program countries to advise the authorities on program implementation and to monitor the progress of programs. The number of resident representatives has increased from 27 in FY 1990 to 70 in FY 1998. In line with the policy of keeping the size of the program relatively stable, during the last few years a number of posts have been closed and the resources redeployed to open new ones. This approach will continue in the medium term although the need to increase the number of resident representatives in Asia will probably require a small increase in the number of positions during the next three years. Box 3 provides a distribution of current resident representative posts. A review of the effectiveness of the resident representative program was completed recently and is due to be discussed by the Executive Board in the near future.

41. The **mobilizing other financial resources** subcategory includes work on debt and program financing (Paris Club, banks, etc.) and is carried out mainly by the Policy Development and Review Department, in conjunction with the area departments. This activity absorbs about 0.5 percent of staff resources and may increase slightly, reflecting the likely need for increased liaison with creditors.

Box 3. Resident Representative Program

Resident representatives are generally assigned to program countries to advise the authorities on program implementation and to monitor the progress of programs. The FY 1998 budget provided for 70 staff years. A listing of the distribution of resident representative positions (as of end-November) is shown below.

AFR Angola, Benin/Togo, Cameroon, Cote d'Ivoire, Ethiopia, Ghana, Guinea, Kenya, Madagascar, Mali, Mozambique, Senegal/Guinea-Bissau, Tanzania, Uganda, Zambia, Zimbabwe

APD Bangladesh, Cambodia (vacant), China (2), India, Indonesia, Lao PDR, Mongolia, Nepal, Philippines (part-time), Sri Lanka, Vietnam

EU1 Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Hungary, Macedonia FYR, Netherlands Antilles, Poland, Romania

EU2 Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Latvia/Estonia, Lithuania, Moldova, Russian Federation (3), Tajikistan, Turkmenistan, Ukraine (2), Uzbekistan

MED Egypt, Pakistan, West Bank/Gaza

WHD Argentina/Uruguay, Bolivia, Ecuador, Haiti, Honduras, Mexico, Nicaragua, Peru, Venezuela

A post has been opened in Thailand, and additional posts are planned for Malawi, Korea, and Yemen/Djibouti.

The average cost of maintaining a resident representative post in FY 1997 (excluding posts with more than one resident representative) was about $420,000. The estimated cost of the program in FY 1998 is about $32 million.

42. Work on the Fund's financial resources and on **financial operations** and reporting is mainly the responsibility of the Treasurer's Department. Although the Executive Board has agreed on an increase of 45 percent in the size of quota increases under the Eleventh General Review of Quotas, work to implement this decision, including a number of operational aspects, will continue for some time. The Interim Committee has also called for a review of the quota formulas to begin promptly after the end of the Eleventh Review. The operational aspects of the special "equity" allocation of SDRs, to take place after approval of the required amendment of the Articles, will also involve advance work. Activities connected with the Fund's resources will continue, including work on the adequacy of the Fund's precautionary balances, the Fund's liquidity position and financing needs, the use of the income from the Supplementary Reserve Facility, and the distribution of costs among members for the operation of the Fund.

43. About one-fourth of the Fund's total work on **policy development, research, and evaluation** is in support of the use of Fund resources. The primary focus of this ongoing work will be to meet the changing needs of our membership through the adaptation of our financial instruments. Operational concerns covered include quotas, overdue obligations, access policy and the liquidity of the Fund, the Fund's income position, the adequacy of precautionary balances, burden sharing, and work on the Fund's financial facilities, including ESAF. This work is carried out mainly by the Treasurer's and the Policy Development and Review departments. More recently, there has been an increased emphasis by the Monetary and Exchange Affairs Department on banking system and capital account issues.

44. Overall, and looking to the future, it seems that the steady increase in the share of the Fund's effort allocated to use of Fund resources work over the past few years will level off in the next year or so and then possibly decline slightly as the adjustment programs in the transition countries begin to produce lasting and meaningful results. If this leveling off occurs, it will be possible to scale back somewhat the number of staff working on transition countries toward levels more in line with those for other program/intensive countries. Given that the number of staff needed for work on surveillance countries is less than the number needed for work on program-intensive countries, the resulting savings would then be available for redeployment. The early completion of the work associated with the recently agreed initiatives to bolster the financial resources of the Fund should also assist in this regard. At the same time, the ongoing work associated with Asia will require an increase in the level of resources required to monitor the programs that have been recently put in place. On balance, it should be possible in FY 2000 to reduce the number of staff years allocated to work in this category by slightly less than 1 percent (maybe 2 or 3) staff years, at a savings of about $0.5 million over the medium term.

C. Technical Assistance

45. The technical assistance program is designed to support macroeconomic and structural adjustment programs and surveillance by providing to member countries expertise and advice

necessary to design and implement policy, to build or modernize institutional capacity and, through these measures, to improve the effectiveness of Fund-supported policy programs. This category covers the provision of technical assistance mainly in the central banking, fiscal, and statistical fields, and absorbs some 13 percent of total staff resources. This work is performed by Fund staff (mostly located in the Fiscal Affairs, Monetary and Exchange Affairs, and Statistics Departments) and outside experts working at headquarters and in the field. In addition, assistance is provided through the training programs of the IMF Institute and the Joint Vienna Institute. Table 3 provides a breakdown of technical assistance deliveries by Fund departments for the period FY 1994-FY 1998.

Table 3. Technical Assistance, FY 1994-FY 1998

(In effective staff years)

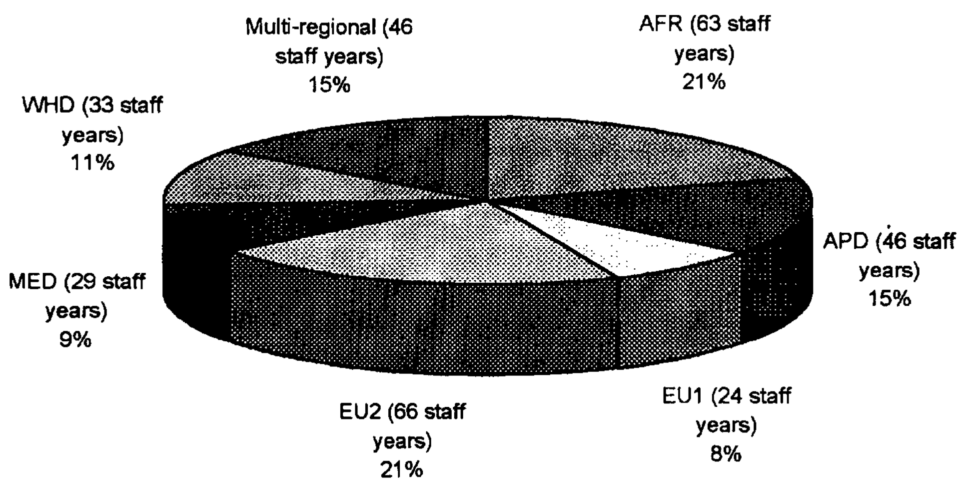
Delivering departments:	FY 1994	FY 1995	FY 1996	FY 1997	Budget FY 1998
FAD	95	95	100	96	100
MAE	106	138	137	115	124
STA	36	38	39	37	43
INS	13	15	14	11	13
LEG	7	8	11	9	11
Other	6	7	8	9	16
Total	263	301	309	277	307
Of which:					
Fund-financed	194	220	211	173	209

Source: Regional Allocation Plan (RAP).

46. As noted on many occasions, the viability and sustainability of our surveillance efforts and our financial programs are linked directly to the quality and accurate targeting of our technical assistance resources. In the coming budgetary cycle, technical assistance efforts will continue, therefore, to provide assistance in the monetary, fiscal and statistical areas as well as

on second-generation reforms. In support of the Fund's overall policy advice to our members, increased emphasis will be placed on institution building. Given our mandate to strengthen the provision of economic and financial data to the Fund for surveillance, the setting of standards to guide members in their dissemination of economic and financial data (as outlined in the discussion of surveillance activities above) is central to this initiative and will require a refocusing, and possible expansion, of technical assistance to this area. Figure 4 provides a breakdown of the budgeted delivery of technical assistance by region in FY 1998.

Figure 4. Technical Assistance by Region, FY 1998



47. Although there has been an expansion in the technical assistance budget over the last few years, the actual delivery of assistance has not kept pace in the past year or so. During FY 1997, there was a shortfall of some 12 percent and it seems likely that there will be a further shortfall in FY 1998. The primary reason for the underdelivery lies in the increasing difficulty of recruiting suitable experts for our technical assistance program. The competition in the market for qualified experts has increased and there are indications that the levels of compensation offered by the Fund are not sufficient to attract high quality experts, despite a recent salary increase. The security situation in some countries is such that finding experts willing to relocate to these countries is difficult. Finally, the need to redeploy senior staff to high priority areas (Asia in particular) has reduced the time available to recruit and support field experts.

48. The likely underdelivery, notwithstanding, it will be necessary to continue prioritizing all requests in the medium term given that the demand for technical assistance from our members will continue to exceed our capacity to deliver. Against this background, we will focus on strengthening our internal assessment of the effectiveness of Fund technical assistance, with a view to ensuring that such assistance is fully integrated with Fund policy advice, and that support to member countries is delivered as efficiently as possible and is utilized effectively by the recipient countries.[10] In this context, the Office of Internal Audit and Inspection is planning to undertake a review of all Fund-supplied technical assistance. The Fund will continue to make use of external financing for this work; in this regard, I would like to recognize once again the continued and generous financial support of the Japanese Government and a number of other member governments.

49. **External training** encompasses the scholastic programs of the IMF Institute and the Joint Vienna Institute (JVI), specialized training financed by the French and Swiss Governments, and regional courses offered by the various Fund departments. It also includes the scholastic programs for government officials from Asian economies financed by the Governments of Japan and Australia, as well as the extensive program of Fund-financed and externally financed seminars. Over the past few years, the training program in Washington managed by the IMF Institute has been supplemented by an expanded delivery of courses at the JVI for government officials from transition economies. Many of these overseas programs will continue to be linked to the adoption of adjustment programs supported or monitored by the Fund. [11]

50. Over the next three years, training activities will be reoriented to better reflect the new training needs of member countries. The demand for training of officials from member countries is expected to increase and will be met primarily by increasing overseas courses. In addition, the content of the training will be reoriented. The shift in focus will involve the introduction at headquarters of specialized high-level courses and seminars on specific issues, including those related to the "second generation" reforms. A major effort will also be made to enhance the quality of the training through the upgrading of course materials, and by bringing in academic consultants on a temporary basis to help strengthen the content and delivery of courses. The coverage of training will be expanded through an intensified "outreach" program, using distance learning techniques, video-conferencing and other emerging training technologies in order to reach a larger population of officials than is possible at present.

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[10]During last year's discussions, several Directors raised the question of increasing the level of member contributions to offset some of the cost of providing technical assistance. However, at this time it seems that there is not a consensus in favor of changing the current policy.

[11]To support this work, the IMF Institute is implementing a new Participant Applicant Tracking System which will provide useful and tangible savings—see Appendix II for additional information.

51. To provide policy-related economics training to government officials from the Asia and Pacific region, the Singapore Regional Training Institute (STI) is being established in Singapore in conjunction with the Government of Singapore.[12] The STI will enable a significant expansion in the level of training offered by the Fund in the region—during FY 1999, the STI plans to offer 12 courses. I would like to acknowledge the generous financial support of the Government of Singapore for this initiative.

52. Looking ahead, the prospective demand from our members for assistance will continue to increase in both the traditional areas as well as in the area of second generation reforms. The future level of demand will not only require eliminating the underdelivery of assistance now being experienced; it will also require adding resources over the next three years. Most of these extra resources, which are estimated to be some 15 staff positions over the next three years, would be directed toward work associated with the liberalization of capital flows, the work on the financial sector (including banking issues), and on governance matters. Adding these 15 staff positions (most of which would be contractual in nature) would increase the allocation of resources to the program by a little more than 4 percent and would increase administrative expenses by some $4.4 million over the course of the medium term.

D. Paid Leave

53. Total paid leave (annual or home leave, sick leave, paid holidays, etc.) normally absorbs about 16 percent of total effective resources. The number of staff years for paid leave (estimated at 436 staff years in FY 1998) is expected to remain at this level in FY 1999 before declining marginally over the next two years once the deadline for using unused leave carryover expires on April 30, 1999.

E. Other Work Activities

54. Subsections A, B, and C above outline the front-line activities of the Fund, i.e., surveillance, use of Fund resources, and technical assistance which combined absorb a little over 50 percent of total resources. Paid leave requires an additional 16 percent of resources. This final section of the work program describes the supporting activities required to support these front-line responsibilities. In FY 1998, these activities will absorb the

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[12]The Government of Singapore will provide the STI with a new building for its operations and assume the initial fit-out costs. It has also agreed to cover the payment of rent, utility charges, and maintenance costs of temporary premises for the STI until the new building is ready for operations, currently expected to be in May 2002. Under the cost-sharing arrangement, the costs of participants attending courses at the STI (including travel, per diem allowances, and accommodation), as well as the professional fees and travel costs of consultants associated with courses at the STI, will be shared equally by the Fund and the Government of Singapore.

following proportion of total staffing resources: external relations (3 percent), administrative activities (15 percent), supervision and training (12 percent), and staff support for the Executive Board and the Board of Governors (2 percent). The medium-term work program for these activities is described below.

External relations

55. The main components of this category include the production and promotion of the Fund's non-statistical publications; provision of information services to the press and public; and maintenance of close contacts with other international and regional institutions, nongovernmental organizations (NGOs), and member country parliamentary bodies. This category absorbs about 3 percent of total staff resources.

56. The primary objective in this area will be to widen further the public's understanding of the work of the Fund by enhancing existing efforts to be more open and by disseminating more widely the institution's views, analysis and research. Key priorities will include: (i) maintaining a close and constructive relationship with the media; (ii) implementing a concerted information campaign in connection with the various initiatives (Eleventh General Review of Quotas, the new allocation of SDRs, financing the interim ESAF and the Fund's participation in the HIPC initiative, and amending the Articles to promote capital account liberalization that will require ratification by national parliaments; (iii) sustaining and refining the publications program and expanding its reach; and (iv) enhancing the use of the institution's Internet web site, and use of the new bookstore and visitors' center to showcase the Fund's work to the public. Box 4 provides a summary of recent initiatives in external communications. Following the decision of the World Bank to withdraw from co-sponsorship of *Finance & Development,* the publication will be restructured as a distinctive voice of the Fund.[13]

57. It should be possible to undertake the proposed external relations work program within little or no increase in the current resource base.

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[13]It is expected that the loss of $750,000 in cost recovery as a result of the World Bank decision will be mostly offset in future years by scaling back the publication of certain high-cost non-English language publications, introducing higher prices for some publications, shifting to lower-cost production centers for *Finance & Development*, and looking for cost savings elsewhere in the publications budget.

Box 4. External Communications Activities

In recent years, the Fund has been operating in a climate of rising expectations about its willingness to report on its work and to engage in public discussion. These expectations are evidence of the Fund's responsibilities in today's globalized world. In response, the institution has been providing more information, and debating more, on a wider range of topics to and with a broader audience. Initiatives have included:

- Press Information Notices;
- dedicated regional outreach programs (e.g., in Asia prior to the Hong Kong meetings, and currently in South Africa) to improve public understanding of the work of the Fund;
- helping national governments implement communications strategies to explain the rationale for reform programs and to clarify what constitutes sound economic policies;
- publishing *Staff Country Reports* and a greater number of the analytical papers considered by the Executive Board;
- conducting policy seminars for parliamentarians from transition economies;
- inaugurating the *Economic Issues* pamphlet series, aimed at making Fund research accessible to a wider readership; and
- establishing a web site on the Internet and progressively expanding the information posted.

The demand for information on the Fund is expected to remain at high levels. As Professor James observed in his recent history of international monetary cooperation:

> "The rule of Bretton Woods has been replaced by knowledge; an information standard has succeeded a gold or dollar/sterling or dollar standard; and the influence of the institution at the heart of the international financial system depends largely on its ability to provide speedy, accurate, and persuasive economic analysis... Governments need to explain more; and so also do international institutions."

Administrative activities

58. This category includes a number of activities as follows: (i) administrative accounting and payments, auditing, and budgeting; (ii) human resources (administration, benefits, compensation, recruitment, and staff development); (iii) information technology, records management, communications, and graphics; (iv) other activities (including support of resident representatives and experts, procurement of goods and services, travel and shipping activities, language services, library services, administrative legal services, building services, and capital project management). In terms of total resources, the share allocated to the administrative activities category has declined steadily over the past decade and now absorbs about 15 percent of total resources. This reduction has been possible due to the implementation of new and improved technologies, improved work practices, reduction in some support standards, and the scaling back of selected activities.

59. During the next few years, efforts to streamline existing work practices will continue in all areas with the intent of providing resources for redeployment within this category as well as for other categories. The objective of accommodating all staff in **owned space** through the completion of the Phase III construction project is well advanced. The Phase III extension will begin to be occupied in a few months and is scheduled to be fully occupied by about the middle of 1999. This will allow for a reduction in resources devoted to Phase III activities including those provided in the capital budget. Occupation of the PEPCO building (Phase IV) is not likely until the end of FY 2002 when the tenant's lease expires.

60. In the areas of **records management and communications**, the focus will remain on improvements that can be made through the effective use of information technology, including the development of institutional strategies and systems. Reflecting the growth in the membership (particularly the economies in transition), the demand for **translation and interpretation** services has increased in recent years. For FY 1999, the latest survey of language service requirements indicates that the demand for interpretation is likely to remain stable while the demand for translation services will continue to rise. In the past, this rising demand has been met through the streamlining of work processes and the increased use and diversification of the pool of free-lance resources; however, the ability to meet higher demand levels through these means is limited. BLS is monitoring the demand for language services and is encouraging users to prioritize their requests in an effort to maintain the provision of services at manageable levels.

61. Reflecting the rapid development in the information technology (IT) field and the need to ensure that the Fund is well placed to take advantage of the efficiency gains that flow from the implementation of these technologies, a five-year strategic plan for the development and management of the Fund's IT resources was completed more than a year ago and implementation began in FY 1998. The plan, which will be updated annually, is implemented under the direction of the Information Technology Policy Committee. A summary of the five-year plan and the likely benefits and costs are contained in Appendix II.

Supervision and training

62. Activities in this category fall into two distinct subcategories. The management and development of staff, the general administration of each organizational or business unit, and Fund-wide administrative work are included in one broad subcategory comprising more than 9 percent of total staff resources. The training received by staff, both internal and external, as well as professional development activities other than training, together comprise a second subcategory utilizing between 2 and 3 percent of total staff time.

63. The building of intellectual capital through the ongoing professional development of staff, particularly in the area of management expertise, advanced training in economics, and second generation reforms will continue to be an important objective of the institution. The

availability of enhanced management training will assist in this endeavor but must be accompanied by efforts to provide managers with the time to avail themselves of training opportunities. Directors will be aware that the training program was expanded recently to respond to the need for increased internal training for Fund economic staff so as to enhance the quality of the Fund's economic advice to members (see Box 5 below). The IMF Institute, in collaboration with the Research and Administration Departments, has embarked on a program to strengthen in-house economics training, which involves revamping the orientation course, increasing the number and variety of training courses offered, and collaborating more closely with the World Bank. In addition, a few departments have established in-house economic training courses for their staff members.

Box 5. Economics Training for Fund Staff

In March 1996, management assigned INS the task of organizing an expanded training program in economics for Fund staff members aimed at maintaining and upgrading the economics skills of Fund staff.

During FY 1997, INS arranged 10 short courses (up to 5 days' duration) and 18 half-day seminars. In FY 1998 the pace increased to 14 courses and 26 seminars. The courses have covered a variety of topics in macroeconomics, econometrics and finance, and have included four offered by Fund departments (FAD, STA and MAE). The training seminar program has been very active, attracting a number of first-rate academics to lecture on both theoretical and policy-oriented subjects.

For FY 1999, INS intends to continue with a mix of courses and seminars, including repeat offerings where demand has not been fully met and some new offerings on second generation reform topics.

The demand for economics training has remained very high. Departmental nominations for seminars and courses have been averaging over 80 this fiscal year, and participants have given the training high ratings on evaluation questionnaires. Economics training received by A-level economists (including the orientation course but excluding external training and seminars offered by departments other than INS) increased from some 0.6 days per economist on average in FY 1996 to 1.7 days in FY 1997, while the corresponding figures for B-level economist staff were 0.04 and 0.5. Fully three-quarters of all A-level economists and over half of all B-level economists participated in at least one economics training activity during FY 1997. In FY 1998, total training received is expected to remain at about the same level as a result of a somewhat smaller average number of participants per event. The medium-term objective is to gradually raise the average amount of economics training to 3 days per economist, approximately double the current level of training being offered.

Board of Governors and Executive Board

64. The staff resources required to support the Board of Governors and the Executive Board and their committees are expected to remain relatively unchanged in the medium term.

Staffing requirements for other work activities

65. While increased resources are needed in some areas to meet additional demands, for example, in-house economic training, efficiencies have been identified in other areas (e.g., the Joint Library and the IMF Institute) which will give rise to savings during the next three years. There will also be some savings resulting from the completion of the Phase III extension to the headquarters building, largely in the capital budget. Overall, resource use in the area of Other Work Activities is expected to decline marginally by about 3 staff positions over the next three years as new demands are offset by staff reductions that have already been agreed with departments. In dollar terms, these reductions will save a little more than $1 million over the next three years.

VI. BUDGETARY STRATEGY FOR FY 1999–FY 2001

A. Additional Resource Needs

66. As described in the previous section, the work load for some activities has intensified during the last few months—the most obvious example is our efforts in Asia. As noted earlier, this immediate need has been met by the temporary redeployment of a small number of positions to the Asia and Pacific Department from other area and functional departments, by the functional departments increasing their work on this region, and by the strengthening of our resident representative presence in the region. The recently established Regional Office for Asia and the Pacific, which will be strengthened slightly in FY 1999, will also contribute to this effort. During the December 11, 1997 meeting of the Committee on the Budget, there was agreement that the situation in Asia is difficult and that further changes in the work load are likely. Management is monitoring the situation closely and will reconsider the budgetary impact of any further developments. Of direct relevance to the current medium-term exercise, however, is the need for additional resources to meet increased demands in selected work activities. As outlined in Section V, the expanding efforts associated with the strengthening of surveillance will require additional resources. This work will need to be accompanied by a refocusing and expansion of our technical assistance program. Additional resources will also be required for the Singapore Regional Training Institute which will begin operations on May 1, 1998; for an expansion of the internal training program (there is a need for training in capital market liberalization and other new surveillance areas as well as in second generation reforms); and for one or two other specific areas.

67. Some of the resources for this work should come from within the area and selected functional departments themselves, given that the work load associated with the transition countries is expected to decline in intensity as the adjustment programs now in place produce meaningful and lasting changes. Directors will recall that a number of staff years were redeployed from this work at the beginning of FY 1998, and this trend is expected to continue

in the medium term.[14] These savings will be supplemented by already agreed reductions in staffing levels as the result of the introduction of new technologies which reduces the need for staffing resources (such as the Joint Library), and the completion of activities (such as the Phase III extension). The latter project is funded largely through the capital budget.

68. Overall, my preliminary estimate is that some 35 staff years (at a total cost of some $13 million) would be needed over the next three years.[15] All of this shortfall is expected to occur in the surveillance and technical assistance areas. However, Directors should keep in mind that these estimates are necessarily preliminary in nature and will be subject to revision as the scope of the new demands and the resulting impact on resource needs are clarified.

69. During last year's budget discussions, I estimated that the work load as then foreseen would result in a shortfall of some 25 staff years for FY 1999–FY 2000, but that prioritization and redeployment would make it possible to continue the implementation of the consolidated budget strategy in FY 1999 and FY 2000, subject to the usual final determination one year later when a better picture of the prospective work load would be known. Accordingly, I proposed that real administrative expenses be kept at current levels for the next three years, and that the authorized staff be reduced by 3 staff years in FY 1998, 5 staff years in FY 1999 and 10 staff years in FY 2000. This proposal was endorsed by the Executive Board, and the FY 1998 administrative and capital budgets were approved on this basis.

70. The past few months have shown once more that the Fund needs to be ready to react quickly and decisively to new challenges. Against this background, I have carefully considered the various options that are available to meet future work demands and the potential shortfall of 35 staff years. As stated earlier, I believe that a restrained budget fosters priority setting and increases the effective use of resources as well as ensuring that the Fund remains at a manageable size. My first instinct is to keep this policy in place; however, I also recognize that the continued implementation of this policy cannot be taken to extremes, particularly as stress in some parts of the institution is already at relatively high levels. We also need to guard against a decline in the quality of our output. The Fund continues to operate with very little, if any, spare capacity—the number of vacancies has been reduced to fairly low levels, the Fund-wide volume of unpaid overtime remains relatively high for many staff, and there are still many staff who have not been able to reduce their excess leave balances. Any decision to maintain the consolidated budget strategy for the next three years, therefore, will require that we

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[14] Based on available information, a reduction of some 1-2 staff years per country are realized when the average member country that has been using Fund resources returns to surveillance-only status.

[15] The estimate of 35 staff years comprises increases of some 25 and 15 staff years for surveillance and technical assistance needs, respectively, offset slightly by reductions of 5 staff years for work in the use of Fund resources and other work categories.

carefully consider what activities can be postponed, reduced or even eliminated to provide resources for redeployment.[16]

B. Possibilities for Redeployment

71. An integral component of the consolidated budget strategy that has been in place for the last four years has been the policy of redeploying staff positions from lower to higher priority activities. In total, 95 staff years have been redeployed since FY 1995; most of these have come from transferring vacant positions from low priority to high priority activities and filling these positions with staff that have the necessary skills.[17] The policy of redeployment has worked well and, given the need to meet new demands, will continue to be an important component of our budgeting policies in the next few years. However, it will not be necessary to redeploy resources to meet all of the estimated shortfall. Some staff savings will be generated from two initiatives that are under way or proposed for the coming three years—the impact that the newly instituted program of information technology will have on our front-line operations, and the proposed increase in the budget to replace less productive staff.

72. The rapid advances in IT during the past few years have created an environment that provides the Fund with significant opportunities for improving the way we conduct our work, both inside and outside the institution. The possibilities offered by the World Wide Web (WWW) for the more efficient collection and dissemination of information are significant. While it is clear that it will be necessary to continue the face-to-face consultations with member countries—especially those that require frequent Fund advice—the rapidly growing availability of economic and financial information from our members will impact the way we conduct our future business with members. The IT strategy includes funding for developing the use of the WWW, as well as for improving our ongoing work in the areas of data access and sharing, and document production and management (including electronic storage, retrieval and dissemination). These initiatives will provide useful productivity gains in front-line activities as they become fully operational in the next two or three years. These gains will occur in several ways. First, it should be possible to eliminate the odd position where the need for a particular skill is no longer required as a result of the new technology. Second, some overall increase in efficiency is likely to result from the transfer of some responsibilities (such as data collection, manipulation, and analysis) from the economist staff to the research officer/assistant staff. And finally, the new technologies will reduce the time needed to

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[16]Of immediate concern is the recent increase in the number of economists resigning from the Fund to join private sector financial firms. A total of 20 economists have left in 1997 which is well above the 8 economists who resigned in 1996. The resigning staff, nearly all of whom were among the Fund's strongest performers, will take some time to replace, particularly when viewed from the perspective of the loss of intellectual capital.

[17]It has been necessary to replace a limited number of staff who did not have the capacity to learn new skills.

undertake a number of central activities which will then provide resources to undertake additional responsibilities. In total, it should be possible to find some 10-12 staff years for redeployment during the next three years at a total savings of some $3.7 million over this period. These savings would then be used by the departments to meet the increased work load or be redeployed to offset the need for staff in other areas.

73. A second initiative to increase overall staff efficiency will come from my proposal to increase the size of the Separation Benefits Fund (SBF) budget. This proposal was discussed and endorsed by the Committee on the Budget during the meeting of December 11, 1997. As outlined in GA0 16, the SBF is used to make mandatory payments in cases of the abolition of positions or serious illness without access to a disability pension, and to provide financial inducements for the voluntary separation of staff because of skills obsolescence, health concerns, weakening performance, or for humanitarian reasons. Each year, the administrative budget provides some $2 million for the separation of some 20-30 staff members under this policy. During each of the next three years, it is planned to double the budgeted amount to $4 million which will allow a substantial increase in the voluntary separation of staff members. Replacing these staff will improve overall efficiency and permit the redeployment of up to 8 staff positions over the next three years to other high priority, mainly front-line demands. Increasing the number of voluntary retirements will also assist in our effort to renew the Fund's skills base by maintaining a flow of recruits with new ideas and perspectives, and by providing increased promotional possibilities.

74. Taken together, the IT and SBF initiatives are expected to provide some 20 staff years for redeployment Fund-wide; these gains would reduce the estimated gross shortfall of 35 staff years to a net shortfall of some 15 staff years.

C. Staffing Options

75. Management has considered three medium-term staffing options.

76. The **first option** would be to meet the net shortfall in full by increasing the staff ceiling by some 15 staff years over the next three years. Adding staff of this magnitude, three fourths of which would be required in FY 1999 with the remainder in FY 2000, would cost $7.7 million over three years and increase the FY 2001 budget by some $2.8 million. The need for redeployment of staff among activities would be relatively low.

77. The **second option** would be to meet the immediate work pressures by increasing the size of the staff in FY 1999 by some 7 positions, but then downsize by 5 positions in each of the following two years. This would result in an overall reduction in the staff ceiling by 3 staff years by FY 2001 and would be achieved by reducing further the share of resources allocated to support functions. The additional cost of implementing Option 2 would be just over $1 million over the next three years. This option would require redeployment of several staff positions.

78. The **third option** would be to continue implementing the medium-term strategy as originally planned by downsizing the staff ceiling by 5 positions in FY 1999 and by 10 positions in FY 2000. No further decrease in the ceiling would be planned for FY 2001.[18] This option would reduce the current ceiling by 15 staff years by FY 2001. These reductions would save some $5.9 million over the next three years and would reduce the FY 2001 administrative budget by $2.8 million. The savings of 12 staff positions (the difference between Options 2 and 3) would be achieved by foregoing the planned increase in internal technical assistance resources. The redeployment of a number of staff positions would also be necessary.

79. Table 4 provides a summary of the three options.

Table 4. Authorized Staff Ceiling, FY 1998-FY 2001

(In staff years)

Fiscal year	Option 1	Option 2	Option 3
FY 1998	2,681	2,681	2,681
FY 1999	2,692	2,688	2,676
FY 2000	2,696	2,683	2,666
FY 2001	2,696	2,678	2,666

[18]Option 3, included in the staff paper discussed by the Committee on the Budget on December 11 (EB/CB/97/4, 12/5/97), proposed that the reduction of 15 staff positions be postponed by one year—rather than downsize the ceiling by 5 staff years in FY 1999 and by 10 staff years in FY 2000, the ceiling would remain unchanged in FY 1999 and then be reduced by 5 staff years in FY 2000 and by 10 staff years in FY 2001. However, it was agreed at the meeting that it would be preferable to include last year's staffing proposal as one of the options for consideration by the Board. Option 3 above has therefore been amended and is identical to last year's tentative proposal.

80. There is no doubt that Option 1 would be easy to implement in that it would provide a small but welcome reduction in the pressure now facing a large number of the staff. Adding 15 staff years over the medium term would also reduce the need to identify activities to be eliminated or reduced in scope. However, implementing Option 1 would be relatively expensive in dollar terms and would reverse the policy of budgetary consolidation now in place. I also considered Option 3 which would keep in place the tentative proposal made a year ago to downsize the staff ceiling by 15 positions over the next three years. As noted earlier, this approach would probably require foregoing the planned increase in technical assistance resources that will be needed to meet some of the excess demand that already exists for Fund support. It is anticipated that the demand for such assistance from our members will accelerate in the next year or so as we strengthen further our surveillance efforts, and that this acceleration will more than match any increase that will come from the fuller utilization of the existing technical assistance budget. Given that the Fund is operating with very little, if any spare capacity and that the prospects for any significant reduction in the work load is unlikely in the near term, proceeding with Option 3 would, in my view, be imprudent. I therefore proposed the implementation of Option 2; namely, a temporary increase in the staff ceiling in FY 1999 followed by small decreases in each of the next two years (see Table 5).

81. Implementing Option 2 would provide the necessary staff resources to support the increased surveillance and technical assistance programs through the addition of several new positions in FY 1999, and through the redeployment of a small number of positions that

Table 5. Administrative Budget, FY 1998-FY 2001
(In staff years)

	Authorized Staffing	Effective Staffing			
Financial Year	Fund Staff	Fund Staff 1/	Externally Financed Experts and Overhead Resources	Total	Executive Directors and their Staff
1998 (est.)	2,681	2,581	122	2,703	235
1999 (proj.)	2,688	2,588	122	2,710	235
2000 (proj.)	2,683	2,583	122	2,705	235
2001 (proj.)	2,678	2,578	122	2,700	235

1/ Assumes that the vacancy rate for the medium term remains constant at the estimated FY 1998 level.

Note: Totals may not add due to rounding.

would become available through efficiency gains from the IT initiative, from the doubling of the SBF, and from the proposed reduction in the number of staff working in support activities. The policy of reducing the share of total resources allocated to support activities and redeploying these staff years to front-line activities has been in place for several years. A decade ago, nearly 40 percent of total resources were allocated to activities undertaken by the information, liaison and support departments; by FY 1998 this percentage is expected to decline to about 30 percent, while the percentage of staff working in the area, and functional and special service departments will reach 70 percent of total resources. Table 6 provides the percentage of effective staffing allocated by organizational units for the last seven years. The proposed redeployment of a further 20 staff years from these activities during the next three years will require a small reduction in the level of support now provided to the institution. However, the impact of these slightly reduced service levels should be mitigated somewhat by streamlining and implementing work practice changes. The precise areas of reduced support

Table 6. Effective Staffing by Type of Organizational Unit, FY 1992-FY 1998
(Percent of total effective staffing) 1/

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998 Est.
Area departments	24.9	26.1	27.8	27.9	28.3	28.5	27.8
Functional and special service departments 2/ 3/	38.5	40.2	40.6	41.2	41.6	41.1	42.1
Information, liaison, and support departments, and other staffing 3/ 4/	36.6	33.7	31.6	30.9	30.1	30.4	30.1
Total effective staffing	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Excludes Offices of Executive Directors, summer interns and special appointees, and vendor-supplied resources.
2/ Includes externally financed experts.
3/ Includes externally financed technical assistance overhead resources.
4/ Includes the Office of the Managing Director.

will be considered during the next three months, and included in my statement on the FY 1999 Administrative and Capital Budgets that will be circulated to the Executive Board at the end of March 1998. During this intervening period, the proposals made by a number of Directors during the past year to reduce costs and save resources will also be carefully considered.

82. During the Committee on the Budget discussion on December 11, speakers recognized the significant increase in the intensity of the work during the last few months, and there was broad support for Option 2 which was seen as a reasonable compromise in the circumstances. Indeed, several speakers indicated support for Option 1. No speakers indicated support for Option 3 although there were two or three chairs who did not indicate a preference for any option. There were also a few speakers who noted that it would have been useful if the paper included the implications for the institution of a reduction in staff in FY 1999, although these chairs did not actually propose such a reduction.

83. The meeting also supported my proposal to double the size of the SBF and agreed that the policy of redeployment now in place should be continued. A number of speakers suggested that reducing the current vacancy level could provide additional staffing resources without the need to change the authorized ceiling—however, it was noted that the current vacancy rate is quite low historically, and that little if any further reduction was likely given the policies now in place to fill vacancies internally, and the need to recruit a large majority of the staff from overseas. As already noted, we have also seen a sharp increase this year in the number of well qualified staff resigning to join private financial organizations.

84. After reconsidering further the current and prospective work load facing the institution, I continue to believe that downsizing the authorized staff ceiling in FY 1999 would increase the burden now faced by the staff, management and the Executive Board, and would almost certainly lead to a further rise in work pressures and a reduction in the level and quality of service to our members. I therefore continue to support the implementation of Option 2. However, should the current work load associated with the Asian crisis continue to escalate during the near term, management will need to consider increasing the number of staff assigned to this area—there is only so much that the staff working on this critical issue can do.

85. In considering these options, Directors need to be aware that the volume of unpaid overtime for the first half of this financial year remained at relatively high levels in many departments, particularly for the senior staff. Although the data are not available for the last few weeks, there is no doubt that the level of unpaid overtime has increased during the last month or two, particularly for those staff working on Asia. As I noted in my seasons greetings on December 19, the institution is overstretched at this moment and we have probably crossed the line and asked too much of many of the staff in recent weeks. We will need to make sure that this point remains high on our agenda in the new year. In this context, there will be an opportunity to review the situation, and to see if Option 2 is still viable, during the next three months as the FY 1999 budget proposals are prepared. I am aware of the view of some Directors that the medium-term staffing proposals once set should remain in place and that the staffing proposals for the outer years should not be amended in subsequent medium-term reviews. While understanding this view, I continue to believe, particularly in the current situation, that it is more prudent to make the final staffing decision for these outer years in

subsequent medium-term reviews when we have a better view of the likely work load for those years.

86. There will still be occasions when the short-term demands of the day require additional efforts. This is to be expected in an organization such as ours. What we must avoid at all costs is allowing these short periods of intensive effort to become a year-round requirement with the inevitable erosion of intellectual capital. This will require constant monitoring of work pressures by management and will entail the full support of the Executive Board in order to meet the essential needs of the membership without recourse to increased resources.

D. Budget Implementation

87. As noted at the beginning of this statement, the medium-term budgetary outlook exercise provides the opportunity for management and the Executive Board to consider the prospective work program for the next three years, the priorities that will need to be attached to the various work activities, and the likely resource needs that will be required. In this context. I would welcome the views of Executive Directors on my final assessment of the prospective work load, its priorities, and the proposed staffing solutions. Following Executive Board consideration of this statement on January 14, 1998, the Office of Budget and Planning will work with management and the organizational units to prepare the FY 1999 budgets, including a determination of the most appropriate staffing levels for each work activity and unit. The need to redeploy staff among activities (and among units) will also be included in this review. A detailed administrative and capital budget paper for FY 1999 will be prepared for Directors' consideration in April 1998.

88. Table 7 provides a preliminary estimate of the likely distribution of staff resources (Option 2) by work category in the medium term including the proposed redeployment of staff. Details of these transfers, and of the impact that this redeployment will have on the work of the Fund, will be incorporated in the FY 1999 budget proposal. During the recent discussion by the Committee on the Budget, some speakers noted that the proposed staffing changes (including redeployments) were relatively small when compared to the overall Fund staff resource base. However, these changes will be implemented at the business unit level which, for some smaller units, could mean a substantial reduction in available resources.

Table 7. Effective Staff Resources by Activity, FY 1998-FY 2001 1/
(In staff years)

	Estimated Outturn	Projected		
	FY 1998	FY 1999	FY 2000	FY 2001
Surveillance	575	584	589	591
Use of Fund resources	480	480	478	473
Technical assistance	352	354	358	363
External relations	78	78	78	78
Administrative support	411	406	395	388
Supervision and training	317	318	318	318
Paid leave	436	436	435	435
Board of Governors and Executive Board - staff support	54	54	54	54
Total	2,703	2,710	2,705	2,700

1/ Includes resources financed from external sources.

VII. DOLLAR EXPENSES

89. The **administrative budget** approved for FY 1998 is $503.7 million, which is $13.2 million or 2.7 percent above the FY 1997 budget of $490.5 million. The actual outturn for FY 1997 was $471.6 million as reported to the Executive Board in EBAP/97/58, 6/27/97. The six-month review of FY 1998 administrative expenses was completed recently and circulated to the Executive Board on December 17, 1997 (EBAP/97/121). As noted in that paper, it is estimated that actual expenses for FY 1998 will be some $489.4 million and within the approved budget. A more reliable estimate of the likely outturn for this year will be made at the nine-month review that will begin next February and incorporated in the FY 1999 budget proposals.

90. During last year's discussions, some Directors noted the importance of establishing a baseline for the analysis of expenditure trends given the impact of cyclical expenses (such as the Annual Meetings), and other costs that can fluctuate significantly from year to year due largely to external factors (e.g., the Fund's contribution to the SRP). As I noted last year

(EBAP/96/132, Supplement 1, 1/15/97), I believe that budget transparency is best served by including all expenses above the baseline while highlighting separately the impact on the bottom line of those expenses that fluctuate significantly from year to year. In keeping with this policy, the projections provided in Table 8 and in Tables 13 and 15 in Appendix IV have been presented to show the likely cost levels for all expenses including, and excluding, the cost of the Annual Meetings and the Fund's contribution to the SRP.

91. Before turning to the projections themselves, there are two issues that I would like to bring to the attention of Executive Directors. These are the FY 1999 salary increase and the Fund's contribution to the Staff Retirement Plan.

92. Regarding the **FY 1999 salary increase**, Directors will recall that the scheduling of the medium-term budgetary outlook discussion a year ago was delayed by a month in order to allow the incorporation of information on the salary adjustment for the coming year. In this regard, the Fund's compensation consultant, Hay Management Consultants (Hay), has developed very preliminary estimates of the net increase in direct compensation in each survey country (the U.S., France and Germany). As was the case last year, Hay has noted that the estimates are not based on specific 1998 survey data; rather, they are based on overall compensation data projections and the assumption that there would be no change in taxation from last year to this year. Hay has also reiterated that the data available at this time are rough indicators and that the final survey results may fall outside the ranges for each country. On this basis, these estimates are necessarily preliminary.

93. Assuming that the full Survey results confirm the current estimates, staff expect that U.S. market movements would indicate a structural increase in the range of 3.5 to 4.5 percent. As in the past, average salaries have declined relative to salary range midpoints as the result of the departure of higher paid staff and the recruitment of replacements lower down the scale. Reflecting recent years' experience, the FY 1999 budget will incorporate an adjustment to bring the comparatio back to 100 as of May 1, 1998. Taking into account the estimated decline in average salaries during FY 1999, the likely year-to-year increases in average annual salaries is in the 4.0-5.0 percent range. For the final years of the projection period, FY 2000 and FY 2001, similar increases have been assumed.

94. The Fund's **Staff Retirement Plan** is a "defined benefit plan," which is based on contributions from both participants (set at 7 percent of their pensionable gross salaries) and the Fund. The Fund is obligated to contribute the balance that is needed to ensure that the benefits defined under the Plan can be paid. Based on actuarial assumptions that the Pension Committee approves every five years, the actuary performs an actuarial valuation of the Plan each year and determines the level of the Fund's contributions that will be applicable under the next administrative budget.[19]

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[19]To underscore the special character of the Fund's annual contribution, the contribution

(continued...)

95. The strong performance of the SRP asset portfolio substantially reduced the Fund's contribution to the Plan for FY 1998. The actuarially determined contribution rate was 0.05 percent of gross pensionable salaries which would have required a Fund contribution of some $30 million less than the contribution of the previous year. Faced with a unique situation where the Fund's contribution would have been negligible, and cognizant of the impact of large variations in the Fund's contribution to the SRP on the overall budget, a number of Directors suggested that it was important to consider adopting an approach that would reduce the impact of such variations on the administrative budget. It was agreed that a paper on possible methods to achieve this should be prepared.[20] In the interim, the Board approved a one-time SRP payment of some $15 million in FY 1998.[21]

96. The results of the most recent actuarial valuation of the Plan for FY 1999, based upon the current funding methodology, are now available. The actuary has reported that the Fund's contribution rate for FY 1999 would be zero given the further sizable increase in the valuation of the Fund's portfolio of assets—the total was some $2.6 billion as of the end of April 30, 1997. On this basis, the FY 1999 contribution will be the lowest since the current funding approach was adopted in the late 1970s. By comparison, the average contribution rate was about 22 percent for the last 20 years and about 8 percent for the last 5 years.

97. The SRP contribution rate for FY 2000 will depend on the portfolio's performance for the period May 1, 1997 through April 30, 1998. Given the recent turbulence in financial markets, it is difficult to reach any firm conclusion on the rate for FY 2000 or for the following year. Nevertheless, the required rate of contribution could well revert to more normal levels in the next few years. This may be a gradual process or it could involve a sharp increase if asset values were to decline significantly. Some of the possible changes in methodology outlined in the paper noted above could, if adopted, also result in changes in the size of the Fund's contribution. In the interim, the projections assume that the notional 5 percent contribution rate will be continued for the next three years.

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[19](...continued)
calculated by the actuary is put into effect automatically unless the Pension Committee makes a proposal to the Executive Board for a different level of contribution.

[20]A paper (RP/CP/97/6, 8/8/97) has subsequently been prepared.

[21]This represents a contribution rate of about 5 percent and has been treated in the Fund's accounts as a prepayment.

98. To provide Directors with an estimate of the likely level of **administrative expenses** for the period FY 1999-FY 2001 for Option 2, a number of expenditure assumptions have been adopted. The more significant of these are listed in Box 6 below.

Box 6. Medium-Term Expenditure Assumptions

- The authorized staffing level will be increased by 7 staff years in FY 1999, then reduced by 5 staff years in FY 2000, and by another 5 staff years in FY 2001.
- The Fund's contribution to the SRP will remain at the FY 1998 contribution rate of 5 percent of pensionable gross salaries in the absence of any changes in the current Plan methodology.
- A notional increase in the range of 4.0-5.0 percent has been assumed for salaries and related personnel expenses in each year. A more detailed explanation is contained in paragraphs 92 and 93.
- The size of the resident representative program will increase slightly during the next three years.
- The new Singapore Regional Training Institute will become fully functional at the beginning of FY 1999.
- The budget for the Separation Benefit Fund (SBF) will be doubled. No major changes are assumed for other Fund benefits during this period.
- A nominal 2.5 percent inflation increase has been assumed for non-salary and related personnel expenses.
- The ongoing implementation of the IT investment program will continue and will require a small increase in resources in FY 1999.
- Savings in building leases will be realized in FY 1999 and FY 2000 following the completion of Phase III, and the closing of office space at K Street, and part of International Square.
- The Annual Meetings will be held in Washington in FY 1999 and FY 2000, and abroad in FY 2001.

99. Using these assumptions, preliminary projections for the next three years (Option 2) are shown in Table 8. An estimate of the cost of Options 1 and 3, along with the corresponding allocation of resources, are shown in Appendix IV.

Table 8. Administrative Expenses, FY 1998-FY 2001 1/

(In millions of U.S. dollars)

	Budget	Projected		
	FY 1998	FY 1999	FY 2000	FY 2001
Salaries and related personnel costs	339	356 - 359	370 - 380	385 - 394
Staff Retirement Plan (SRP)	16	17	18	18
Annual Meetings (AM)	9	4	4	8
Other costs	181	188	190	196
Total expenses	545	565 - 568	582 - 592	607 - 616
Reimbursements	-41	-42	-42	-44
Total	504	523 - 526	539 - 549	563 - 572
Annual percentage change (averages)				
Administrative budget				
Nominal		4.1	3.7	4.3
Real (CPI)		1.1	0.8	1.4
Real (Fund basket)		0.0	-0.3	0.5
Administrative budget excluding SRP and AM				
Nominal		5.1	3.7	3.7
Real (CPI)		2.2	0.8	0.8
Real (Fund basket)		1.0	-0.3	-0.1

1/ The FY 1997 budget totaled $490.5 million while the actual outturn was $471.6 million.

100. Administrative expenses in **FY 1999** are expected to be within the range of \$523–\$526 million, which is some 4.1 percent higher (using the midpoint of the range) in nominal terms (or, in real terms, 1.1 percent based on the CPI or relatively flat using the Fund basket) when compared with this year's budget of \$503.7 million.[22] In addition to the increase of 7 staff positions, the estimate also includes an allowance for increases in salary and related costs as well as price increases for other expenses. Provision has also been made for the cost of the new Singapore Regional Training Institute (slightly below \$2 million), for the proposed increase of \$2 million in the SBF, and for the full cost of *Finance and Development*. As discussed earlier, the Fund's contribution to the SRP is based on a notional 5 percent contribution rate. Offsetting these increases are some reductions in the costs associated with the Annual Meetings (which will be held in Washington next year), and reductions in building occupancy costs due primarily to the planned consolidation of office space within the headquarters and International Square buildings. The completion of Phase III, which will allow a net reduction in permanent leased space by some 180,000 square feet once all office moves have been completed, will result in a savings of some \$1.6 million in FY 1999.

101. Administrative expenses in **FY 2000** are estimated to be in the range of \$539–\$549 million, which represents an increase of some 3.7 percent nominally (or, in real terms, 0.8 percent based on the CPI or relatively flat using the Fund basket) over the FY 1999 projected levels.[23] Most of the increase is on account of likely salary and other expenses, but some further savings (\$3.8 million) will result due to the full-year impact of the reduction in leased space. A reduction of 5 staff positions is also included. For the Fund's SRP contribution, the continuation of a notional 5 percent annual contribution rate is assumed.

102. Based on current indications, administrative expenses will likely increase to some \$563-\$572 million in **FY 2001** which would represent a 4.3 percent nominal increase (or, in real terms, about 1.4 percent based on the CPI or about 0.5 percent based on the Fund basket) relative to FY 2000.[24] The assumptions for FY 2001 are broadly comparable to FY 2000, with the exception that the additional costs of the FY 2001 Annual Meetings in Europe have been

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[22] Administrative budget estimates for FY 1999, excluding expenses for the SRP and the Annual Meetings, represent an increase over the FY 1998 budget by some 5.1 percent nominally which is 2.2 percent in real terms based on the CPI or 1.0 percent based on the Fund basket.

[23]Administrative budget estimates for FY 2000, excluding the SRP and Annual Meetings, represent an increase over the FY 1999 projection of 3.7 percent nominally or in real terms, 0.8 percent based on the CPI or relatively flat using the Fund basket.

[24]Administrative budget estimates for FY 2001, excluding the SRP and Annual Meetings, represent an increase over the FY 2000 estimate by some 3.7 percent nominally or, in real terms, 0.8 percent based on the CPI and relatively flat based on the Fund basket.

incorporated. The estimates allow for a further reduction of 5 staff positions. As in previous years, the SRP contribution assumes a continuation of a notional 5 percent SRP contribution rate.

VIII. CAPITAL BUDGET PROPOSALS

103. The capital budget is a multiyear dollar-based project budget that provides funding for building construction; major building improvements, major renovations or repairs; bulk acquisitions of EDP and other equipment; and similar investments that cost $100,000 or more. This section outlines the capital budget outlook for the next five years, including preliminary funding estimates for FY 1999.

104. The estimates discussed in this section have been consolidated from rolling five-year capital investment plans prepared by the Administration Department for building facilities, and by the Bureau of Computing Services for EDP equipment. These plans include proposals in the information technology five-year strategic plan. The broad objectives that underpin the capital investment planning exercise include: (i) substituting less expensive owned office space in place of more expensive commercial leased space; (ii) maintaining and upgrading of building and equipment assets; (iii) encouraging departmental initiatives that support work programs while generating productivity improvements, cost savings and, where possible, reductions in staffing levels; and (iv) providing for IT investments that will keep the Fund's technology up to date, thereby optimizing productivity and work practice improvements.

105. The prior capital budget plan of $178 million for the period FY 1998–FY 2002 was discussed by the Executive Board in April 1997 (see Table 9).[25] The preliminary estimates for the updated FY 1999–FY 2003 plan is $170 million, of which the FY 1999 funding is $14 million.

106. The updated plans for FY 1999 of $14 million include $6 million in building facilities and $8 million in EDP equipment. The building facilities budget includes preliminary estimates for five ongoing projects including part 4 of the sprinkler systems retrofit in Phases I and II ($2 million), life-cycle replacement of copiers and document printing equipment ($3 million), part 2 of the carpet replacement project ($0.2 million), and other projects ($1 million). The plan also includes a new project ($0.2 million) for a study on furniture replacement. The EDP equipment plan includes funding proposals for five ongoing projects to expand and upgrade the stock of microcomputers, as well as to expand or upgrade the equipment required for the Fund network infrastructure and applications.

[25] EBAP/97/32, 4/1/97.

Table 9. Five-Year Capital Investment Plans, FY 1998-FY 2003 1/
(In millions of U.S. dollars)

	Financial Year						
	1998	1999	2000	2001	2002	2003	Total
Current plan: 2/	Five-Year Plan						
Building facilities 3/	19	11	10	8	5	n.a.	53
EDP equipment 3/	8	7	9	13	7	n.a.	44
Phase III fit-out	15	0	0	0	0	n.a.	15
Phase IV 4/	0	0	1	65	0	n.a.	66
Total	43	18	19	86	12	n.a.	178
Updated plan - preliminary estimates:		Five-Year Plan					
Building facilities 3/	n.a.	6	18	13	9	11	57
EDP equipment 3/	n.a.	8	11	8	8	10	45
Phase IV 4/	n.a.	0	7	61	0	0	68
Total	n.a.	14	36	82	17	21	170

1/ Totals may not add due to rounding.

2/ EBAP/97/32, 4/1/97.

3/ Includes information technology/work practice improvements based on the five-year IT strategic plan.

4/ Phase IV plan is dependent upon early tennant departure and termination of the PEPCO lease.

107. These preliminary planning estimates may change somewhat as the individual project plans and schedules are further developed over the next few months. Following the Executive Board discussion in January, along with further evaluations of the individual project proposals, the capital budget funding request for FY 1999 will be finalized and included in my budget proposal that will be issued by April 1, 1998.

108. For the period FY 2000–FY 2003, the tentative capital budget plans include the renovation of Phase IV,[26] continuation of the sprinkler systems project for Phases I and II, ongoing furniture and carpet replacement, life-cycle replacement of copiers and electronic

[26] Phase IV is the recently acquired building currently occupied by PEPCO under a lease which expires in March 2002.

printers, replacement of headquarters boilers, upgrades to the sound system and interpretation booths in the Executive Board room, replacement of air conditioner terminal units and a number of other projects. The furniture replacement project, potentially costing some $23 million over six years will be formally evaluated subsequent to the FY 1999 study and more accurate estimates of the cost of this project should be available next year. The updated plan also includes ongoing EDP programs for acquiring and replacing computers and other EDP equipment as they reach the end of their useful life. The planning estimates are tentative, in particular the Phase IV renovation estimate, which is dependent in part on the timing of PEPCO's departure. Appendix V provides a summary of approved funding, disbursement history and funding projections for the two major building projects (Phases III and IV).[27]

109. The estimated disbursements for capital projects that were approved in FY 1997 and prior years are shown in Table 10. Capital disbursements can vary significantly from year to year, and the projections included in this table are preliminary. The disbursement estimates will be refined during the nine-month budget review process, and included in the FY 1999 budget document. (Additional information on the status of approved capital projects is provided in the midyear review of expenditures (EBAP/97/121, 12/17/97).

[27] Phase III is the extension to the headquarters building.

Table 10. Summary of Capital Project Disbursements, FY 1989–FY 1997

(In millions of U.S. dollars)

Capital Budget Year	Budget	Financial Year 1989	1990	1991	1992	1993	1994	1995	1996	1997	Total
1989	35.8	1.5	17.4	1.9	1.8	4.5	6.3	2.1	0.1	0.0	35.5
1990	8.0	n.a.	0.7	3.7	1.1	0.2	0.0	0.0	0.0	0.0	5.8
1991	5.7	n.a.	n.a.	1.9	1.6	1.0	0.6	0.3	0.0	0.0	5.5
1992	41.3	n.a.	n.a.	n.a.	4.3	6.2	11.2	8.9	0.2	0.6	31.4
1993	9.1	n.a.	n.a.	n.a.	n.a.	5.7	1.8	1.3	0.0	0.0	8.7
1994	124.8	n.a.	n.a.	n.a.	n.a.	n.a.	6.0	12.5	21.2	37.5	77.2
1995	17.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.8	5.2	2.9	15.9
1996	152.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.1	101.7	109.8
1997	20.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.9	8.9
Total	387.4	1.5	18.1	7.5	8.8	17.6	26.0	32.9	34.8	151.6	298.7

Note: Totals may not add due to rounding. Additional information is provided in the midyear review of expenditures.

IX. BUDGET PROCESS IMPROVEMENTS

110. As I noted earlier, there has been an ongoing effort by management, the staff, and Executive Directors to improve the Fund's budgeting procedures during the past few years. These changes to the budgetary process brought about in recent years relate, among other things, to (i) the adoption of a rolling medium-term budgetary framework, (ii) the introduction in FY 1993 of a Fund-wide Budget Reporting System (BRS), (iii) the revision to the original classification of work program activities, and (iv) an extension of devolved budgeting.[28]

111. Last year, at the request of the Committee, a change in the medium-term budget schedule was implemented in order to improve the synchronization of the annual staff compensation review and the medium-term budgetary outlook exercise (EB/CB/96/4, 6/12/96). Under the revised schedule, the medium-term budgetary outlook discussion was moved from December to January, and the latest available estimate of the likely salary increase for the following financial year was included in the budget projections. Additional information on the change outlined above is summarized in EB/CB/97/2, 7/7/97.

112. More recently, at the meetings of the Committee on the Budget in July and October 1997, a request was made to modify the procedure to provide an earlier opportunity for Directors to express their views on the work priorities.[29] As proposed, the Committee would meet in the first quarter of the financial year to discuss the broad priorities for the next medium-term exercise that would begin following the completion of the Annual Meetings later in the year. A meeting of the Committee will be scheduled for this purpose. In this context, during the Executive Board discussion on its work program on November 5, 1997, an Executive Director mentioned the need for a separate meeting to assess the strategic priorities of the institution, outside the normal budget and Board work program discussions. As was noted by the Secretary in his summing up (BUFF/97/113), this suggestion is being considered by management and the staff—one possibility could be to take up this discussion in an informal setting.

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[28]Additional information on the annual budget cycle, and on the budget process or special topic papers prepared for the Committee on the Budget is provided in Appendices III and VII, respectively.

[29]The July 1997 meeting also reviewed a table (see Table 11) providing the distribution of FY 1996 and FY 1997 expenses by major organizational groups (Governors, Executive Directors, management, etc.).

Table 11. Distribution of Expenses by Major Organizational Groups, FY 1996 and FY 1997
(In U.S. dollars)

Organizational Unit	Expenses	FY 1996	FY 1997
Governors	Subtotal	6,418,872	5,156,911
Executive Directors	Salaries	18,494,855	18,617,214
	Benefits and allowances	7,479,728	7,235,477
	Travel	4,513,508	5,332,058
	Other	454,039	523,121
	Subtotal	30,942,130	31,707,870
Management	Salaries	2,005,564	2,020,390
	Benefits and allowances	374,023	520,776
	Travel	733,515	585,872
	Other	380,193	690,107
	Subtotal	3,493,295	3,817,145
Departments	Salaries	177,629,480	183,791,796
	Benefits and allowances	48,925,024	49,987,908
	Travel	54,588,366	54,951,414
	Communications	6,672,086	7,035,218
	Building Occupancy	33,427,366	33,974,820
	Books and Printing	7,865,020	7,829,082
	Supplies and Equipment	4,871,430	5,782,209
	Data Processing	17,299,528	18,734,065
	Miscellaneous	9,219,480	9,388,774
	Subtotal	360,497,780	371,475,286
Overseas	Salaries	10,982,548	11,222,066
	Benefits and allowances	6,601,679	6,795,197
	Travel	3,910,429	3,458,180
	Communications	1,411,346	1,447,326
	Building Occupancy	6,365,584	7,417,800
	Books and Printing	138,661	151,927
	Supplies and Equipment	2,011,848	1,755,497
	Data Processing	10,778	9,720
	Miscellaneous	1,639,761	1,280,812
	Subtotal	33,072,634	33,538,525
Common Costs	Retirement Contributions	36,521,967	28,935,742
	Medical Benefits Plan	21,543,104	25,852,600
	Other Bénefits	9,684,275	10,234,559
	Other costs	1,901,145	213,344
	Subtotal	69,650,491	65,236,245
Gross Expenditure		504,075,202	510,931,982
Reimbursements	(All organizational units)	-33,239,365	-39,368,399
Net Expenditure		470,835,837	471,563,583

X. IMPACT OF A BUDGET INCREASE ON THE RATE OF CHARGE

113. The cost of financing the Fund, including administrative and capital expenses, is borne by debtors and creditors of the Fund and is also supported in part by the Fund's own resources. The expenses included in the administrative and capital budgets, therefore, cannot be attributed to a single source of financing and cannot be attributed solely to the revenues generated by charges. However, an increase (or decrease) in the administrative budget affects the rate of charge at the margin. The precise impact of the administrative and capital budgets on the rate of charge depends on a number of factors, notably the level of market-related interest rates and more specifically the SDR interest rate, the level of outstanding use of Fund credit, members' remunerated positions, the timing of the disbursements, the U.S. dollar/SDR exchange rate, the level of reimbursements and the Fund's net income target. At the current U.S. dollar/SDR exchange rate and SDR interest rate, and the projected level of use of Fund credit, an additional expenditure of US$10 million in FY 1999 would require, at the margin and on an annual basis, an increase in the rate of charge of approximately 2 basis points, other things being equal. Under depreciation accounting, capital outlays are capitalized and depreciated over the useful lives of the assets acquired, except for land, which is not depreciated. The expenditures to acquire and renovate additional office space are capitalized and depreciated upon occupancy. The depreciation periods for building projects and equipment are 30 years and 3 to 5 years, respectively.

THE USE OF VENDORS IN THE FUND

1. Each year when approving the administrative and capital budgets, the Executive Board also approves an authorized staff ceiling consisting of regular staff members and contractual employees. Regular staff members are those employees whose terms of appointment and employment are governed by the Fund's General Administrative Orders; contractual employees are those employees whose pay and benefits are determined by the terms of their individual employment contracts with the Fund. This budget position ceiling, which is expressed in staff years, sets an overall limit that cannot be exceeded without prior approval by the Executive Board. In addition to these two types of employees, the Fund also employs vendors. These are personnel who work for companies that are under contract to provide various services but who are not themselves Fund employees. At present, several hundred vendors work in the Fund on a full-time and part-time basis providing a wide range of support.

2. The policy of using companies to provide support services has been in operation for a long time. For example, the food service operation is provided by the Marriott Corporation, the security service is contracted out to the Vance International organization, and the general management of various Fund facilities is undertaken by Carey Winston. Another larger vendor operation is the travel support services provided by American Express. The control of vendor operations is through the administrative and capital expenditure (devolved dollar) budgets. With the implementation of tighter budgets and the economies that are provided in many cases through outsourcing, the use of vendors has increased over the past several years. Nearly all of the existing vendor arrangements are in the support area and are controlled in large part by ADM and BCS.

3. In addition to using vendors to undertake entire functions, vendors are also used to provide a specialized skill for which the Fund does not have a comparative advantage. Such skills cover a specific task—the development of a software application, for example—and are generally for a unique project or an identifiable time frame. Some of these arrangements can be done off-site while others are undertaken on the Fund's premises. More recently, some vendors engaged to work on specific activities, and who have performed very well, have been retained to work on other activities that, in some cases, have led to longer term work arrangements, and ongoing services. The use of vendors will be discussed in more detail in the forthcoming paper on Employment Categories and Policy being prepared for the Board discussion in May 1998.

Information Technology Strategy Evaluation Procedures

Background

1. In recent years, the changing and growing needs of the membership have placed substantial demands on the staff and resources in the Fund. The institution's capacity to respond to these demands has continually been enhanced and facilitated through the use of information technology (IT).[30] Indeed, strengthening the IT framework is an essential component of the ongoing consolidated budgetary strategy. This has required the investment of considerable funds in the electronic data processing area as well as in communications, including external E-mail and the World Wide Web. Continued investment in IT is expected to provide the staff, management, and the Executive Board with advanced working tools and systems that will increase effectiveness and improve the institution's ability to meet the demands of members.

2. During the past few years, there has been a rapid increase in the rate of technological change in the marketplace, and the pace of change is expected to accelerate in the next few years. Given the likely costs of these changes and the many alternatives available, in mid-1995 management determined that there was a need for a Fund-wide group which would, on an ongoing basis, review IT issues and provide policy advice in this area.

3. Accordingly, in September 1995, management formed a Fund-wide Information Technology Policy Committee (ITPC) to advise on appropriate IT directions and initiatives for the Fund. As a first priority management asked the ITPC, with assistance from outside consultants, to undertake a comprehensive study of opportunities for increasing the effectiveness of the Fund's IT infrastructure and operations.[31] The study, which was completed in June 1996, recommended that the Fund's IT efforts over the next five years focus on achieving three primary goals: (i) to strive for secure anytime, anywhere online access to Fund information by management, Executive Directors and authorized staff (both at headquarters and abroad), member country authorities, and the public; (ii) to streamline the Fund's work practices to make more effective use of IT; and (iii) to improve IT decision

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[30]Information technology comprises all technology issues (computers, communications, and related technologies) associated with the acquisition, transformation, management, and dissemination of information (data, text, images, voice, and graphics including multimedia).

[31]The results of the study were summarized for the Committee on the Budget in EB/CB/96/5 (10/24/96).

making, and organize and operate the Fund's IT resources more effectively, ensuring that the Fund's IT environment reflects industry best practices.

4. To achieve these goals, the ITPC, with the assistance of the consultants, developed a five-year strategic plan for strengthening the Fund's information technology environment and operations. The plan consisted of four major programs comprising a total of 39 individual initiatives. The strategy called for the development of new application systems to improve the management and accessibility of information, the replacement of outdated applications and, more generally, a process to ensure more cost-effective use of technology by streamlining work practices, improving project management, and routinely bench marking the cost of IT services in the Fund.

5. A year ago, the incremental costs of implementing the initiatives outlined in the strategic plan were estimated to be approximately $46 million over the five-year period. At that time, it was noted that more detailed estimates would be prepared as the specific project plans began to take shape during the latter half of FY 1997 and the first half of FY 1998.

6. The five-year strategic plan, which is updated annually, has the support of Fund departments, bureaus and offices and has also been endorsed by management, who has directed the ITPC to expedite the implementation of key elements of the plan. The Committee on the Budget and the Executive Board have broadly endorsed the IT strategy as well. However, one or two Directors have requested further information regarding the costs and benefits of these initiatives with a view toward ensuring that the proposed investment in IT would yield an appropriate payback for the institution. In reviewing the evaluation procedures, it is important to recognize that the strategy consists of many smaller initiatives, and it is at this level that the evaluations are made. This paper, which seeks to respond to the concerns expressed by Directors, focuses on the individual project evaluation.

Overview of Evaluation Procedures for Cost/Benefit Analyses

7. The Fund has a long-standing policy of requiring cost/benefit analyses for all proposals for major investments in technology. In most instances, budgetary approval for a project is contingent on the realistic potential for tangible savings and a commitment on behalf of the project sponsor to a reasonable payback period.[32] The review process is summarized below.

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[32] There are some exceptional instances in which a technology investment is necessary irrespective of whether tangible savings are likely. An example of this was the migration of the Fund's operating system from DOS to Windows, which was necessary to ensure that the Fund's computing infrastructure remained current, supportable, and consistent with industry practices. Given that the software vendors were discontinuing support of the DOS versions of

(continued...)

8. The IT investment approval process begins with the development (normally jointly) of a detailed project proposal by the user department(s) and the technical support experts. The project sponsors then submit the proposal to the ITPC for a review in the context of the IT strategic plan. The ITPC considers the relative priority of the project in terms of the overall IT strategy as well as the other initiatives that have been submitted and are competing for limited budgetary resources.

9. If the ITPC endorses the proposal, a more detailed project description is then submitted to the Office of Budget and Planning (OBP) for further review from the budgetary perspective.[33] OBP conducts an evaluation of the proposal to assess the overall soundness of the approach and, particularly, to consider whether there is justification for proceeding with the project in terms of the costs and the benefits. The validity of the time and cost estimates are verified by any of a number of methods including:

- Investigations into the experience of other organizations who have undertaken similar efforts
- Reviews of the actual costs of comparable projects completed in the Fund in recent years
- Research of the published literature to obtain anecdotal cost information for similar projects in industry
- Solicitation of expert advice from consultants who monitor IT in organizations or who have assisted in the implementation of comparable efforts.

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[32](...continued)
their applications and were no longer marketing them, the migration to a Windows operating system was essential. In this case, the minimization of risk to the Fund's information infrastructure and necessary updating of the operating environment served as the primary justification for investment rather than hard savings.

[33] Reviews are also conducted by (i) the Bureau of Computing Services, to ensure that the proposed project is technically sound and consistent with the Fund's technology infrastructure and strategy, and (ii) the Work Practices Section, Office of Internal Audit and Inspection, to ensure that the project proposal includes an appropriate work practice review and a plan to streamline work practices in conjunction with the introduction of the new technology. This discussion is intentionally focused on the budgetary review component of the evaluation process.

10. Benefits are analyzed in detail, and usually fall into three categories: (i) intangible, or qualitative, benefits which cannot easily be quantified; (ii) cost avoidance—i.e. the ability to absorb additional work or to meet more complex requirements without additional resources; and (iii) cost savings—i.e., the ability to perform the work with reduced staff and/or lower direct costs. The payback period is calculated in terms of the period of time that it takes for the savings to offset the costs. For small and medium-sized projects, a payback of no more than three years would need to be demonstrated and, in the case of very large systems which are expected to be in place for long periods of time, a payback of six to seven years would be considered reasonable. In the case of large projects, a net present value calculation of the payback is also included in the analysis. OBP looks for quantitative, measurable, redeployable savings and will often go back to the sponsor with a request for greater savings (often in terms of a commitment to further staff reductions) and/or lower investment costs.

Return on Investment from Information Technology Initiatives

11. Technological change is currently driven by two principal factors: (i) strategic requirements resulting from the rapid rate of technological obsolescence (such as the need to replace the disk operating system (DOS) with Windows 3.1 and subsequently Windows 95); and (ii) efforts to improve the productivity and efficiency of IT users (e.g., provision of on-line access to data and information through the Internet). These factors necessitate technology changes that will yield increases in productivity at various levels of the organization. Gains achieved through the replacement of a specific application tend to be easily identified at the business unit level (e.g., the development of PATS results in resource savings to the Institute). However, large institution-wide projects (e.g., the planned improvements in documents production and data sharing) are more likely to provide small efficiencies to a large number of staff resulting in substantial productivity gains at the institutional level.[34] These Fund-wide benefits can be difficult to measure but, nevertheless, in the aggregate represent a significant and tangible increase in the overall capacity of the institution to meet its growing work load.

12. The following two examples demonstrate that the existing evaluation process has been successful in ensuring that IT investments yield significant savings. In the Graphics Section of ADM, an investment of about $2.5 million to replace the offset printing facilities with electronic printing technology produced savings of 7 staff years, and the elimination of 3-4 staff years of overtime annually which resulted in a payback period of some 5 years. The new technology increased the capacity of the Fund's printing facilities and, at the same time, enabled the plant to operate with a reduced workforce (9 staff as opposed to 16). Another

[34]For example, the introduction of Windows 3.1 simplified the processes of loading software and moving between applications, saving most staff members several minutes per day. On a Fund-wide basis, this translates into substantial savings although these may be much smaller at the business unit level.

example is the Bank-Fund Joint Library, which is now in the final stages of replacing of its outdated systems with a state-of-the-art integrated library management system. This investment of $1.3 million will ultimately result in savings of 10 staff years, when fully implemented, and will pay for itself in 3.3 years.

13. The individual projects that comprise the IT strategic plan are largely in the planning stages at this point in time, and the costs are being formulated on the basis of requirements that are still being refined. However, several projects have reached a more advanced stage, and their cost/benefit analyses indicate that tangible benefits are anticipated. For example, the IMF Institute Participant/Applicant Tracking System represents an investment of $700,000 and is expected to produce annual savings of 2.5 staff years for a payback of just over 5 years. Another example is the Millennium Replacement project which will replace the Fund's outdated, mainframe-based administrative financial management system with an integrated system based on the current technology and industry best practices. Two major Fund-wide IT projects that are in the earlier stages of development are the Data Sharing Architecture (DSA) and the integrated document management architecture and strategy. Preliminary analyses of costs and benefits for these projects indicate that when these projects are fully implemented they will result in significant productivity savings for staff engaged in data and document management activities, and offer opportunities for redeployment of staff resources.

14. The IT strategic plan offers significant opportunities to streamline work practices, increase staff productivity and effectiveness, and reduce or contain costs, while at the same time enhancing the Fund's capacity to serve its membership. The budgetary evaluation procedures now in place are designed to ensure that the Fund receives an appropriate return on its IT investments.

THE BUDGET CYCLE

1. The two principal documents in the budget planning and formulation cycle are the Managing Director's statement on the Budgetary Outlook in the Medium Term, and the Administrative and Capital Budgets. The first of these documents, the Budgetary Outlook in the Medium Term, incorporates a three-year administrative budget planning horizon—the forthcoming budget year and the two following years—and a five-year capital budget plan. The development of this document commences with the issuance of instructions to departments on the medium-term outlook. These instructions: (i) provide guidance to departments on the expected budgetary priorities in the medium term; (ii) solicit information on departmental work programs and associated resource requirements, including a prospective view of the coming financial year in detail and the subsequent two years in outline; (iii) request quantification of output indicators, as well as the use of staff resources by the major budget activity categories; and (iv) usually include two or more staffing resource scenarios which the departments are asked to apply when preparing their budget submissions. Future needs for resident representative posts are also solicited. For capital projects, the five-year plans identify prospective needs for replacing existing infrastructure, adding EDP equipment, or other capital budget components in the medium term.

2. The departmental submissions are received by the Office of Budget and Planning (OBP) in September. During the next two months, OBP reviews the submissions, discusses them with departments where necessary, and then prepares a summary review for management. The summary review incorporates any guidance received during and following the Annual Meetings. In December, the Managing Director issues his statement on the Budgetary Outlook in the Medium Term, which presents his views on the budgetary needs and priorities for the next three years. These proposals are considered initially by the Committee on the Budget in December, and then by the Executive Board in January. During the meetings of the Committee and the Executive Board, Directors provide management and staff with guidance in the preparation of the following year's budget proposals.

3. Preparation of the annual budget document, covering the forthcoming financial year, commences in January immediately after the medium-term budgetary outlook discussion when OBP circulates the budget instructions to departments. These instructions are based on the resource constraints indicated as a result of the medium-term outlook exercise and also provide guidance on the anticipated pricing levels to be assumed for the submissions. Departmental submissions are received by OBP in mid-February and contain updated justifications for resource requests, and any revisions to the preliminary departmental work plans that were submitted as part of the medium-term exercise. During the next several weeks, OBP reviews and evaluates the departmental submissions, and then formulates the annual administrative and capital budgets. Management's tentative budget proposals are discussed by the Committee on the Budget in March, and then the final document is circulated by the

Managing Director on or before April 1. The administrative and capital budgets are discussed and approved by the Executive Board in April, following which budget notifications are prepared and transmitted to departments.

4. In implementing the budget, a regular cycle of reviews is initiated in August with an informal first quarter review of expenditures by OBP. This review is followed in November with a more formal and extensive six-month review of expenditures, which provides the basis for both the midyear report to the Executive Board on administrative expenditures and the estimated outturn figures contained in the Medium-Term Budgetary Outlook statement. In February, a third quarter review of expenditures is undertaken in order to provide updated estimates of the budgetary outturn, and to provide a basis for preparing the following year's budget. The final step in this cycle is the preparation of the report on the actual administrative expenses for the year, which is issued for the information of the Executive Board in July.

5. Monthly reports on staffing usage and on dollar expenses and commitments are available to all departments, bureaus and offices. These reports, which are available to all organizational units electronically, provide unit managers with information on the use of regular, contractual and temporary staff resources, as well as expenses and commitments for their discretionary dollar budgets.

6. The Administrative and Capital Budget cycles are closely linked to a number of other activities, including the setting of income targets and of the Fund's rate of charge, both of which are explicitly affected to some extent by administrative expenditures. These linkages are noted in the annual budget document, as well as in the papers on the Fund's income position prepared by the Treasurer's Department. Other important activities closely linked to the budget cycle include the annual compensation survey and the ensuing overall general salary adjustment, and the annual actuarial evaluation of the Staff Retirement Plan which estimates the Fund's required annual contribution requirements. This latter evaluation is completed each August for inclusion in the budget proposal issued the following March/April. There is also a close linkage between the budget exercise and the semiannual Managing Director's Statement on the Work Program of the Executive Board issued in May and November.

Table 12. Option 1. Effective Staff Resources by Activity, FY 1998-FY 2001 1/
(In staff years)

	Est. Outturn	Projected		
	FY 1998	FY 1999	FY 2000	FY 2001
Surveillance	575	584	589	591
Use of Fund resources	480	480	478	473
Technical assistance	352	354	358	363
External relations	78	78	78	78
Administrative support	411	409	406	404
Supervision and training	317	318	318	318
Paid leave	436	437	437	437
Board of Governors and				
Executive Board - staff support	54	54	54	54
Total	2,703	2,714	2,718	2,718

1/ Includes resources financed from external sources.

Table 13. Option 1. Administrative Expenses, FY 1998-FY 2001 1/
(In millions of U.S. dollars)

	Budget	Projected		
	FY 1998	FY 1999	FY 2000	FY 2001
Salaries and related personnel costs	339	356 - 359	371 - 381	387 - 396
Staff Retirement Plan (SRP)	16	17	18	18
Annual Meetings (AM)	9	4	4	8
Other costs	181	189	191	197
Total expenses	545	566 - 569	584 - 594	610 - 619
Reimbursements	-41	-42	-43	-44
Total	504	524 - 527	541 - 551	566 - 575
Annual percentage change (averages)				
Administrative budget				
Nominal		4.2	4.0	4.5
Real (CPI)		1.3	1.1	1.6
Real (Fund basket)		0.2	0.0	0.7
Administrative budget less SRP and AM				
Nominal		5.3	4.0	3.9
Real (CPI)		2.3	1.0	1.0
Real (Fund basket)		1.2	-0.1	0.1

1/ The FY 1997 budget totaled $490.5 million while the actual outturn was $471.6 million.

Table 14. Option 3. Effective Staff Resources by Activity, FY 1998-FY 2001 1/
(In staff years)

	Est. Outturn	Projected		
	FY 1998	FY 1999	FY 2000	FY 2001
Surveillance	575	584	589	591
Use of Fund resources	480	479	478	473
Technical assistance	352	343	341	353
External relations	78	78	78	78
Administrative support	411	406	396	388
Supervision and training	317	318	318	318
Paid leave	436	436	434	433
Board of Governors and				
Executive Board - staff support	54	54	54	54
Total	2,703	2,698	2,688	2,688

1/ Includes resources financed from external sources.

Table 15. Option 3. Administrative Expenses, FY 1998-FY 2001 1/
(In millions of U.S. dollars)

	Budget	Projected		
	FY 1998	FY 1999	FY 2000	FY 2001
Salaries and related personnel costs	339	355 - 358	366 - 376	384 - 393
Staff Retirement Plan (SRP)	16	17	18	18
Annual Meetings (AM)	9	4	4	8
Other costs	181	187	188	195
Total expenses	545	563 - 566	576 - 586	605 - 614
Reimbursements	-41	-42	-43	-44
Total	504	521 - 524	533 - 543	561 - 570
Annual percentage change (averages)				
Administrative budget				
Nominal		3.7	3.0	5.1
Real (CPI)		0.8	0.1	2.1
Real (Fund basket)		-0.3	-1.0	1.2
Administrative budget less SRP and AM				
Nominal		4.7	2.9	4.5
Real (CPI)		1.8	0.0	1.6
Real (Fund basket)		0.7	-1.1	0.7

1/ The FY 1997 budget totaled $490.5 million while the actual outturn was $471.6 million.

Table 16. Capital Budget: Major Building Projects, FY 1989-FY 2003

(In millions of U.S. dollars)

	Major Building Project Budgets by Financial Year											
	Approved							Projections				
	1989-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Phase III												
Land acquisition	32	0	0	0	0	0	0	0	0	0	0	0
Design	10	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	111	0	0	0	0	0	0	0	0	0
Fit-out 1/	0	0	0	0	39	0	0	0	0	0	0	0
Phase IV												
Study	0	0	0	0	2	0	0	0	0	0	0	0
Building purchase	0	0	0	0	98	0	0	0	0	0	0	0
Planning and design	0	0	0	0	0	2	0	0	7	0	0	0
Renovation	0	0	0	0	0	0	0	0	0	61	0	0
Total	42	0	111	0	139	2	0	0	7	61	0	0
Memorandum item:												
Total disbursements	20	5	12	13	20	138	44	23	12	18	32	16

1/ The Phase III fit-out budget was approved by the Executive Board in three stages: Part I in EBAP/95/77 (9/26/95); Part II in EBAP/97/22 (3/13/97); and Part III in EBAP/97/72 (7/21/97).

COMMITTEE ON THE BUDGET PAPERS

Document Number	Document Name	Date of Meeting
EB/CB/95/1	Background Paper on the Administrative Budget Process	June 27, 1995
EB/CB/95/2	Background Paper on the Capital Planning and Budgeting Process	June 27, 1995
EB/CB/95/3	Review of the Linkages Between the Fund's Annual Budget and the Work Program of the Executive Board	June 27, 1995
EB/CB/95/4	Functional Classification of the Fund's Budget	June 27, 1995
EB/CB/95/5	Country Contributions for Technical Assistance	July 25, 1995
EB/CB/95/5 Supplement 1	Additional Information on Country Contributions for Technical Assistance	October 26, 1995
EB/CB/95/6	Revised Classification of Fund Administrative Expenditures, FY 1994-FY 1995	October 26, 1995
EB/CB/95/7	Status Report on Devolved Budgeting in the Fund	November 14, 1995
EB/CB/95/8	The Budgetary Outlook in the Medium Term	November 14, 1995
EB/CB/96/1	World Bank -- Experience with Devolved Budgeting	February 27, 1996
EB/CB/96/2	Considerations in Extended Devolved Budgeting (Dollar Budgeting) in the Fund	March 21, 1996
EB/CB/96/3	Administrative and Capital Budgets for FY 1997 -- Background Information	March 21, 1996
EB/CB/96/4	Synchronization of the Medium-Term Budgetary Outlook and the Staff Compensation Review	June 27, 1996

Document Number	Document Name	Date of Meeting
EB/CB/96/5	Information Technology -- Strategy for the Fund	November 7, 1996
EB/CB/96/6	Framework for Possible Extension of Dollar Budgeting to Selected Personnel Areas	---
EB/CB/96/7	The Budgetary Outlook in the Medium Term	December 12, 1996
EB/CB/97/1	Administrative and Capital Budgets for FY 1998 -- Background Information	March 25, 1997
EB/CB/97/2	A Review of the Fund's Budgeting Procedures	July 17, 1997
EB/CB/97/3	Priorities for the Next Medium-Term Budgetary Framework	October 28, 1997
EB/CB/97/4	The Budgetary Outlook in the Medium Term	December 11, 1997