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November 7, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Restricted Session - Administrative and Capital Budgets -
Medium-Term Outlook

Attached for the records of the Executive Directors are the final restricted minutes of the discussion of the medium-term outlook on the administrative and capital budgets in Item 1 of EBM/91/33 (3/8/91).

Att: (1)

CONFIDENTIAL

EBM/91/33/R-1 - 3/8/91

1. ADMINISTRATIVE AND CAPITAL BUDGETS - MEDIUM-TERM OUTLOOK

The Executive Directors, meeting in restricted session, considered a memorandum by the Acting Managing Director on the budgetary outlook in the medium term (EBAP/91/25, 2/15/91), and supplementary memoranda on automation (Sup. 1, 2/22/91), areas of technical assistance (Sup. 2, 2/22/91), and major specialized databases in the Fund (Sup. 3, 2/27/91), together with a memorandum on the midyear review of the Fund's administrative and capital expenses for FY 1991 (EBAP/91/31, 2/21/91), a paper on the question of a standing joint committee of Fund/Bank Executive Directors on administrative matters (EBAP/91/43, 2/28/91), and a memorandum on personnel policies and objectives (EBAP/91/46, 3/1/91).

The Managing Director made the following remarks:

The paper on the medium-term budgetary outlook covers wide-ranging and important issues concerning the future evolution of the Fund. Many of these issues no doubt will remain on our agenda for future formal and informal discussions. While inviting Directors to comment on any of the issues raised, management would welcome in particular their reactions and comments on the following five key issues, which would help management to make the final decisions concerning the FY 1992 budget.

1. Prospective demands and priorities: Directors may wish to comment on the Fund's work load activities and the priorities that the institution should focus on as outlined in Section II of the budgetary outlook paper (EBAP/91/25). In particular: (i) the consequences of growth in membership and globalization of the Fund on the work of the institution, and for a more effective multi-lateral surveillance; (ii) the rapid rise in the number of program and near program countries, and the continuing involvement of the Fund with a growing number of members, including those in arrears; (iii) the rapidly growing demands for technical assistance in support of economic reforms and also for training; and, (iv) the need to address systemic issues.

2. Resource imbalance: Do Directors accept the judgment that the evolving priorities and growing demands on the Fund have created a serious resource imbalance that is adversely affecting the staff and could, if not urgently tackled, jeopardize the quality of the Fund's work and its capacity in effectively meeting the needs of the membership?

3. Medium-term management strategy: Do Directors agree with the objectives (listed on page 23) on which decisions on the evolution of the size, structure, and work practices of the Fund should be based? In particular, do Directors agree with

management's objectives (i) to restore a more reasonable balance between available resources and existing work loads; (ii) to control the growth in the demands made on the staff; (iii) to provide supervisors and managers sufficient time and incentive to improve the way they manage their personnel, and to provide adequate time and opportunities for training and education of personnel; and, (iv) to maintain and improve the quality of Fund work.

4. Fund work practices: Directors may wish to offer their reactions on the medium-term initiatives that need to be taken to improve the productivity and management of staff resources and the quality of Fund work, particularly on (i) medium-term country work programs; (ii) strengthening evaluation in the Fund; and, (iii) strengthening institutional memory and assessment.

5. Budgetary implications: Directors are invited to offer their reactions on the budgetary implications outlined in the paper: (i) on the need to increase the size of the Fund by about 200 man-years over the next three years and to front load this increase; and, (ii) on the three-year budget projections and the "low" and "high" scenarios.

Ms. Doizé, Chairman, Staff Association Committee, made the following statement:

The Staff Association welcomes the initiative by management to focus on the medium term and on important areas of personnel policies and objectives. With your permission, I shall limit my comments to the second item of the Managing Director's statement on resource imbalance, and only insofar as it relates to the memorandum on personnel policies and objectives.

As an economist, I am more comfortable with numbers than words, so I shall start by citing a few numbers from the Survey of Staff Opinions conducted by the Staff Association in 1990 to illustrate my points. Fifty-four percent of the respondents recognized that they derived satisfaction from their work in the Fund. However, 76 percent of the staff considered their work load excessive, 62 percent indicated that work pressures had adversely affected their health and family life, about 50 percent expressed a low opinion of the managerial skills of their supervisors, and only 26 percent would recommend a career at the Fund to an outside candidate.

While the Staff Association does not fully share the Administration Department's assessment of the impact of personnel policies introduced in the 1980s on the efficiency, working conditions, and career development opportunities of the staff, we

agree that one of the major factors demotivating the staff and creating the risk of decreasing its efficiency and the quality of its work is the excessive work load. Excessive work pressures have reinforced supervisors' tendencies to focus on the production of papers and to forget that papers are produced by people. The human resources of the Fund are strained to the limit and, as a result, the Fund's human capital is rapidly deteriorating because staff members lack sufficient time to keep up with developments in their own fields and in technology. A front-loaded increase in the operational staff would contribute to alleviating work pressures in the medium term. However, the number and complexity of tasks have a tendency to increase with the number of people available to perform them. May I respectfully suggest that when expanding the Fund's work into new, interesting, and challenging fields consideration should also be given to assessing these in the light of current work pressures and to tailor existing tasks and procedures to achieve a more manageable and balanced work load.

Mr. Kabbaj made the following statement:

The Acting Managing Director's excellent report on the budgetary outlook in the medium term raises important issues concerning the adequacy of the Fund's size, structure, and operational characteristics, as well as their implications for the Fund's future evolution. While these issues have been the subject of extensive Board discussions in the past, never before has a careful treatment of these issues been more timely than it is now. The present discussion provides us with an opportunity to assess current and prospective demands on the Fund's services and the resource requirements to meet those demands. The impending decisions will significantly shape the scope and role of the Fund as it faces the many challenges in the years ahead. These remarks will focus on two important interrelated issues in the report's medium-term priorities--Fund size and Fund work practices--which bear on the resource inputs necessary for the Fund to meet its expanded responsibilities competently, effectively, and efficiently.

The scale of the Fund's activities expanded throughout the 1980s, and rapidly so in the closing years. An indicator of this activity is the staff's mission travel. Total annual staff travel, which rose at an annual average of less than 2 percent during 1982-86, increased by about 10 percent annually during 1987-90. A greater share of this expansion was directed to "other" travel and technical assistance. The former includes annual meetings, seminars and conferences, meetings of international and regional organizations, and so on. Together, they

accounted for 44 percent of total annual staff travel in 1990, compared with 41 percent in 1982 (EBAP/91/25, Appendix Table 3).

Since 1985, the scale of the Fund's activity, as measured by staff travel by region, has shifted markedly in favor of Europe. The share of total staff travel to countries covered by the European Department rose from 20 percent in 1986 to about 28 percent in 1990. The momentum of activity toward Europe reflects the dismantling of planned economies and the difficulties related to their stabilization and transformation toward market-based systems. Staff resources in the Fund are being stretched to meet demands from this particular region. We attach great weight to the repeated assurances given by the Managing Director that the needs of this region will not mean that less resources will be available to others. Care must be taken, however, to give the staff sufficient time to think about formulating the best policy advice under trying circumstances. It is, therefore, imperative that high priority be given to the staff's analytical and research work--be it in area departments or in functional departments.

The key to the Fund's ability to effectively meet its responsibilities depends importantly on the size and quality of the staff. For quite some time, the growth in the demand for services from the Fund has exceeded the available staff resources in disturbing ways. All things considered, the report emphasizes (on page 23) that "the Fund is finding it more and more difficult to satisfy growing demands and maintain the quality and quantity of its work, let alone to meet the demands of the future. There is also clear evidence that the staff is becoming increasingly restive about the excessive work demands being made of them, on a continuing basis, and are reaching the outer limits of tolerance."

Numerous steps have been taken in recent years redeploying staff to areas of pressure, creating interdepartmental committees, increasing automation, and the like. Nevertheless, staff size has not kept pace with the increase in Fund activity. An important indicator of this pressure on the staff is the marked increase in the amount of uncompensated overtime and in permanently lost vacation time, as well as the continued decline in the percentage of earned vacation. It is likely that even with productivity-oriented changes in work practices and in the structure of work, the Fund may soon be reaching the outer boundaries of productivity, with rapidly diminishing returns from additional pressures. For this reason, we are prepared to consider proposals for the expansion of staff size in FY 1992 and subsequent budgets, provided a detailed request is formulated. In this regard, the situation of the temporary staff should be clarified and possibly completely regularized so as to allow a full play of the requirements of the Articles of Agreements relating to the broadest geographic representation in our recruitment policy. Moreover, it

is vitally important that attention be paid to the disturbing shrinkage of the size of the staff from developing countries in B1 to B4 ranks. We also regard as necessary a more equitable recruitment in terms of diversification on the basis of academic background of new recruits as opposed to the heavy bias observed in the recent past in favor of graduates from English-speaking universities.

The importance of confronting the issue of resource imbalance head on can hardly be overemphasized. Balancing would require a substantial increase in the number of "quality" staff. The optimal strategy should be to maintain and improve the quality and effectiveness of the Fund's policy advice and analysis through prioritizing activities. Nonetheless, even this course of action would probably require a substantial expansion in the Fund size over the medium term.

The pressure of work has begun to take its toll on staff morale. The Survey of Staff Opinion: 1990, which was submitted to management on October 16, 1990, points out a number of areas where staff opinions have significantly deteriorated since the last staff opinion survey taken in 1978. A comparison between the two surveys reveals that 89 percent in 1990 expressed the view that staff morale had deteriorated substantially, up from 19 percent in 1978; and 39 percent judged the quality of personnel management low, nearly double the percentage earlier. Seventy-six percent of those surveyed in 1990 found the work load unreasonably excessive, again much higher than before. These are disturbing trends. Limited career prospects, excessive work pressure, inadequate performance appraisals, mistrust in the institution, and the perception of shortcomings in human resource management are among the main factors that have contributed to the deterioration of staff morale, alienation, and poor staff opinion. In turn, these developments have increased present personnel strains, which are likely to have an adverse impact on productivity. Low staff morale can severely undermine the Fund's capacity "to attract, retain, and motivate highly qualified personnel..." as noted on page 3. In his eleventh annual report (1989-90), the Ombudsman observes: "The low morale of staff members is symptomatic of a serious underlying structural problem..." and that "the problem will not be satisfactorily or fully resolved without a restructuring of the human resource management system." (page 2). It hardly needs emphasis that the work of the Fund is as good as its staff, and it must be obvious that the Fund is in need of professional human resource managers.

As for the Fund's work practices, the momentum in the Fund's activities in the wake of the international debt crisis and other severe global problems in the first half of the 1980s resulted in a greater emphasis on policy and empirical analysis. Moreover,

the surveillance process, which is central to the Fund's ability to influence member countries to adopt sound policies, has become more demanding. Even before the Plaza Accord of 1985, many countries demanded increased staff efforts at policy analysis and advice between consultation discussions. The increase in such demand has led to the strengthening and integration of the World Economic Outlook and individual country work and resulted in in-depth work on medium-term scenarios and on structural developments and reform in some area departments. In the process, the work load of functional departments, notably, Central Banking, Fiscal Affairs, and Statistics, has also expanded rapidly, with increasing emphasis on development-oriented policy analysis and empirical research, and a systematic information base.

The Fund's activities, particularly through the functional departments, are placing increasing emphasis on the preparation and review of substantive policy and related papers and other periodic reports. The Fiscal Affairs and Central Banking Departments, besides their traditional role in technical assistance, contribute to mission work and specialized policy and empirical analyses. The Research Department, despite its relatively unchanged total manpower status since FY 1986, not only performs the valuable world economic outlook task and participates in country and operational work, but also provides continuous analytical input into the development of the intellectual and empirical capital of the Fund. Integrated efforts from functional and area departments, coordinated through the working group on policy design, have led to an accelerated accumulation of intellectual capital in improving knowledge in different areas of Fund interest. The scope and depth of economic analysis in the World Economic Outlook, Article IV consultations, and program papers is the key element of the Fund's "competitive edge" in influencing policy formation in member countries.

Another disturbing trend has been the continuous erosion, over the past several years, in the level of support for the Institute despite continuous and strong support in the Board. The Executive Board has consistently recognized the extreme usefulness of the services provided by this vital unit of the Fund in fostering a long-term and basic understanding of the Fund's store of knowledge among the mid-level managers in the member countries. The payoff of investment in the Institute can be observed in the field. There are hardly any missions to many member countries which do not deal with former graduates of one or more of the Institute courses. An additional payoff is the transfer of the understanding gained about Fund operations by those who attend the Institute to the member countries. Often, it is this understanding that provides the Fund with its greatest goodwill capital assets. We certainly hope that far greater attention will be paid

to redressing this resource allocation imbalance and its impact on the work of the Institute in FY 1992 budget and beyond.

The process of integration, which is being coordinated by management and recently established interdepartmental committees, is making tangible progress and has important implications for technical assistance. In countries undertaking Fund arrangements, the integrated approach involving area and functional departments can contribute not only to enhancing the effectiveness of such programs, but also to facilitating the development of the intellectual and empirical capital of the Fund. This will further strengthen the capacity of the Fund to respond to the complex problems and issues that are likely to arise in a post-Persian Gulf crisis world.

More can be done to improve the productivity and management of staff resources and the quality of Fund work. The Fund can do much better in building bridges between operational country and research work. For instance, one way is for the area departments to involve the Research Department in improving the design of the analytic framework of their medium-term scenarios, country-specific studies, and post-mission activities. In the technical assistance area, the report asks for a "strong analytic foundation" (page 10). Here, too, greater involvement of the Research Department is also needed. Moreover, as more countries liberalize their economic systems, greater emphasis will be placed on improvement of their fiscal measures and policy; hence, reliance on technical and policy expertise of the Fiscal Affairs Department is sure to grow. In this regard, there is much to commend in the report's call for full involvement of all departments of the Fund in developing a more systematic memory and assessment base inside the institution. We also agree that the working group on policy design is a natural focal point for this interdepartmental effort, and that such an integrated effort should respond to the desire expressed by many Executive Directors to see more systematic work on policy issues both at the country and regional levels.

With regard to organizational structure, we can support the report's proposal to create an interdepartmental advisory committee on the formulation of personnel, budget, and other administrative policies and a coordinating committee to address technical assistance issues, although we feel that such committees, while useful, do not represent a satisfactory solution, especially if their number tends to rise. On technical assistance, for example, the Chairman recently had the occasion to hear all African Governors express the importance they attach to this vital activity of the Fund. In our view, serious thought should be given to the creation of a more structured organization in the form of a department or a bureau, which would be responsible for evaluating needs and organizing the dispensing of this vital form

of assistance. In this regard, care must be taken that the criteria suggested for prioritization of technical assistance are carefully designed so as not to exclude countries simply because they do not have an adjustment program with the Fund.

Regarding redeployment of activities among departments, we would caution against changes for bureaucratic reasons and request that any contemplated change in area departments be preceded by intensive consultations with the Executive Directors concerned and their authorities.

We agree that the medium-term nature of the problems confronting our membership requires a more forward-looking approach, but we fail to see why the present practice is not appropriate, since the medium-term approach has been extensively promoted and used for years. What has not been put in practice in our view is the regional approach which will probably be more and more required. We also believe that consultations and program design should draw more heavily on the valuable work done in the Research Department.

We welcome all the proposed steps to strengthen evaluation in the Fund and we find the creation of a small task force in the office of the Managing Director encouraging. Again, we feel that such a committee or a task force could become too numerous and may be too cumbersome for the already heavily busy Managing Director and Deputy Managing Director. We also believe that some independence should be given to those in charge of evaluating the Fund's work so as to relieve them from possible undue pressure. Therefore, we respectfully suggest that consideration be given to the creation of an independent--and not necessarily external--unit which would report directly to the Board and to the Managing Director. We have no problem with the proposals to strengthen institutional memory and assessment and welcome the expectation that this would also be at the disposal of the Executive Board and of the membership at large.

Mr. Kafka made the following statement:

I welcome the careful and helpful paper on the medium-term budgetary outlook, the first time we have had such an extensive paper on this subject. It would, in future, be preferable to discuss the medium-term outlook at a much earlier point in the fiscal year than we are doing today, so that we can also discuss the midyear review at the usual time in the year; with the exception of 1989 and 1990, this discussion has so far always taken place in December and mostly in the first half of the month, and it is highly desirable that we should return to that practice.

I have no major problems with the midyear review and shall therefore concentrate on the medium-term outlook.

On recent trends, I would like to limit myself to a few brief comments. We have expanded the number of resident representatives, and I am sure we are careful never to condition a financial arrangement on acceptance of such a functionary. I also have the impression that we are sending representatives with more seniority than at some points in the recent past. This is to be welcomed. The type of resident representative we send must, of course, be chosen in line with each country's requirements. A more senior representative will generally be able to be more persuasive than a junior. Precisely for that reason, we must make sure that he is never intrusive and is, in fact, particularly eager to follow Talleyrand's recommendation: "above all, not too much zeal."

Regarding technical assistance, the paper states that it should be designed so as to facilitate taking specific decisions. Again, the stance of technical assistance must depend on the particular circumstances of each country. A close involvement of technical assistance in specific decisions, as distinct from assistance addressed to the creation of the infrastructure for decision making, may often be inadvisable.

There are a few countries where, in addition to technical assistance, executive assistance also may be desperately needed, namely, people who could be charged with the actual carrying out of administrative tasks. There are a few countries where the Fund is supplying such assistance. This is obviously a delicate matter, but there are countries where such assistance can best, or only, be provided by the Fund. I would therefore encourage the management to continue to do so, despite the problems which this presents, in cases where it finds that appropriate.

I want very much to welcome the establishment of the new interdepartmental working group on policy design. While this group is developing its ideas, I would hope that the Executive Board could have frequent discussions with it.

The increase in translation work certainly faces us with a difficult situation, but I do not think that this is something on which we would be entitled to save money. I am impressed by the quality and speed with which translations are prepared, and note the improvement in both respects.

Finally, I want to express the hope that our Institute will be provided with adequate resources so that it can maintain and indeed intensify its work.

I fully support the Management proposal to expand the staff, although I would not venture to quote an exact number. But this chair has for several years insisted that we must not neglect to increase our staff where it is indispensable in order to enable us to do the work which is demanded of us. We must, however, be careful, as the Managing Director's statement indeed suggests, that we limit those demands on the staff. For this purpose, I have for several years suggested that we should institute something similar to the "why" committees which the United Kingdom deployed after the First World War to reduce its then oversized civil service. In our case, we could use "why committees" to review our present structure of tasks, so that as new ones confront us, we can see whether we cannot abandon or restrict old ones.

I would like to reiterate my full support for--indeed, my insistence on--the establishment of an evaluation unit in the Fund. Certainly we cannot expect to hit the right type of unit from the beginning, but there are nevertheless some rules which seem to suggest themselves for the purpose of setting up such a unit. The main rule is that such a unit must be independent of the staff. For this reason, it would seem to me that we should follow the Bank's example, i.e., while taking the head of such a unit from the staff, not to allow her or him ever to return to the staff.

I would like to use this opportunity to reiterate our strong support for our research activities and our hope that these can be ever more closely integrated into policy design and negotiation. There are still cases where certain ideas are repeated in our country papers without the necessary examination of whether they are valid in any particular case. The pervasive belief expressed in country papers that higher real interest rates almost always produce higher savings, and not just a better allocation of capital, may be a case in point. Furthermore, it would be helpful if Research Department members could not only in some cases but normally accompany country missions, and if the Research Department were to be fully involved in the preparation of briefing papers. Without doubt, the integration mentioned should not be at the expense of giving a degree of freedom to our economists--including Research Department economists--to pursue, to some extent, their particular research interests, good technicians cannot be held otherwise. On the other hand, economists must be encouraged to write in a manner comprehensible to a wide range of decision makers and professionals.

There are many other interesting suggestions in the papers before us. The paper on personnel policies will, in particular, require careful and separate consideration.

Mr. Cirelli made the following statement:

I have been impressed by the thoroughness of the analysis in the Acting Managing Director's memorandum. It has tried to embrace a lot of pertinent questions related to the future of the Fund and it constitutes a solid basis for reflection on the role, functions, and, consequently, on the structure needed to sustain these functions.

A lot of issues are included in the main paper and in the very interesting background papers. But, as time is limited, I will only touch upon a few specific points which, in my view, deserve particular attention. The main remark I would like to make today is related to one basic and simple question: what kind of institution should we contemplate for the coming years and what needs should be considered? In raising this question, we should take into consideration two elements.

First, the need for the Fund's involvement in member countries obviously will remain important. For a large number of countries, spontaneous financing of balance of payment needs will be limited and the involvement of the Fund, notwithstanding its catalytic nature, will remain essential. In the same vein, the Fund will continue to play a critical role in the transition of centrally planned economies toward market-oriented ones, as such major transformations can only be contemplated in a medium-term framework. All this leads to the maintenance of a large number of programs as well as an increase in technical assistance, and I see no way to escape such an evolution and responsibilities.

Second, the need for a renewed attention to systemic issues is also a matter for deeper Fund involvement. Systemic issues did not get simplified by the economic and financial developments of the last decade, and the 1990s will probably continue this trend. The liberalization of capital movements in many industrial countries, the move toward monetary union in some parts of the world, the imbalances between investment needs and world savings, the exchange rate developments and the enhancement of the international monetary system are areas, among others, where the Fund should be more than present. The paper already notes the "shared frustration that systemic issues did not receive more attention" in the past. We should eliminate this frustration.

If we agree that the work prospects for the Fund could perhaps be more demanding in the medium term than they presently are, then the basic issue, in my mind, is to determine whether the Fund should keep the lead among other international institutions and keep the pre-eminent place it enjoys today. The answer to this question is quite clear to me: the Fund should remain indisputable in its analysis and should continue to occupy a

dominant position, since, up to now, it has been the sole institution which disposes of such a large and wide mandate.

I would like to draw two conclusions from these considerations. First, I share the view that the growing resource imbalance places a threat on the pursuit of our tasks along the lines I have just defined and therefore justifies some expansion in the size of the staff. This expansion should, however, be moderate in order to maintain the basic structure in the future. Second, to stay on top, we should recruit and keep top staff.

On the first point, complements to the staff are necessary. All the indications provided in the papers make a clear case for additional staff; as Executive Directors, we all know the heavy work load which is imposed on many staff members. Some relief is needed.

I will not venture to give a figure today and I look forward to examining more closely how management intends to make a breakdown of additional positions that it will propose for the next budget exercise. Will the increase be equiproportional or more selective, and what departments will be given priority consideration?

On the second point, namely, to attract the best staff on the market, I will only stress two points.

One, we are now more than ever before faced with a competitive market. The sole image and prestige of the IMF is no longer sufficient to attract the best qualified people. In many countries, national institutions or international organizations can offer career prospects as good as those of the Fund. Therefore, there is no alternative but to acknowledge that the Fund should offer well-paid jobs. It is important that the Fund not lag behind the market, but I have the feeling that, today, in this domain, the Fund is on the verge of falling behind.

Therefore, we will attach special attention to the salary increase proposal that management should propose in the near future, hoping that these considerations will be taken into account. I consider the figure which is indicated in the report for the administrative budget outlook to be purely illustrative.

Two, in dealing with worldwide responsibilities, the Fund should keep and enhance the broad-based recruitment of its staff. I fully share Mr. Kabbaj's analysis on this topic and on many others. Everybody knows that expatriation has its cost. This cost should also be taken into account if we are to maintain top quality recruitment for overseas, in particular, through an appropriate compensation system.

Obviously, such a consideration will have budgetary consequences. But it should be viewed in a medium-term perspective, thereby eliminating too sharp an administrative cost increase. At the same time, some efforts might be undertaken to slow down other expenses to moderate a rising trend, such as travel or capital outlays.

I will end my remarks at this point. Let me only add that there are a lot of other issues in the memorandum which also deserve comment. Among others, I agree with the views expressed on strengthening evaluation in the Fund, the need also to strengthen the institutional memory of our institution, the important role played by the IMF Institute, and the efforts to enhance understanding of the Fund through, in particular, its publications for which, in my view, a sufficient number should be devoted to those in languages other than English.

Mr. Peretz made the following statement:

Like Mr. Kafka, I welcome the paper on the medium-term outlook. I also tend to agree with him that it might have been useful to begin discussing it rather earlier in the cycle, for a reason that may become clearer as I make my statement. Let me also say at the beginning that I agree strongly with Mr. Cirelli's comment that the Fund, above all, must maintain its key reputation for excellence.

The paper is a very important one, I agree, and it covers some issues better than others, and that too will become clearer as I go along. I found the section on recent trends and medium-term prospects in the Fund's activities convincing and sobering. It is clear that the staff is being placed under intolerable pressure--and the statement we heard on behalf of the staff made that point again--and that if--and I would underline "if"--the Fund is to go on doing everything that it does now, let alone increase its activities, then some increase in resources is needed.

However, what is less clear is how this general proposition translates into the specific suggestion made in the paper, that the Fund staff should be increased by 150-200 staff years and that the budget should be increased accordingly. I see little attempt to specify in the paper where these extra resources will be used. And more generally, there is the question of whether the Fund should indeed do everything that it is asked to do in every policy area. And I will come back to these points.

First, one other general point. In proposing what is a very substantial budgetary increase, especially for the next financial

year, management has not only to convince the Board, but Board members in turn have to convince their authorities that this increase is necessary. It seems to me that the paper as it stands fails to provide some of the more important pieces of information that members of the Board will want, and will want in order to convince authorities; and I come from a country where I am very conscious that both the Prime Minister and Chancellor of the Exchequer spent some period of years as the minister responsible for public spending and are very used to questioning in great detail this kind of proposal. For example, there is very little discussion in the paper of efforts to find offsetting savings to make room for some of the increases that are proposed. Also, there does not appear to have been a serious analysis of alternative options for the budget. In particular, I would have liked to see illustrated--and I stress illustrated--the implications of a zero real growth option. I should stress that I am not suggesting the Fund should in practice adopt zero real growth, but the Board and our authorities should at least have the opportunity to see what the implications would be. I imagine the only way to cope with that constraint would be to cut out one or more functions. I doubt whether much more could be achieved by general squeezing.

In sum, we need more information about the way in which the budget was built up and about feasible alternatives before we can come to any firm conclusions.

Turning back to the particular issues on which the Managing Director had asked for comments, it is quite clear first that the demands on the Fund are increasing. Those arising from the growth of membership and from increased demand for technical assistance will, I believe, be unavoidable, and nor do I think we should seek to avoid them. These are important activities for the Fund. But the Fund should not be completely demand led. We need to look carefully at the organization's priorities, and we might need to consider cutting back on or even abandoning some activities not central to the Fund's purpose. We certainly should consider very carefully indeed before we add any new responsibilities that are not central to the Fund's purpose. And I might say that that was the main reason this chair had great doubts about the proposal for work in the area of the environment and was very keen to keep the amount of resources in that area to a minimum.

On the second issue, that of resource imbalance, there clearly is an imbalance in the sense that the demands on the Fund cannot be met within the resources available at present. But I think that before we decide on increases in total resources, we ought to consider whether resources could be redeployed within the organization. In this context, I find Table 2, showing total manpower by organizational unit, quite interesting. I was struck, for example, by the fact that almost one fifth of the staff

employed in the Fund are in the Administration and Secretary's Departments, and that the Administration Department is the largest department in the Fund. This may be correct, but I wonder whether there may not be some scope for pruning and redeployment there. Similarly, I wonder whether the work of the Research Department-- and I believe it is very necessary to have a research department-- could not be better focused and perhaps used in part to give more direct support for area and functional departments. More generally, both the Board and senior management ought to consider whether we are making problems worse by imposing unnecessary demands on the staff at times. I think here particularly of the increased number of missions over the last few years. It is particularly expensive to send off missions at short notice. But could there be less missions altogether? Could more use be made of the telephone and fax machine? Could maybe sometimes authorities from countries pay a visit to Washington rather than the Fund sending a mission there?

There may also be scope for improving the output that we get from our resources by improving coordination with other institutions, and I am thinking in particular of the World Bank. For example, I was very interested to see that some \$8 million had been saved by sharing computing facilities with the Bank. I welcome that. But I wonder whether there isn't scope for doing the same thing in other areas? The Joint Library is another existing example. Could the two institutions share country data bases? Or more generally, could statistical services of the two institutions be pooled? Or the IMF Institute and EDI be merged, which I understand was considered before? The pressures have reached a point where we should be ready to think the unthinkable. I note in passing that these kinds of questions are ones that a joint Board committee on administrative matters will be well placed to look at, and I look forward to Board discussion of the paper (EBAP/91/43) at an appropriate time.

On the subject of data bases, which I touched on, I might mention that Supplement 3 on data bases in the Fund caused me some anxiety. The duplication of data bases within the Fund must be inefficient. Even more alarming to me was the observation on page 4 of the supplement that the documentation of data bases is often so poor that their usefulness is limited to all but the incumbent desk officer. Quite apart from the inefficiencies, there must be dangers, in an organization which depends so heavily on data, in the proliferation of unsupervised data bases containing data which are not subject to external checking, and which may become corrupted. I would welcome a comment on this particular point.

Moving on to the medium-term management strategy, it would be difficult to quarrel with any of the objectives suggested in the

Managing Director's statement. But it is not enough to agree that management in the Fund should be better. We need to take concrete steps to make sure this is achieved. I very much regret that only about half of the Fund's managerial level staff have participated in the management development program. Surely this should be an essential qualification for holding a senior management job. Similarly, in the paper on personnel policies and objectives, there were only passing references to managerial ability being taken into account in promotions. It seems to me that managerial ability should be one of the key factors taken into account in deciding whether staff are ready to move to higher levels in the organization; indeed, the best way to encourage good management in the organization is to make it clear that management ability is the way to the top. Incidentally, it is regrettable that a paper as important as the one on personnel policies is not the subject of a separate Board discussion. My general point is that whether or not the Fund has increased resources, we certainly must be sure that they are managed properly.

I found the suggestions in the paper relating to Fund work practices generally sensible. I welcome the proposal to strengthen evaluation in the Fund, like speakers before me. I support Mr. Kabbaj's comment about the case for establishing an independent evaluation unit. I also support the proposal to take steps to try to strengthen institutional memory, though I would be interested to hear more details about this proposal.

Our views are sought on the budgetary implications, but as I have said, I am not sure that the paper really provides an adequate basis to form a considered judgment. The Board really needs to see the implications of different rates of growth, including, as I suggested, the implications of no growth. Consideration might also be given to a different phasing of the growth that is proposed. For example, it is not clear to me why there should be a gradual increase in staff resources over the next three years if the demand is already with us. Why not have a substantial increase in the first year, and then take stock as to whether any further increases are needed? But we are not really in a position to judge on these questions.

I am aware that it is all too easy for Directors to urge budgetary tightness without specifying specific areas where savings can be made. I have made some tentative suggestions on redeployment, and on sharing of services with the World Bank, but there are probably other possibilities. For example, I note that travel costs are expected to increase by some 13 percent next year. If the Fund was ready to adopt the travel policy adopted by the World Bank, whereby first class travel is allowed only on flights of more than nine hours duration, then I suspect considerable savings could be made on travel. Obviously, any such policy

would have to be applied to the Board as well as to staff. It might also be worth exploring possibilities of charging for some Fund services. I have in mind Fund publications, where maybe more income could be generated; and perhaps some IMF Institute training courses could be charged for. In particular, we could consider the idea of charging the private sector financial community for its attendance at the annual meetings. I understand that even a modest dollar charge would be sufficient to cover the entire costs to the Fund and World Bank of the annual meetings.

Before leaving the budgetary plans, I just want to make one brief comment about the capital budget, which I see includes \$8.5 million for planning and design work for the addition to the headquarters building. This will, of course, substantially increase the sunk costs associated with the headquarters building, and, I fear, may in turn pre-empt the Board's discussion of whether the extension should or should not be built. Obviously, we cannot decide on whether we need the new headquarters building until we have a view about the Fund's likely manpower size, and I hope we will be able to decide on that soon. I have no objections to the provision for planning and design work being included in the capital budget for FY 1992, but I do think that before this money is actually spent, we need a Board discussion of the basic principle of whether or not there should be an extension to the Fund building. Only once this decision has been taken should we be spending the money which has been set aside in the budget.

I am afraid I have spoken at too great length, but my basic message is a very simple one. I am persuaded that the demands that the Fund is currently trying to meet are excessive for our current resources. We will either have to scale back on some of the things we are doing or increase resources. In practice, I suspect some increase in resources will be necessary. But I am not yet persuaded by the detailed proposal for an increase in staff numbers and in the budget. Both the Board and our authorities will need more information on the lines I have suggested before we can reach a decision on the scale of the increase needed.

Mr. Fogelholm made the following statement:

Like Directors before me, I very much welcome the opportunity to discuss the budgetary outlook in the medium term. It gives the Board a chance to take stock of the Fund's present activities and to discuss the future. However, it is probably not necessary to undertake this kind of review every year, but a discussion every second or third year would seem to be desirable.

The document before us provides an excellent overview of our present activities, and it describes well both the complexity and volume of work in which the Fund is involved today. It also contains convincing evidence that an imbalance between work load and available staff resources has developed in recent years. Other testimony to this and its negative impact on, inter alia, staff morale, is found in the SAC survey and the most recent report of the Ombudsman.

Having said this, I must add I agree with Mr. Peretz that the document does not adequately address the question of future work priorities of the Fund. We discussed this very subject on an informal basis at the retreat, but the discussion was both incomplete and inconclusive, and we have not had an opportunity to return to it. In the absence of such discussion in the document before us, I take it that the management implicitly assumes that our present activities have all become or are all priority activities. The fact that the management does not have any plans to change the basic structure of the organization is, I believe, evidence of this.

I come now to the specific request by the management for additional staff resources, and let me say immediately that this chair is definitely in favor of a strengthening of the Fund staff. Were we not, there could be no thought of adding work or deepening present activities; on the contrary, we would probably have to identify activities to be discontinued--which is clearly easier said than done--or accept a gradual decline in the quality of the Fund's work. Nevertheless, I have some difficulty in making a judgment on the magnitude of the need.

The management has concluded--I presume based on departmental assessments or "wish lists"--that there is a need for an increase in the size of the Fund in the order of 200 man years over the next three years. I am sure that this figure results from a careful evaluation of need, although the document itself does not provide a basis for me to agree or disagree with this figure, or, alternatively, to come to a conclusion that the need is for only 100 persons or maybe even for 300 persons. I also miss information on how and where this additional manpower should be engaged, or am I to judge that the work pressures felt today are more or less evenly distributed throughout the organization? But I doubt that is actually the case and would, therefore, appreciate a comment by you, Mr. Chairman, on this.

However, when confronted with a request for 200 new staff members, which, compared with the personnel growth in the most recent past is indeed sudden and large, the question arises of whether or not the growth in the Fund's work load that is behind the request for additional resources should be considered

permanent or short-term in nature. If the conclusion is that the increased work load at least to some extent can be regarded as temporary, should we then not contemplate different methods of handling this additional work load, for instance, by using more consultants and/or applying fixed-term employment in the real meaning of the concept, instead of establishing new permanent positions in the Fund?

In the absence of more concrete and detailed information on the need, I am not in a position to take a stand on either the low- or the high-cost scenario. Nevertheless, I believe that whatever number of new positions is ultimately agreed upon, the management should have the right to begin the recruitment process immediately, as the need for more staff is here and now, and the process itself takes a considerable amount of time. In this context, we have to keep in mind that the Executive Board could easily become a bottleneck if Fund activity and thereby the number of papers produced were to proliferate following an increase in staff. This is something that should be kept in mind.

With these remarks, I believe that I have dealt with the first two points as well as with the fifth point of the Managing Director's key issues for discussion.

Turning now to the third issue, i.e., the medium-term management strategy, I can be extremely brief, as I fully concur with the Managing Director's expressed objectives. On a lighter note, however, I observe that the questions (i)-(iv) are so skillfully drafted that it is, in practice, impossible to respond to them in the negative. For example, it is obvious that nobody will object to maintaining and improving the quality of the Fund's work, and it is equally clear that one would have to be in favor of restoring a more reasonable balance between available resources and existing work loads, and so on.

Some comments on the fourth point--Fund work practices: Despite a fundamental increase in manpower, there will of course always be a need to enhance the efficiency of work methods, and to review the priority given to the different areas of work. Only recently did we conclude our review of Fund surveillance which, inter alia, gave the staff a mandate to streamline country work. Now it is up to the staff to carry out that mandate, and thereby hopefully release time and resources for, inter alia, regional surveillance, which has long been requested by the Executive Board. In this context, let me stress the importance of striking a reasonable balance between, on the one hand, continuity as it relates to staff working on specific countries and, on the other hand, the general need for maintaining a versatile staff--as emphasized in the document before us.

The strength of our country work depends on the Fund having a solid understanding of the working and interaction of member countries' economies, as well as of the institutional structure of these economies and knowledge of those involved in the management of the economy. Therefore, I support, as I did last year, the development by Fund departments of a more coordinated and medium-term approach to the Fund's work in individual countries. This will, I believe, in the long run also facilitate a further streamlining of the surveillance process and thereby lessen its demands on resources.

I also support your view, Mr. Chairman, that internal evaluation of Fund work in all areas of activity should be strengthened in the years to come. I note your proposal to establish a task force to review existing approaches to evaluation within the Fund as well as your conclusion that ultimately there is likely to be a need for a more permanent unit in your office to review and guide evaluation work. However, like other Directors, I believe that it is more appropriate that the unit to be established--and I presume it will consist of no more than three to four staff persons--be given a more independent status than proposed by you. Like Mr. Kabbaj, I believe that such a unit could report directly to the Board as well as to the Managing Director.

As stated by many Directors on a number of occasions, I think that in the next two to three years we should review our present facilities and lending practices--in particular the compensatory and contingency financing facility--with a view to making them more transparent and easy to comprehend. Their present complexity gives rise to unnecessary staff time being spent on explaining both their function and their operation.

Finally, I would like to comment briefly on the supplements to this medium-term budget paper. First, I found the background paper on the Fund's personnel policies and objectives to be not only comprehensive and interesting but also a frank assessment of the policies pursued, and I can broadly endorse the policy prescriptions for the medium term. I would welcome, as proposed by previous speakers, a separate Board discussion of this paper. It is to be hoped that the measures described, together with the alleviation of work pressures on the staff, will improve the working environment and boost staff morale.

I can also go along with the medium-term framework for automation development in the Fund and can accept another climb in expenditures, as I believe this will be only a temporary phenomenon. However, on one specific point, i.e., with regard to external telecommunications, I would hope that that work could be advanced so that the electronic transmission of Fund documents to member countries could be introduced soon. Not only would that

expedite the receipt of documents and other information, but it could also, over time, become a much more cost and manpower efficient system than the existing one.

In conclusion, when reading the supplement on the data bases in the Fund I was really struck by their multitude. I am not in a position to assess the necessity of each and every one of them, but somehow it seems to me that there should be scope for streamlining and integration; for instance, I have difficulty understanding why the Bureau of Statistics and the area departments maintain separate data bases containing, I presume, basically the same statistics. Perhaps one should also, as proposed by Mr. Peretz, look into the possibility of sharing data bases with the World Bank.

Mr. Spencer made the following statement

The paper on the budgetary outlook in the medium term provides a very useful discussion of a range of important issues that will shape the size, structure, and work practices of the Fund over the medium term. The paper on Fund personnel policies and objectives also is a very comprehensive--and candid--piece. I commend the quality of both papers.

Given the vast range of matters touched on in these papers, I will try to focus my comments on the nature of planning and management processes within the Fund, rather than on the specifics of the work program and resource usage. I would like to start with the overall planning and budgeting process, of which these papers and this Board discussion form a part. My main concern in this area relates to the setting of organizational objectives and work priorities.

The budgetary outlook paper starts with a set of "management" objectives related to the desired character of the organization. It then goes through a long list of increasing demands on the Fund, and concludes with an assessment of implied requirements for additional resources and changes to work practices. This approach of adjusting supply to match demand is, I would suggest, very dangerous, given that the bulk of the Fund's nonfinancial outputs are provided free of charge to member countries. Once a country becomes a member and pays up its quota, it has every incentive to maximize its demands on Fund resources. If all additional resource demands are met, then this lack of price signalling between the receivers and providers of Fund services will generate pressure for a persistent bureaucratic expansion.

It is to the Fund's credit that over the years it has managed to contain the size of the organization. But, of course, it has

not constrained the work load that it has taken on, with the result that resources are now patently overstretched. This is not a satisfactory situation. We should not be in the position of having to expand resources, in order to head off an ever-mounting work load on staff. A preferable alternative would be to adopt a planning framework that allows new output demands to be assessed against objectives and budgeted resources, before they are taken on.

Such a framework would require: (1) a clear exposition of Fund objectives and their relationship to Fund outputs; (2) a strong emphasis on prioritization; and (3) a zero-based approach to budgeting. These are the areas where I feel the budget outlook paper is lacking. The basic objectives of the Fund are not clearly defined, and certainly there is no discussion of the product mix that might best achieve the Fund's objectives at minimum cost.

Furthermore, I feel the Fund's unwillingness to prioritize among competing demands on resources is evident in some of the discussions on future work practices. While many of the new demands are clearly consistent with the Fund's purpose, I cannot imagine, for example, that the Fund was ever intended to work with countries on a continuous basis as now appears to be happening. Nor could the Fund be said to have any comparative advantage in the provision of technical assistance in such areas as bank supervision or computing systems.

To facilitate an objective-oriented, zero-based approach to planning and budgeting, I would see a need to bring together the various existing departmental, divisional, and individual action plans under a unifying corporate plan. All plans and associated budgets would then have to be justified on a top-down rather than bottom-up basis.

Further, the Fund's existing management information systems would need to be enhanced to allow the accurate costing of all major intermediate and final outputs produced within the organization. Such costings, combined with a clearer operational awareness of the Fund's objectives, would provide a better basis for setting priorities, and allow informed decisions by Board and management on appropriate resource levels.

I have no doubt that, in time, such a framework would assist in achieving the first three medium-term priorities listed on page 23 of EBAP/91/25, namely, in removing the existing work imbalance; controlling the growth of new demands; providing managers with more time to manage, and allowing better conservation of the Fund's human resources.

The greater attention to resource conservation and improved incentives to monitor work performance relative to plan objectives would also help to achieve the fourth medium-term priority of improving the quality of Fund work.

But, of course, new approaches to planning and budgeting take time. And in the meantime we have a very real resource imbalance which must be addressed. We would therefore be willing to support some form of stop-gap measure to increase staff levels; but only on the understanding that something serious was being done to achieve better budgetary control over the medium term.

I would like to turn now to the very important area of personnel policies and people management.

First off, we would support the personnel objectives the general thrust of the proposals set out in EBAP/91/46. Clearly, much has been done in recent years to improve the flexibility and quality of the Fund's management. But there is also little doubt from a reading of the Ombudsman's report that some serious problems remain. Both the Board paper and the Ombudsman's report point to recent structural changes such as job grading, and, of course, the excessive work load as sources of tension and dissatisfaction.

However, I think it is also clear there is a need for improvement in management practices. I might add that such improvement will not automatically appear once the work load is reduced. Effective management of people has to be worked at consciously, at all levels of the organization.

I would emphasize three aspects of improving effective management within the organization.

The first is the need for a more intensive management training effort. Repeating the point made by Mr. Peretz, it is not satisfactory that only about half of the Fund's managers have been involved to date in the management training program. Ideally, this training should be given to all managers and to potential managers as well.

Second, there is a need for greater direct communication between managers and their staff on work performance relative to short- and long-term objectives. Effective communication cannot be achieved via Administration Department circulars, nor by a facing off between Administration and the SAC. It must be done on a one-to-one basis within the line management structure.

I might add here that the proposal to dedicate several senior advisory positions to administration/personnel issues could

possibly undermine the effort to elevate the management role in line positions.

As a basis for direct communication on management issues, there is, of course, the present system of annual staff appraisals. But, in my view, this does not allow frequent enough feedback on staff performance relative to objectives. Interim reviews should take place two or three times a year, although this does not imply any need for additional form filling or any sort of centralized coordination. It is simply a matter of managers making time to sit down with staff and review progress.

The third aspect I would touch on is the concern, expressed in the Ombudsman's report, that an individual's performance assessment and career development may be colored by personal relationships. While this is never entirely unavoidable, the problem may be minimized by ensuring that two management layers are always involved in appraisals. Part of the senior manager's job is to ensure that he is in a position to assess the management abilities of his subordinates. A reverse appraisal system may assist in this purpose, but to build trust in management relationships, it would have to be voluntary, and staff must be willing to put their name to their comments.

The final broad issue I would briefly comment on is the evaluation process. In general, we agree with management that this function should be seen primarily as part and parcel of the line management function. However, when it comes to assessing performance at a departmental or corporate level, there might well be a need for a small unit attached to the Managing Director's office that could undertake or coordinate the broader-based reviews. Certainly, in the short term we would support the establishment of a small task force that would help develop internal evaluation procedures and examine more closely the need for an ongoing internal evaluation unit.

Indeed, given my earlier comments on the need for a fresh approach to overall planning and budgeting, I would support a broader brief for the task force, encompassing an examination of alternative frameworks for both planning and evaluation procedures.

There are many other aspects of the papers that I would like to comment on, such as the very worthwhile proposal for strengthening the Fund's institutional memory. But I have already spoken too long and, having been recently reminded of the Secretary's stop-watch, I will leave these comments for another time.

Miss Powell made the following statement:

We are in general agreement that the Fund's work load has increased significantly in recent years, with an adverse impact on staff morale. We cannot help but be concerned that these strains, and the increased international competition for high-quality personnel, may ultimately inhibit the Fund's ability to fulfill its mandate to secure the highest standards of efficiency and technical competence.

These strains have partially been the result of the Fund's involvement in the radical adjustment programs adopted by its newer members. It is also important to recall that, in addition to these more typical program responsibilities, the Board has placed substantial additional responsibilities on the Fund's shoulders. Salient examples include the Fund's increased role in G-7 coordination, the Fund's work with the U.S.S.R., the complexities of the Fund's response to the Middle East crisis, the increased mandate to consider more closely social and environmental issues, as well as various debt initiatives. Therefore, it seems appropriate that a significant increase in the Fund's budgetary resources should be considered.

Given this perception, it was disappointing that the documents prepared for this discussion presented a relatively weak case. In our view, the observation that the Fund's work load has increased is not a sufficient argument for a substantial increase in the Fund's size. In our view, this judgment could only be made by a comprehensive and detailed comparison of the costs and benefits of a larger staff. Unfortunately, the details of this comparison seemed lacking in the documents provided.

For example, while the budgetary costs of a high and low scenario were set out, the paper did not quantify the expected incremental benefits. In our view, such budgetary scenarios are required, just as in the case of program discussions, to assess both incremental budgetary costs and benefits. Moreover, we view it as vital to compare these higher growth scenarios to a base case scenario, in which real resources were held constant. This base case should contain a clear delineation of the cutbacks that would be required in present Fund activities in the event of budgetary restraint. Indeed, we wonder how the Board could be expected to gauge budgetary priorities and trade-offs without reference to such a base case.

Besides this general point, we also have a number of specific comments.

First, the principal argument for additional manpower was that the staff are overworked. While this may be so, it was

surprising that this fact could not be more forcefully documented. We found the anecdotal evidence and the data on travel days relatively imprecise, and would have expected it to have been supplemented by additional indicators of work load--for example, overtime requests, leave days lost, Board papers prepared.

Moreover, the vagueness of the proposed distribution of additional resources was also surprising. For example, the allocation of additional staff, either across departments or by function, was completely unspecified, while it was proposed that individual departments would be given autonomy in allocating additional manpower. As a result, one was not given confidence that the additional resources would indeed result in a relief to overworked staff. Again, while we concede that an increase in staff may be necessary, this should have been more forcefully demonstrated by specifying where the additional resources would be placed, and how they would be used.

Second, we are generally in favor of the proposed improvement in Fund work practices--including the creation of an evaluation unit, improvements in the institutional memory, and the development of medium-term country work programs. We found it odd, however, that these proposals were not more closely linked in some fashion. In our view, the need for these improvements is symptomatic of the need for greater centralization and streamlining in the Fund's policy planning functions. As the paper notes, the Fund's hierarchy is extremely flat. While this structure has many advantages, the paper's discussion of the strains on the review process, and the weakness of the Fund's institutional memory, suggests the Fund's ability to conduct effective strategic planning, as well as provide policy guidance to its staff, may have suffered.

Thus, while the link is not made in the paper, it would seem sensible--and cost effective--to centralize responsibility for effecting all three of these proposals. There seems little reason to divide the responsibility for coordinating developing medium-term country strategies and maintaining the institutional memory, from the unit that is evaluating Fund policy. Here again we found the lack of detail regarding the resources to be devoted to these projects unsettling. In this regard, we would expect that since some of these functions are already being carried out by the Exchange and Trade Relations Department, some diversion of existing resources could be made.

Third, we were disappointed that little discussion was given to a possible reallocation of existing resources, as well as a reduction on the demands on the staff. While the paper notes (page 25) the need to consider shifting the work load across departments, we would have appreciated further details of how and

where this could be accomplished. As I mentioned earlier, it seems difficult to gauge where any slack might exist without a broader array of indicators of staff work load. Similarly, we were left wondering whether scope for reducing demands on the staff, by shifting their emphasis from activities that are of secondary importance to the Fund's operations, had been totally exhausted.

Fourth, the paper is also imprecise regarding the share of any increase in resources that would be directed towards technical assistance. We acknowledge the Fund's ability to deliver such assistance effectively and efficiently, and the important role that such assistance can play in improving the prospects for the success of Fund programs. However, the demand for this assistance is growing rapidly, while the Fund's resources are clearly constrained. We would prefer to see an increased emphasis on the Fund's administration of donor-financed assistance, or, when possible, coordinating the use of experienced staff from member countries' civil services, as was done in the case of Poland, rather than an increased share of its own resources.

Finally, on the issue of the Fund's personnel policies and objectives, it is argued in the supplement on this topic that the lack of interest shown by recent recruits in a long-term career at the Fund argued in favor of reshaping policies to allow these aspirations to be satisfied. This would seem to reflect the view that the lack of interest in a long-term Fund career has simply resulted from an exogenous change in employee preferences. While this may be true, it seems just as likely that this change in preference might partly be endogenous--that is, a function of increased work loads and more limited career prospects at the Fund.

As a result, I wondered how to interpret the suggestion that the Fund should place a greater emphasis on recruiting more mature staff, and whether this represented a de-emphasis of the economist program in response to the difficulties in recruiting. If so, could the staff indicate whether consideration had also been given to recruiting a greater number of staff at the technical assistant level? It would seem that the staff's work load could be reduced, and morale possibly improved, at a reduced cost, if highly qualified economists could be relieved of some of the more mechanical aspects of mission work.

Mr. Yamazaki made the following statement:

At the outset, I would like to express my authorities' appreciation for management's timely and stimulating presentation of the medium-term budgetary outlook and initiatives. Furthermore,

my authorities' appreciation also goes to management and staff for their extensive efforts to increase the quality of work, while keeping up with the increasing demand.

This being said, there is good reason to assume that the period ahead will add to the already heavy work load on this already stretched institution. I therefore strongly welcome the management's call for the Board's careful consideration of the medium-term initiatives to restore the resource balance of this institution.

In light of the fundamental nature of the Fund, I believe that the Fund should remain responsive to the membership's demands. At the same time, the range and magnitude of the Fund's overall activity are defined by the capital and human resources it has in place. Therefore, the resource imbalance should be tackled on all fronts, including the size, structure, and operation of the Fund, as suggested in the Acting Managing Director's memorandum. In addition, it is heartening to learn that the personnel policies are being addressed specifically, as I believe that a good personnel policy is imperative to fully mobilize human resources.

Before turning to specific issues, I would like to draw the Board's attention to one issue which, in my view, certainly has significant budgetary implications over the medium and long term. While this does not need to be discussed today, I believe that it is important for everybody to think about whether and/or how the Fund will be associated with concessional financing in future, after the enhanced structural adjustment facility expires.

Let me turn to the size of the Fund. In light of the continuing increase in demand, a certain expansion of the size seems to be warranted. Having said that, the memorandum before us does not seem to provide sufficiently firm and quantitative background for the projection of a 200 man-year increase over three years. I am not convinced by the information before us why it should be 200 and not, say, 150. In addition, the projection may be affected by the outcome of today's discussion. Thus, I would prefer not to commit myself to the projected number at this stage. I would like to have a separate Board discussion on this issue at a later stage with more detailed and quantitative information. Needless to say, a strengthening of redeployment should be encouraged; I encourage the staff to conduct an across-department survey for this purpose under the Board's guidance.

In the same vein, while I understand the need to enhance interdepartmental coordination, I cannot commit myself at this stage to the proposals regarding structure. I would like to consider them on a case-by-case basis with the benefit of more detailed information.

With regard to Fund activities, particularly on the country operation side, which continue to be of high priority, I agree with the memorandum that there is room for improving efficiency and effectiveness, and that some fresh initiatives are warranted in this regard. In considering new initiatives in Fund operations, however, I think it is important somehow to address excessive demand at the same time. I recall that Mr. Grosche correctly emphasized last year that more effective surveillance would have curtailed the number of financial programs. In the same vein, I believe that a strengthened procedure should be designed to prevent premature involvement of the Fund in country problems, and instead allow the Fund to pinpoint the fundamental impediments of particular country policies.

In this regard, the orientation toward a medium-term country program and regional approach would be useful in some cases. It would allow a more substantial and effective review of country operations. At the same time, however, the Fund should not lose its mobility and readiness to react in a timely manner when it is warranted. If the Fund applies a medium-term approach to all countries, total Fund operations may become very costly and time consuming. I believe, therefore, that a traditional, medium-term, and regional approach should be used in a case-by-case manner. In addition, emphasis on a medium-term framework should not justify any undue use of Fund resources. Each operation should be strictly conducted within the framework of existing policies. The approach would be unproductive, if it led to permanent or prolonged and ever-increasing exposure of the Fund.

Turning to the innovative proposal for evaluation, I am rather sympathetic to the view that a strengthening of evaluation is warranted in order to enhance the effectiveness of Fund operations. In addition, evaluation and its effective feedback to institutional memory are indispensable, if the Fund is to embark on medium-term country programs. I see merit in systematically strengthening the feedback process throughout Fund operations. Nevertheless, careful consideration is required from the outset, as there is a risk that an evaluation unit, if it grows unchecked, could undermine the responsibility and authority of the Board. I hasten to add that I am not committed to having an independent unit; I am open minded to further consideration on this issue. My authorities are also of the view that, in light of the complexity of macroeconomic program lending, compared with project loans, there are some areas in which the concept of evaluation does not fit. Evaluation should be conducted within those areas in which viable and meaningful judgment can certainly be obtained. All in all, I strongly suggest that a prudent and restrictive approach is required in considering the coverage and responsibility of evaluation.

I find it convincing that the Fund should first seek to strengthen its internal evaluation. This being said, in view of the importance and possible significant implication of the issue for the Fund's total activity, the Executive Board should be closely and continuously involved in developing evaluation procedure and evaluation policy from its inception. If any entity is to be established for this purpose, it will have to consist of members of the Executive Board. Instead of a task force, I would rather support setting up a committee.

Let me specifically discuss technical assistance, as it is an area in which demand has grown and will continue to grow considerably. The Board may recall that my authorities attach particular importance to this area, and are supporting the Fund's unique role through an administered account. Nevertheless, there is still a severe resource imbalance--both human and financial--in this area. While efforts to increase the necessary resources are continuing, I believe that the Fund should pursue efficiency of the technical assistance program. One encouraging sign is strengthened coordination with other executing agencies. In addition, however, the Fund should be further encouraged to avoid the duplication of technical services with those agencies. In this context, a medium-term country program would be instrumental in placing the Fund's technical assistance more effectively and systematically in the context of other Fund's activities and other agencies' technical services. In this area, it is also imperative to strengthen review and evaluation in order to fix priorities and to screen the ever-increasing demands. Lastly, it would be desirable over the medium term for the Board to have a more formal opportunity to review the technical assistance program in depth. In this connection, I hope that the Board can review the activities of resident representatives more directly, in light of their importance.

Before concluding my discussion on country operations, I would appreciate the staff's clarification about the proposed unification of the charges of ordinary and borrowing resources, suggested on page 8 of EBAP/91/25. I am not sure whether such a proposal really increases transparency. I also wonder whether it may not call into question the rational determination of the Fund's interest rates.

Finally, I reiterate my emphasis on personnel policies, as they are of key importance in motivating and fully exploiting the abilities of the staff. Having said that, I believe that the series of reforms in this area to date generally point in the right direction. In particular, job grading and the orientation toward a merit system enhance the competitiveness of the staff. While public servants like us may not be too familiar with the merit system, I do not think that the system would create any inequality among the staff, provided that it is appropriately

applied. Thus, I believe that the real issue is to create an environment in which the present personnel policies can be implemented effectively. In this regard, I can generally support the proposed initiatives.

Nevertheless, I would point out that performance evaluation should emphasize the quality of work, not simply quantitative performance. If the staff is rewarded merely by the number of programs and missions undertaken, its work load is unlikely to be reduced at all, and quality might fall victim to quantity. Lastly, as a member of the Committee on Administrative Policies, I would like to request that the proposed inter-departmental personnel committee report relevant developments regularly to the Committee on Administrative Policies.

I would like to conclude my statement here in order to listen to other Directors' valuable opinions. However, as every discussion point seems to have significant implications for the Fund's activities in the future, I would like to have a follow-up session at a later stage to take up those subjects in which Directors show the greatest interest.

Finally, let me add that my authorities attach particular importance to systematic issues, the study of the SDR, and the international monetary system. While I did not touch upon these issues enough today, owing to time constraints, our encouragement of these studies is unchanging.

Mr. Goos made the following statement:

Let me say at the outset that I fully share the concerns about the worrisome increase in the work load of the Fund's staff. Judging from my own conversation with staff members, I can confirm that work pressures in many areas of Fund activity have, indeed, reached if not already surpassed the limits of tolerance, thereby jeopardizing not only the quality of the Fund's work and advice, but also the private lives and family relations of the affected individuals. It therefore appears more than timely that we look for effective and swift solutions to this most disturbing situation. On this, I agree with the objectives to be pursued on the medium-term management strategy as outlined in point 3 of the Managing Director's remarks and on page 23 of EBAP/91/25, although I have a few questions concerning some of the proposals made in that context under the heading of Fund work practices to which I will turn later.

Moreover, I found the more detailed information and proposals provided in the paper on the Fund's personnel policies and objectives most interesting, and indeed so relevant to the issue

before us that, like Mr. Kafka and others, I feel the paper should be made the subject of a separate discussion, which could perhaps take place in a seminar setting. Such a discussion should include the latest Ombudsman's report as well as the recent staff survey undertaken by the Staff Association.

Last but not least I would agree that an effective alleviation of the work pressures on the staff will have to include an increase in the existing staff resources. However, and this is a big "however," like most of the previous speakers, I am at a loss when it comes to quantifying what might be an appropriate increase in the number of staff. In the budgetary outlook paper, it is rightly stressed that the issue ought to be considered against the current and prospective demands facing the institution, and against the adequacy of the existing resources and procedures. However, I feel that an important intermediate step is missing--an assessment of the legitimacy of the expected demands on the Fund, or to put it differently, the consistency of those demands with the Fund's mandate. I also miss an effort to set priorities.

These latter aspects, to be sure, were the subject of seminar discussions of both department heads and Executive Directors. But like Mr. Fogelholm, I think it is fair to say that those discussions were largely inconclusive. I stand, of course, to be corrected, if management went away from those seminars with a different impression.

At any rate, I feel that the proposals concerning the size of the Fund are based on a mere extrapolation of the steep increase of the Fund's activities over the last years. This might be appropriate, inasmuch as the consequences of the growth in membership and of the globalization of the institution are concerned. I can also envisage further justifiable increases in the demands on the Fund in the areas of technical assistance and perhaps also surveillance.

But, like others, I have considerable reservations about the projected demands in the areas of use of Fund resources, arrears to the Fund, and debt. I should note that others have not expressed doubts or reservations about the projections on arrears to the Fund and debt, but concerns were expressed about projected demands in the area of use of Fund resources.

On arrears and debt, I would submit that the expectation of continued intensive work over the medium term can only be justified on the assumption that the present arrears and debt strategies are ineffective. If this is so, rather than devoting additional staff resources to those areas, we therefore should undertake as a matter of urgency an immediate review of those strategies.

As to the future use of Fund resources, I remain, as you know, seriously concerned about the reorientation of the Fund's role that has taken place over recent years from a short-term, balance of payments oriented institution toward an institution that in many respects is no longer distinguishable from agencies like the World Bank. And this concern is heightened by indications in the paper that this medium--if not longer-term--focus should be strengthened even further.

To quote some examples, it is stated on page 7 of EBAP/91/25 that "...the institution is to work with countries on a more continuous basis than in the past." On the same page, and still under the heading of use of Fund resources, it is observed that, "in Africa, work is likely to increase"--and this against the background of protracted Fund financial assistance in countries of that region, extending in many instances over more than a decade. Furthermore, there is the expectation that Middle East countries "will probably seek Fund support to deal with long-term economic problems." With all due respect, I wonder what the Fund has to do with the solution of long-term economic issues.

In the same vein, I have great difficulties with the intention to develop medium-term country work programs. While appreciating that such programs might be beneficial in a number of respects, I fear that they would drag the Fund even closer to a longer-term orientation.

Having said that, I think it is worth recalling that, according to the Fund's purposes as stipulated in the Articles of Agreement, the Fund is to make its financial resources available on a temporary basis only. To my mind, we are increasingly disregarding this essential part of the Fund's mandate, and I found it quite conspicuous that no mention is made of this important aspect in the quite elaborate enumeration on page 2 of the paper of the essential features of the Fund.

What are the conclusions of all this for the issues under discussion? Certainly not that I would deny the need for additional staff resources, which I already recognized earlier in my statement. But, like other speakers, I strongly feel that in the absence of a thorough discussion of the prospective demands which the Fund could and should legitimately meet, there is no real basis for justifying a permanent increase in the size of this institution; and for the same reason, I would have great difficulty in giving any advance approval of additional staff positions that might be needed in fiscal years 1993 and 1994.

Now, as to the number of additional staff for fiscal year 1992, like many previous speakers, I would be willing to consider specific proposals on the basis of a detailed request indicating

the allocation of the resources across and within the various departments and bureaus.

Let me now turn briefly to some other issues. First, I should like to encourage the staff to seek a streamlining of the existing lending facilities and practices, whose complexity seems to absorb a growing share of staff resources.

Second, additional scope for reducing the work load on the staff seems to exist also in an improvement of coordination and the avoidance of duplication with other institutions in the area of technical assistance, as indicated also by a reference at the top of page 12 of EBAP/91/25. In this context, I doubt, for example, whether the Fund should become involved in the development of computer systems. At the same time, I share Mr. Kabbaj's view that technical assistance should not be exclusively provided to program countries. Such assistance can have a powerful preventive effect in that it might help forestall the emergence of balance of payments problems in the first place.

At the same time, as mentioned by previous speakers, it is to be recognized, of course, that there are constraints on the Fund's capacity to provide technical assistance services to each and every member country. Like Mr. Spencer, therefore, I wonder whether it might not be appropriate to charge some or all of the costs of such services to the beneficiaries, perhaps differentiated according to the financial strength of members.

Third, like Mr. Peretz, I wonder whether the balance between available resources and existing work loads could not be improved considerably by economizing more vigorously on the number of staff missions. In particular, I feel that missions should go out only if there are reasonable assurances that the authorities are willing to engage in serious discussions with the staff.

Fourth, I am not convinced about the appropriateness of building a more systematic institutional memory in the Fund, at least not at the present juncture, where the fundamental issue of the future role of the Fund and longer-term staffing needs remain to be settled. I make this point because I assume that building up this institutional memory will indeed absorb considerable additional staff resources. In this context, I cannot refrain from commenting on the observation on page 31 of the memorandum that a more systematic institutional memory "would have been helpful during numerous Board meetings in recent years when exchange rate policies were discussed." I, for one, would have put this slightly differently, to the effect that such a memory, if any, might have helped the staff to adopt a more differentiated view on exchange rate policies in recent years, which would have

obviated the need for numerous Board discussions of this issue in the first place.

Fifth, I came across an intriguing reference on page 14 on which I would appreciate some clarification. This is the observation under the heading of policy development and research that important policy issues will occupy us in financial year 1992, including policies on charges. Before engaging in any substantive work on this issue, it might be advisable perhaps for management to initiate informal consultations with the Board.

Sixth, in the area of automation, I have difficulty comprehending what is going on, but I sense from the paper that these activities seem to consume a significant share of available resources. I wonder whether it would be possible to provide a cost/benefit analysis of the ongoing and prospective automation activities.

Finally, I should welcome explicitly the intention to recruit as broadly as possible from the membership. In this context, the Fund, as stressed by Mr. Kabbaj, should also aim at a much broader diversification of the academic background of new recruits. And I should add that perhaps less emphasis should be placed on English language skills where weaknesses could be improved, I believe, by in-house training and broader use of editors.

In a similar vein, I am concerned about the quite limited success so far of the continued efforts of management to reduce employment restrictions on spouses and dependents holding G-4 visas. I therefore would encourage management to step up those efforts vigorously, and hope that Mr. Dawson will convey this perennial and urgent concern to his authorities.

The Deputy Managing Director, in response to Mr. Goos's comments on the need for an assessment of the demands on the Fund and an effort to set priorities, and on what he had referred to as inconclusive seminars, observed that the assessment in the budgetary outlook memorandum of demands on, and priorities of, the Fund for the period ahead drew very heavily on what the Board and the membership had been asking of the Fund over a period of time, particularly over the past few years. He recognized that there had been varying degrees of continuing ambivalence in the Board about the Fund's activities. One of the purposes of the memorandum had been to spell out precisely what the Fund had been doing, what the effect was on the work pressures in the institution, and the need to build up resources to meet those pressures unless the Board provided for a change in direction in the future. The seminar had been useful in pointing to some uncertainties about the direction to be taken, but on a broad, day-to-day basis, the membership made certain demands, and the judgments in the memorandum were to be seen in

light of developments in the past few years and an assessment of their likely continuation, and the implications thereof, in the medium term.

Mr. Goos remarked that he had thought that one purpose of the seminar had been precisely to reconsider the direction in which the Fund had been moving. A mere extrapolation from what the Fund had been doing so far--based of course on requests from the Board and the membership, but also on initiatives from other quarters--would not suffice for a discussion of the medium-term orientation of the institution. He had attempted to indicate a number of areas in which there were concerns about the appropriateness of the Fund's activities. The unqualified statement in the memorandum that the work load in countries would continue to increase in the medium term, after ten years or longer of Fund involvement in a number of countries, was flawed, if the Fund was a short-term, balance of payments oriented--or even a medium-term oriented--institution. Either the effectiveness of Fund programs was at fault, or its activities were inconsistent with the Fund's mandate, which explicitly referred to temporary use of the Fund's resources.

Those fundamental issues had to be reviewed in assessing medium-term demands, Mr. Goos stated. Recent developments could not be taken for granted. While an increase in staff resources might be inevitable, in view of the existing imbalance between resources and demands, the question was the extent to which the increase should be permanent or temporary. That question could be answered only on in light of the fundamental issues he had mentioned.

The Deputy Managing Director replied that a distinction needed to be made between the temporary character of Fund financing and continuous involvement of the staff with countries. Some of the countries that were heavily exposed to the Fund would continue to make additional use of Fund resources during the period of reducing their exposure; others would not. Even in those cases in which a country was not using Fund resources, or had not recently done so, it was in the Fund's interest to provide assistance and advice in dealing with unexpected problems. There were many examples of successful adjustment--for instance, Mauritius came to mind--where after periods in which there had been no use of resources, the Fund had had to send special missions to analyze a sudden change in the situation and make recommendations. That was what was meant by continuous involvement. In some other cases, in Eastern Europe, for example, use would be made of Fund resources over the next three years at least, and perhaps longer. But that did not necessarily mean that the Fund's exposure always would be increasing or that after a period in which no new use of resources was made, after an initial period of adjustment, countries would not continue to look to the Fund for advice and for technical assistance. Experience had shown that they would.

The review of the budgetary outlook was not a discussion per se of the Administrative Budget, the Deputy Managing Director noted; it had to be seen in a longer-term context. After a surge in lending activity followed by a decline in the mid-1980s, the expectation had been that the Fund would be

less involved in countries, and a very restrained approach had been taken to growth in Fund staff. There had been practically no growth in basic operational areas, except for computer development. For the past seven years, manpower increases had been kept under control--indeed, kept below the rate of growth in demand--and the result had been a large increase in work pressures on the staff. Experience had since shown that even after extensive use of Fund resources, and even in the face of declining use of Fund resources, intensive demands on the staff could continue. In addition, the Fund was subject periodically to uncertain developments that might require some countries to use Fund resources again.

Mr. Goos said that he had no quarrel with the need for the Fund to be involved for a longer period in certain countries in providing technical assistance and advice. But the points he had made were related to references in Section 6 of the memorandum, on the use of Fund resources, where the possibility was mentioned of the institution working with countries on a more continuous basis than in the past, and on work in Africa being likely to increase.

The Deputy Managing Director noted that the section in the memorandum on the use of Fund resources covered a range of activities, and one area in which demand on the staff was expected to increase, in many countries in Africa, was technical assistance.

The Chairman said that as members of the Board would recall, in particular from the last discussion of surveillance, the relationship between surveillance and the use of Fund resources was becoming closer. Industrial countries did not use the Fund's resources, but the Fund devoted many human resources to make surveillance effective, particularly with G-7 countries. For countries that did need to use the Fund's resources, effective surveillance under Article IV made it possible for programs to be undertaken without the need for further consultation and investigation. In other words, judgments on the size of the Fund in the future should not be based on forecasts of the use of Fund resources, or the more or less protracted use of resources, although the memorandum might, in some places, have left that impression.

In the final analysis, the Chairman stated, the central issue was the nature and intensity of surveillance in the future, together with the provision of the technical assistance required to make surveillance effective. If countries did not receive that assistance, surveillance would become an abstract and useless exercise. That was why there should be emphasis in the future on technical assistance.

Mr. Marino made the following statement:

Like other Directors, we welcome the wide-ranging paper presented to the Board on the budgetary outlook in the medium term. It comes at a very opportune time when there are important changes in the membership of the Fund that point toward the

globalization of the institution. It seems a particularly appropriate moment to step back and assess the adequacy of the size, structure, and work practices of the institution, especially because some of the uncertainties related to the Middle East crisis have been dissipated to some extent, and also because of the progress made in addressing the debt problem, the arrears situation, the transformation of Eastern European economies, and the finalization of the Ninth Quota Review.

We are very pleased to see that the paper suggests specific actions that respond to many preoccupations that this chair and others have expressed in the past. Particularly important are those first steps that seek to strengthen evaluation in the Fund. Equally important are the ideas and mechanisms put forth to enhance the effectiveness of the Fund in providing technical assistance to member countries.

We see with great interest the efforts to promote inter-departmental cooperation. We hope that these efforts will help improve the speed with which the work done by the Research and the Fiscal Affairs Departments is transmitted and absorbed by the area departments and finally incorporated in program design. Greater interdepartmental cooperation could perhaps minimize some of the inconsistencies that on occasion surface between general policy recommendations and analysis. In this regard, we would be interested in learning more about the functioning of the inter-departmental working group on policy design. Perhaps the staff could elaborate on the progress made by this group in the effort to coordinate policy advice within the Fund. Also on this topic, we would be pleased to see greater involvement of the Research Department in Fund missions. This would serve a dual purpose. First, researchers would become sensitive to the most relevant topics for research in different countries and would have a first-hand look at the problems faced by missions in the field, which would, in general, facilitate the move from the abstract to the concrete. Second, area department economists could benefit from cross-country comparisons made by researchers and the different recent theoretical developments in the topics under discussion.

On the five key issues, we broadly agree with the four points outlined in the memorandum on the main objectives that should guide management policies. In our view, these objectives can be reduced to one: to maintain the highest quality in the Fund's policy analysis and advice in its sphere of competence. To achieve this overriding objective, priorities must be crystal clear, and it follows, tautologically, that the work load of the institution has to be commensurate with its human and material resources. In helping the institution to reach this objective, all the parties involved must play their part. Member countries should not demand that the Fund address issues that it is not well

equipped to handle. However, when the membership does decide that the Fund should expand its involvement in new issues or areas, it should be prepared to give it the wherewithal with which to face this new demand. The quality of the Fund's policy analysis and advice in our mind is the only fixed parameter. Therefore, in order to be consistent, any adjustment has to be made either by reducing or expanding the resources available to achieve these objectives.

From Section II, on the Fund's activities, it is evident that, during the past few years, the Fund has been subject to increasing demands. All of the Fund's resources have been heavily taxed; country operational activities have multiplied, membership has increased, surveillance activities have been expanded, use of Fund resources has been intensive, arrears problems continue to absorb many resources, emphasis on structural and institutional reforms demand greater and more indepth staff analysis, technical assistance and other support activities are increasingly demanded, and many other demands have been placed on the institution. The Fund has responded remarkably well. It has been able to confront this situation in a very efficient manner, it has demonstrated that it has sufficient flexibility to make the necessary re-deployments, and so far the approach taken has been an effective one to what might have appeared to be a transitory bunching of activities. A very clear example was the swift manner in which the task force on the U.S.S.R. was constituted.

However, from the analysis of the medium-term prospects, it seems that many of the perceived transitory demands on the Fund will become permanent features of Fund activities. Therefore, the response has to be an increase in its installed capacity and not merely a rundown of its inventory, which is probably exhausted by now.

On the question of the resource imbalance, we believe that management is in the best position to judge its size, nature, and consequences. However, two very worrisome points for our constituency are made on page 22; one, that legitimate requests for technical assistance have been turned down, and, two, that, due to insufficient resources to perform internal review functions adequately, quality control and uniformity of treatment in Fund relations with member countries have been undermined. This situation should be looked at urgently and corrected, since it goes to the heart of the Fund's operations and credibility.

On the issue of medium-term management strategy, it goes without saying that the balance between resources and work loads has to be restored, and that we should always strive to improve the quality of Fund work. Once the situation is balanced, the staff will have time to devote to the training and education

facilities that the Fund offers. Given the high caliber and professionalism of the staff, once the work load is restored to sustainable levels, supervisors and managers will be able to improve their management techniques.

We see as a step in the right direction the proposals to strengthen evaluation in the Fund as an important instrument to control the quality and uniformity of treatment of member countries using Fund resources and in the surveillance process. It will allow us to learn the lessons of experience. When we have advocated the creation of an independent evaluation unit, our aim has not been to use it to reward or penalize; we believe that it should mainly help to further our understanding of the strengths and weaknesses of Fund policy recommendations. We believe that this function is best served by giving this unit or task force complete independence.

Finally, on budgetary implications, since we have not made any proposals on reducing the work load, we can broadly endorse your suggestion to increase the size of the Fund by about 200 man-years.

Mr. Mohammed made the following statement:

I join in the appreciation expressed of the comprehensiveness of the memorandum on the budgetary outlook in the medium term and its several attachments, in particular, the paper on the Fund's personnel policies and objectives which I agree could be the subject of a separate Board discussion, perhaps in a seminar format. The Managing Director's remarks extract a useful agenda from these papers, although it is the last item, namely, the budgetary implications, which must provide the focus for our discussions.

I believe the papers before us make a persuasive case that the current and prospective demands on the Fund are heavy and growing. The signs and symptoms of resource imbalance are also convincing, but do raise a question in my mind whether the solution proposed, namely, a substantial increase in the staffing level of the Fund, is altogether optimal.

Our institution is subject, in its level of activity, to external shocks similar to those that afflict its membership. One must therefore be on guard against such periodic surges of activity leading to a type of ratchet effect that would predispose the organization to grow at an accelerating rate once it exceeds a certain critical size. I find that several of the considerations brought forward--and I have in mind particularly Item 3, where mention is made of objectives for providing supervisors and

managers sufficient time and incentive to manage their personnel; for providing adequate time and opportunities for training and education of personnel, and for staying stay abreast of professional developments--carry intimations of internal, administrative compulsions that the Fund has thus far managed to keep in their proper place by remaining a fairly lean and tight institution. This is a matter of sufficient importance for us to give much greater attention to issues of the redeployment of staff, improvements in efficiency, and incentives for faster attrition of staffing in lower priority areas than is covered in the papers. I would join other speakers in calling for a better analysis of what the limits to redeployment are, and I would also ask, in reference to a particular point made in the paper, what is the nature of "desirable" duplication? I have in mind a more detailed discussion of the possibilities of savings to be obtained from streamlining Fund procedures and simplifying work practices; a better focusing of the Fund's analytical work on debt, the SDR, and international capital and exchange markets, to name a few areas where work is now distributed in several departments, and finally, a greater use of vendors in place of regular staff.

The issue of size is also important because of its implications for Fund charges. Given the statutory floor on the rate of remuneration and the need to protect the Fund's financial position against the problem of arrears, it seems to me inevitable that any substantial increase in Fund staffing will bear directly on the charges paid by borrowing members. An addition of 200 staff, for instance, would add, as indicated on page 35 of EBAP/91/25, something like \$12-18 million to the Administrative Budget, before taking account of annual salary increases. If a strictly incremental calculation were to be applied to such a large increase in the Administrative Budget, the result would be, other things being equal, a rise in charges of a nontrivial magnitude. Other things will not remain the same, of course, notably the interest rates on the SDR basket, the SDR/US dollar exchange rate which applies to the Administrative Budget, and the periodic adjustments required under the burden sharing decision. It is unlikely, however, that the Fund will benefit from the kind of windfall savings of the large magnitude--something like \$24 million--that resulted from the reduction in employer contributions to the Staff Retirement Plan between FY 1987 and FY 1991; indeed, we now face an increase of something like \$10 million in this item alone in FY 1992.

I want to emphasize that I make this point on the budgetary constraint not in order to suggest that it would preclude a staff increase, because I accept the necessity of additions to staff. I just wish to underline the painful dilemma that faces the institution, which cannot allow charges to reach a point beyond which it becomes difficult for a large part of the membership to continue to use the Fund's ordinary resources. In this

connection, I would very much wish to support the point made by Mr. Yamazaki that the issue of the concessional availability of resources to the Fund is perhaps one of the major issues that we will have to decide on before we implement any large increase in the staffing of this institution.

There is one more issue of a general character that I should mention at this stage. I agree with each of the four management objectives stated in the introduction to EBAP/91/25, but I would suggest we add, as a fifth, the preservation of the operational objectivity of the institution. We are passing through a phase of large-scale realignments in the distribution of political and economic power in the world. This institution must rise--and must be perceived to rise--above the interplay of narrower national interests. However, this principle applies not only to Fund relations across member countries but also within each member country. I am led to this comment by a reference in the paper regarding the role of the resident representatives, who, it is stated, "provide valuable input into the work of headquarters-based staff given their intimate knowledge of the political circumstances affecting economic policy implementation." I would certainly agree that in-depth knowledge of a country's cultural, institutional, and political conditions is important for the type of involvement which the Fund has in many member countries. This should not imply, however, that resident representatives can make political judgments. To my mind, this would be neither productive nor desirable; even where some judgments are considered necessary at the stage of negotiations, an informal consultation with the Board can occur; it would therefore be protective of the independence of an international staff to keep explicitly political judgments outside the scope of their work.

The Chairman remarked that it was indispensable, when complying with the guidelines for conditionality, for instance, to know the setting in which programs developed. It could not be concluded from that that the Fund would interfere with political considerations. Indeed, the long tradition of the institution had been never to do so.

Mr. Mohammed responded that it was not a question of political interference but much more one of where political judgments were made. Those judgments were best made at the level of the Executive Board rather than at the level of the staff. That was recognized in the sense that management drew the Board into informal discussions when preconditions were required in the course of negotiating a program. He had drawn attention to the statement on page 7 because he had found it to be a little out of character with the traditions of the institution.

The Chairman replied that he did not agree, because the Executive Board could not have the type of discussion mentioned if the staff was not able to bring to the Board the analytical elements required for such a discussion.

Mr. Dawson said that he understood Mr. Mohammed's concern, which might perhaps be excessive. The problem that arose in some countries that had programs or were attempting to negotiate a program was that some measures were stated to be politically difficult to take. It was often a matter of the acceptability of certain fiscal measures. The point was that resident representatives were in a position to add perspective to the judgment, but as a matter of information. If the concern was with interference in the domestic policy process--an accusation that had been levelled at the Fund in the past--that was a danger that the Fund ran in any event; it could not be laid at the door of resident representatives.

Mr. Mohammad's statement continued as follows:

On the initiatives affecting Fund work practices, we would support the concept of medium-term country work programs, by reason of the many benefits detailed on pages 27-28 of EBAP/91/25, including facilitating multilateral work on regional issues. There is some question in my mind whether the strengthening of the internal review process would necessarily call for any large increase in staff resources, since reviews would be required less frequently.

On the role of evaluation in the Fund, I am a little puzzled by the recital of its merits, as if this activity is not already carried out by the staff on a "continuous and systematic" basis. The guidelines on conditionality call for reviews by the Executive Board in order to evaluate programs, and we have over the years found a progressively improved product emerging from staff work using different methods of evaluation. The basic remaining issue is, therefore, who carries out the evaluation, and it is not clear to us that an internal unit in the Office of the Managing Director represents an improvement over the present interdepartmental process of review papers prepared by the staff and circulated to the Executive Board with the imprimatur of the management. There may not be, in actuality, a conflict of interest here, but there is surely a perception of conflict when those responsible for recommending particular programs are themselves judges of their results. An external evaluation process is, however, needed for more substantive reasons, but, without recalling them at this time, I would join Directors who have expressed a preference for the establishment of an independent external unit, reporting directly to both the Managing Director and the Executive Board. On the subject of strengthening of institutional memory and assessment, the need is well argued. A systemic memory and assessment base would enhance the quality control that is so important to ensure a uniformity of standards in the application

of Fund policies across countries. It would also improve the Board's oversight capacity, it being taken for granted that any data bases developed with automation support could be accessed by offices of Executive Directors.

The importance of institutional memory raises a question about the history project. This institution has been something of a trail blazer among international agencies in this area, and it might be appropriate to consider reviving the office of historian, as the present work stops at 1976.

Let me conclude with a couple of other points of an organizational character. There is a reference to achieving a "better balance in work load among area departments," followed by citing the increasing importance of regional issues. We would be interested in management thinking on this issue and would seek a confirmation that shifts would only be made with the knowledge and consent of the members affected and the Executive Directors representing them.

The reference to a "single inventory of country needs" as the basis for the provision of both technical assistance and training requires clarification; it is possible to read an implication here that, unless there are a number of interrelated needs, Fund assistance would not be forthcoming. However, there are many members who may call on the Fund for specific requirements; I would hope that such requests would not be given a lower priority if they are unconnected to the use of Fund resources.

Mr. Dawson observed that the memoranda before the Board contained a wealth of information to consider, much of it interesting and useful. However, some of that information was too important to be discussed, much less decided, at one time, and he would welcome the continuation of the discussion on various topics and in various forums.

On the main issue on the agenda, the budgetary outlook for the medium term, Mr. Dawson said that he agreed with almost all previous speakers that the scope of Fund activities had expanded significantly, with commensurate effects on the staff's work load. But it was no clearer to his chair than to others that the increase of the magnitude suggested was warranted. He was even more skeptical of the idea that a front-loaded increase of resources was needed. He was not sure that the Fund was an institution that had the absorptive capacity to handle that sort of increase. As Mr. Mohammed had made clear, one of the Fund's strengths was its "lean and mean" nature, which a 10 percent increase in staff in a short period of time could easily endanger. Whatever decision was eventually taken in terms of staffing, a more phased approach would in any event be appropriate, in his view. He also agreed with most previous speakers that considerably more detail was needed on the specific areas targeted, for personnel increases in

particular. Longer-term historical data series, from 1980 on, or even earlier, would be useful in that connection.

Besides the high and low budgetary scenarios, he would like to have a zero budget alternative, Mr. Dawson noted, so as to see the implications and trade-offs under the various scenarios.

On the redeployment of staff resources, Mr. Dawson reiterated the view of his chair that that source of shifting staff into the more active departments had not necessarily been exhausted. The work load of area departments had clearly increased significantly. Attrition was another issue that his chair had mentioned previously, and like Mr. Mohammed, he believed that it could be taken up again, although the risk to those who, like himself, had followed the approach taken in the World Bank, was that the positive effects anticipated had not all materialized. More information from the staff on the past redeployment of staff, particularly from the statistical area, and suggestions for other possible areas in which additional redeployment could be undertaken, would be helpful. As Mr. Peretz had noted, the fact that the Administration and Secretary's Departments accounted for a large number of staff called for assessment.

As Mr. Fogelholm, Mr. Peretz, and others had mentioned, it would be interesting to explore opportunities for greater Bank/Fund collaboration and sharing, to lessen duplication where it might exist, and to increase savings, Mr. Dawson said. He joined Mr. Peretz in looking forward to a discussion of the possibility of a joint committee of Directors on administrative issues.

Strengthening the evaluation of Fund activities was an important, challenging task, Mr. Dawson noted. Historical and cross-country evaluations were useful in providing context, although priority should be given to evaluations of policy measures and forms of conditionality. He did not agree with Mr. Goos that that would have led to a re-evaluation of Fund exchange rate policy across the board. A task force on evaluation should report to the Executive Board, although he agreed with the Managing Director that an external task force would not be appropriate.

The paper on the midyear review of administrative and capital expenses indicated that the budget figures would be higher than the revised figures approved three months previously, Mr. Dawson noted. He reiterated the view of his chair, expressed at that time, that supplemental requests should be delayed until midyear review estimates were prepared. One of the major overruns, however, had to do with the costs of setting up new resident representative positions, and although it was perfectly understandable, it should perhaps have been foreseen as a not wholly unpredictable consequence.

Finally, Mr. Dawson joined others in looking forward to a full, separate discussion of the personnel policies and objectives, because of the critical nature of the issues for the functioning of the Fund.

Also at the time of the supplementary budget appropriations in December, Mr. Dawson recalled, his chair had pointed to the need for a detailed and comprehensive review of the Fund's financial policies, including forecasting methods and procedures and line management accountability. The Managing Director had indicated his intention to prepare the background material that was before the Executive Board, which reflected an impressive amount of work, but an important part was still missing: details on future staffing and the budget. He looked forward to receiving substantial additional material so that Directors could return to the subject on a more action- and decision-oriented occasion.

Mr. Zoccali made the following statement:

At the outset, we wish to thank management for its frank and comprehensive assessment concerning the budgetary outlook and future evolution of the Fund, viewed in a medium-term context.

This chair agrees with the thrust of the proposed medium-term management strategy, based on the full recognition of a worrisome resource imbalance within the institution and on the need to maintain the high quality and timeliness of its technical and financial assistance to member countries as the guiding principle.

In this connection, we wish to commend the area and functional departments for the level of country work, research, and technical assistance provided to members, often under very demanding circumstances.

While continuing to favor a strict code of leanness and flexibility mentioned by Mr. Mohammed and Mr. Dawson, which has distinguished the Fund in the past, it is evident that the heavy work load and prospects for future activities will require additional manpower and expenditure decisions. The opportunity cost of not taking such decisions will be in terms of institutional credibility. A lower quality of work or insufficient response in key areas, such as country operational activities, technical assistance, policy research, including greater attention devoted to systemic issues, the surveillance process and the implementation of the debt strategy, will undermine the usefulness of the institution. The quality and diversity of the Fund's human capital base should thus be preserved.

Management's call for a front-loaded increase in the size of the Fund over the next three years seems, therefore, justified. Mindful, however, of the already high levels of both charges and arrears, it is nonetheless reasonable to expect that the resulting increase in administrative and particularly capital expenditures will be the object of cost-effective monitoring. Like other Directors, we feel that some more detailed disaggregation of projected expenditures among main groups of activity or internal

units would have been useful for assessing the "high" and "low" expenditure projection scenarios. In this connection, we have some doubts about the effectiveness of a proliferation in the number of task forces or interdepartmental committees, particularly if they are of a part-time nature. Therefore, in the critical area of evaluation, we would tend to favor the creation of an independent evaluation unit within the Fund, devoted full time to strengthening internal evaluation practices.

This having been said, I wish to conclude by briefly singling out two concerns which others have also alluded to as having a bearing on the productivity and management of resources. The first relates to the need for improved coordination with other relevant international financial organizations, such as the World Bank and the regional development banks, including sequencing of country work programs, particularly of aspects dealing with medium-term adjustment. The combined size of often coincident country missions has, at times, seemed larger in number than that of the counterpart national authorities, to the detriment of work productivity and mission duration. The second aspect deals with the proposed development of a more systematic memory and assessment base in the Fund. In supporting this notion, it seems appropriate that attention also be paid to a more coordinated approach to usage of data stored in the major information systems, which again do not always coincide in the inevitable cross-references or communications to member countries stemming from different areas within the institution.

Mr. Al-Jasser made the following statement:

Today's meeting is very important. At the very outset, let me state unequivocally that there is a clear recognition of resource imbalance. This has emanated from the rapid increase in demands on the Fund, combined with only a limited increase in the staff and, more importantly, with very limited redeployment and restructuring of staff skills. It should also be recognized that the ensuing overwork and the perception of inadequate compensation have greatly contributed to the weakening of staff morale. Needless to say, there is sufficient evidence, including the Ombudsman's latest report, pointing toward more serious difficulties in the future if the morale problem is not addressed forthrightly.

Clearly, these factors have already started to affect the commitment and productivity of the once highly motivated staff, and could infringe upon efficiency, even if demands on the Fund remain unchanged. In other words, the resource imbalance and related problems should be viewed as symptomatic of a rather complex phenomenon, which cannot be dealt with independently.

The difficulties we are encountering today, and which are supposedly casting a shadow on the future, cannot be simply resolved by prioritizing our tasks, nor can they be handled by having additional staff resources. Instead, they require a comprehensive and simultaneous response. The staff papers and the Acting Managing Director's report are very helpful. However, there is a need for a more precise definition of goals, so that one could translate them into operational decisions concerning budgetary outlays and staffing.

In particular, while there has been an increase in demands on the Fund and in the use of its resources, I am not entirely sure that this trend will continue in the medium term. There is little prospect for any marked increase in membership. Similarly, the Fund's involvement in the Central and Eastern European countries cannot but remain unchanged, at best, while external debt problems remain under control. The future demands on the Fund seem less forbidding than at present. This does not mean that the problem of resource imbalance will disappear of its own; far from it. But the question is: how do we define it and then address it?

The papers before us do not spell out precise objective criteria for establishing the need for the additional 200 man-years for the next three years. Here, I agree with Mr. Peretz and other speakers: why not 150 man-years or even 250? This lack of clarity and precision has raised a number of imponderables. For example, which departments need additional resources, and what kind of skills would be needed? Why is the request for additional staff front-loaded? Most important, have we fully exhausted the important alternative of redeploying and altering the skill mix of the staff? One has to have adequate information on these issues and the criteria to clearly comprehend the need for additional staff resources.

I am inclined to believe that, with an appropriate prioritizing of prospective demands, we could handle additional work pressure efficiently and without a large increase in the size of staff. A number of pressures, such as the work load related to arrangements under the SAF and ESAF, as well as the enhanced technical and financial assistance to the East European countries, should be viewed as substantially nonrecurring. Clearly, to meet those demands, we appropriately did not opt to go for a full "passthrough" in the form of additional staff, to borrow the term so extensively used during the discussion of the oil-import element under the CCFF. As such demands are not permanent and should decline in the future, pressures would recede, thus permitting a more comprehensive redeployment of the staff. I would suggest that such a redeployment be supplemented by the infusion of some additional staff and the much-needed change in the skill mix to address the emerging evolution of the Fund's

role. This, of course, will require a more comprehensive analysis by the staff.

To implement such an approach, I would recommend that we take a fresher look at our manpower policy. In our zeal to maintain a very high quality staff--which is a commendable objective--we may have sown seeds of discontent by demanding too much and too diversified an output from the economist staff. Perhaps the time has come to consider the option of establishing a new cadre of professional staff, who, given the Fund-wide application of automation, could assist the desk economists by taking up routine tasks. In the process, the latter could focus on more challenging, policy-oriented tasks. This approach has the potential for not only alleviating work pressures, but also enhancing the role of the economists, besides being cost-effective. Indeed, the efficiency of the Fund would improve, and the morale of the professional staff would be boosted. I recognize that such restructuring of skills is a long-term proposition. But, at present, when there is a recognized need for some additional staff, we have the opportunity to implement it in a substantive way. I would like the staff to look seriously into this proposition.

Concerning Fund work practices, I agree with Mr. Kabbaj that the support for the Institute should be increased. This department plays a very central role in providing technical assistance to member countries and in establishing cordial relations with the officials of those countries. The role of the Institute is preventive in nature and, as the saying goes, an ounce of prevention is better than a pound of cure. Regarding area departments, there is a need to further clarify management's views concerning their status in terms of the objective of better balancing the work load among these departments. I agree with Mr. Kabbaj that any contemplated changes in area departments should be made in full consultation with, and the understanding of, the respective Executive Directors.

I note the proposals to establish a task force in the Managing Director's office to strengthen the evaluation of Fund operations. However, I have always been under the impression that internal evaluation is pursued on a continuous basis within each department. While I am supportive of strengthening this internal process, this is not a substitute for the independent evaluation unit that we have been requesting for a long time. In this context, I fully endorse Mr. Kabbaj's position for the creation of an independent unit that would report directly to the Board and to the Managing Director.

Concerning other matters, I fully support the strengthening of institutional memory and ensuring a fuller access to the staff

and the Board. Finally, I am pleased to note that the proportion of the Fund's staff recruited from developing countries has risen measurably in the 1980s. This is a good development. Could the staff provide information on the breakdown of the new staff from that part of the world according to job categories and grades?

With those comments, I look forward to further information on these matters, so we can reach more definite understandings.

Mr. Filosa made the following statement:

The paper for discussion today offers a very comprehensive view of the major changes that occurred in the Fund's activity in the recent past, and a rather accurate account of the reasons why the work load has dramatically increased in parallel with the growth of the responsibilities that the membership has attributed to this institution. It also focuses on the major issues that have an influence on the size, the structure, and the working practices of the Fund over the medium term and, finally, comes to some conclusion on the projected path of administrative and capital expenses for the next three years.

Let me say at the outset that, while I agree with many of the premises of the paper and while I also concur with the staff on the need to pursue many of the objectives, I fail to find in the paper an analytical framework sufficient to enable me to come to the conclusion that, given those objectives, the manpower growth and the corresponding expenditure projections must be precisely those quantified in the budgetary outlook, both the high and low versions.

In other words, while I agree that some increase in the staff is necessary and that the recruitment of new personnel needs to be front-loaded, I am not in a position, on the basis of the documentation available in the papers, to answer to the basic question of whether the proposed staff increase of 150-200 people over the three-year period is justified, or whether some other amount, half or twice this figure, could be more appropriate estimates of the personnel growth required for the Fund to discharge its mandate effectively.

It is unclear what the implications are in terms of personnel growth relative to each of the major objectives indicated on page 23 of the paper, particularly if one considers that, for each objective, and given the initial imbalance, the manpower requirement can vary widely in relation to the scope and depth to which it is intended to pursue an objective. It also remains unclear in which departments major imbalances exist and need to be corrected. The skill and seniority composition of new staff that is necessary

to eliminate imbalances and bottlenecks is not evident to me. Also, like Mr. Peretz, I wonder whether saving of resources is possible by increasing efficiency or by an appropriate setting of priorities or cutting down the list of objectives.

To clarify these issues, I believe that a more transparent and analytical presentation of the basic determinants of the estimates needs to be prepared. It is my view that a detailed paper is the most appropriate way to make the process convincing.

To elucidate my view on the basic issues raised in the paper, let me turn now to the remaining four groups of problems identified in the paper and in the Managing Director's statement.

Concerning the prospective demands and priorities of the Fund, it is my view that three major developments need to be sharply focused upon in order to accurately find the appropriate size and quality composition of resources necessary to cope with the problem. The first is the increase in membership and the particular geographic concentration of the new members. The second is the growing demand for technical assistance which the Fund is asked to provide and to coordinate for a prolonged period of time. The third is the need to identify and address systemic issues on which, I am afraid, the paper needs a better focus.

Concerning the first two sets of issues, I believe that a major effort is required to quickly eliminate the resource imbalances that have clearly emerged as a consequence of the specific role that the Fund is playing and is expected to play in regards to new member countries and in the areas of technical assistance. I note that some of the departments that are likely to be more affected by the increased membership and by growing demand for technical assistance are also those that have registered the greatest increases in personnel. Does this mean that imbalances have already been corrected? A response to this question will be appreciated.

Concerning technical assistance, I want to praise the recent new techniques used to make technical assistance more effective. Given the systemic influence that technical assistance is playing in a number of countries, in particular but not exclusively or predominantly in Eastern Europe, I suggest that, in addition to personnel additions, the criteria for governing the provision of the technical assistance should be strengthened, for example, limiting technical assistance to those countries that in the past have not made good use of the advice provided by the Fund.

Before leaving this subject, I would like to stress that I do not think that the personnel imbalances are a specific consequence of the increase in membership and the increase in requests for

technical assistance, because this would amount to saying that imbalances are fairly concentrated in a few departments. The paper is clear enough, although not very generous in details, on the fact that work loads have increased beyond the level of tolerance in almost all departments. Therefore, I am very much in favor of those measures capable of reducing the discrepancies between resources and work loads.

Also, I would like to see a rapid correction of the widespread indication of the low morale of the staff and of the present shortcomings concerning the review process of country briefs and papers. I am concerned that the staff, and I quote from EBAP/91/46, "do not have sufficient time to think or to learn about what they are doing, and that there is no time to manage, motivate and develop the personnel." In an institution where the main assets are the intellectual resources and the dedication of the staff, the adoption of measures aimed at immediately eliminating the excessive demand on the staff and promoting a better management of personnel should be given the highest priority. The proposal contained in the paper on the Fund's personnel policies and objectives seems to be a step in the right direction, in particular the measure to be adopted to improve coordination between the central personnel functions and those of individual departments. Concerning personnel policy, recruitment, and remuneration, I share entirely the comments by Mr. Cirelli.

Finally, a few comments on Fund work practices. I have little to say concerning the labor-using character of the medium-term focus of Fund surveillance. However, while I realize that the medium-term issues imply some increase of the staff time, I do not believe that the greater medium-term focus of the Fund's work per se implies a substantial addition to the demand made on the staff. What concerns me is what it said on page 26 of the main papers, where it is affirmed that the approach to surveillance "is also becoming a more continuous process as some countries look to Fund analysis and advice outside the consultation cycle," and that the "frequency of discussion with national authorities has increased, reflecting often prolonged policy discussions and more frequent reviews." I believe that this process should not be encouraged.

I am not aware of any significant case in which prolonged discussions have originated in the insufficient quality of the staff analysis. If the reasons for prolonged discussions lie elsewhere, namely, in the unwillingness of the countries to adopt the necessary measures, then this process should be firmly discouraged.

Concerning the strengthening of the evaluation of the Fund's work assessment, I support the idea of an evaluation unit to be

established in the Managing Director's office to complement the evaluation work performed within the departments. While sharing the basic principle governing the evaluation activity described on page 28 of the main paper, I think that both the size of the task force and the approach to the evaluation of the Fund's work should be discussed in depth. An appropriate occasion to develop ideas would be our next work program discussion.

Concerning the strengthening of institutional memory and assessment, I see the merit of the suggestions made in the paper. Here, however, we should avoid following a historian's approach by preparing catalogues or chronologies. The main focus should be one consistent with the main objective of drawing lessons from the past as far as the quality and the effectiveness of the Fund's policy advice are concerned. I submit that the strengthening of our institutional memory should be limited to the amount of work that is strictly necessary to improve the quality and the quantity of our evaluation work.

To conclude, I repeat that I consider it essential to specify more precisely which objectives we want to pursue, and which priorities we want to establish. Only then would it be possible to assess the consistency between instruments and objectives and, consequently, give a final shape to our budgetary outlook.

Mr. Prader made the following statement:

The Fund is an action-oriented institution of a quite unique nature. Among all the multilateral institutions, it is probably the institution with the highest academic background, activity, and contacts that are necessary in order to perform its paramount role of supervising international economic relations, influencing economic policy decisions by member governments, and providing financial assistance in the most effective way. Hence, the Fund fulfills the singular function of bridging the academic and real worlds and of integrating international considerations into national policy decisions.

The only way for developments in the real world not to influence the work of the Fund would be if the Fund were not to fulfill this role and relevant functions. Therefore, if we can reflect today on the changes this institution has gone through over the last years, and try to deal with the problems encountered, this clearly demonstrates that the Fund has been successful in fulfilling its basic role. Such an optimistic conclusion means neither that the Fund has succeeded in all its operations nor that the internal working of the institution is without problems. But this conclusion does indicate that the

evolution we have witnessed and the transition problems we encounter are not self-correcting phenomena.

The opening up of national economies, the increased importance of external commercial and capital flows for all Fund members, the movement toward market economies in many African, Asian, and Latin American countries, the recent abrupt but generally peaceful demise of communism in Eastern Europe, and the internationalization and globalization of financial flows, are all fundamental phenomena which have shaped the natural field of action of the Fund in the past. These phenomena have acted in the same direction, namely, to transform and to increase the services demanded from this institution. Nobody knows with certainty what future events will look like. The changes over the coming years may or may not reach the speed, aspiration, and intensity of those witnessed during the past decade. One can, however, expect that these changes will further unfold over the coming years and hence will further increase the work load of this institution. Alternatively, it would not be realistic to anticipate a sudden deceleration or even a reversal of these changes. Moreover, it would be imprudent not to endow the institution with the resources which are necessary for an effective discharge of its responsibilities.

Over the past years, the Fund has been cautious in the management of its human resources and has not immediately reacted to the increasing work load. This type of behavior could be justified by the need to ascertain first the transitory or permanent nature of this work load increase. With the benefit of hindsight, the case could now be made that the Fund's human resources should have been increased to a larger extent than they actually have been. Also, it is not evident that it was indeed prudent management to increase the work load of our human resources as we did. The recognition of both the presently insufficient human resource endowment and the prospective services which will be asked from the Fund, calls for corrective actions. It has become urgent in our view to increase the overall work force of the Fund. The management proposal to increase in a front-loaded way the total manpower by 200 man-years over the next three years, in principle, appears reasonable, but this idea will need further clarification, in particular on the link between the present resource imbalance and the concrete conclusion of a 200 man-year requirement. I would also expect that specific proposals on the respective departmental assignments will be made before we actually proceed with the hiring of new personnel.

Some months ago, I was struck by the very gloomy outlook in the eleventh annual report of the Ombudsman and by his extremely forceful conclusion: "It is to be hoped that changes will take place in the forthcoming year which will reduce, if not eliminate,

the costly and wasteful depreciation of the Fund's primary and critical asset, its people." I welcome the seriousness with which management has approached the concerns expressed in the Ombudsman's report. The medium-term human resource management strategy established in the budgetary outlook paper, as well as the approach contained in the paper on the Fund's personnel policies and objectives, go a long way toward addressing and solving the morale and other personal problems which have been identified. With the Fund's work load having become heavier, more diversified, and complex, and with the Fund's deep involvement in an ever larger number of member countries, the consequences in terms of additional manpower have become unavoidable.

The increased work load does not necessarily call for departmental reorganizations, but rather for a constant effort to allocate and reallocate resources in the most efficient way and to strengthen interdepartmental cooperation and the flow of information. These requirements do not warrant an increase in manpower as such, but rather point in the direction of establishing on an institutional basis the mechanisms of increased communication and cooperation within the Fund.

For an institution the size of the Fund, which has to perform the type of high-caliber service to its whole membership, no achievement of today can be taken for granted for tomorrow. Independent of its research and profound economic country studies, the Fund's work quality to a large extent depends also on the "learning by doing" principle. The need for a constant feedback of empirical results into the appraisal and program-building activity is but too obvious. There are, however, many ways in which this constant feedback cycle can be integrated into the overall activity. But again, given the size, scope, and diversity that the Fund work has reached, the case can indeed be made for institutionalizing the requirements for evaluation. Independent of the necessity for constant evaluations in each department, the creation of a specially designed task force could well act as a catalyst for change and improvement. The work performed by this small task force needs to be done in a most transparent way, and, in that regard, reporting to this Board would be essential and appropriate.

In addition, the benefits of evaluating the Fund's performance can be buttressed by the Fund's institutional memory and assessment. The only qualification to the idea of an institutional memory is perhaps that all comparable historical efforts in creating such encyclopedias of knowledge--from Diderot's Encyclopedia to the Oxford English Dictionary--have taken decades.

Notwithstanding these remarks, the greater stability in job assignments that should be the result of an appropriately

increased work force, together with a new emphasis on the necessities of evaluation and institutional memory, should substantially enhance the Fund's approach to and assessment of country problems in both a short- and medium-term perspective. If we can agree on these measures today, I would not consider it compelling to change the Fund's general approach to member countries by institutionalizing medium-term country work programs. As a side remark, the unwillingness of most chairs today to accept the staff's medium-term staff projections does not bode well for the future medium-term orientation of staff reports.

If the Fund wishes to provide the type of work which is required, the institution has to be endowed with the appropriate resources. Despite our concerns about the biased nationality distribution of the staff, we agree in principle with the need to increase in a front-loaded way the Fund's manpower by some 200 man-years over the next three years, but--like others--I would like to see a more specific demonstration of the need for additional manpower. The budgetary implications are far from being negligible or sufficiently specified. Prudence and detailed analyses have therefore to be applied in order to keep the cost increases to a minimum. Ultimately, however, cost increases are unavoidable.

I have addressed only a few of the many issues contained in the papers. Let me briefly comment on some others.

I fully support the emphasis on technical assistance. Many Directors have warned against duplication, but there may be a case for countries to ask for a second opinion and to be justified in doing so. For instance, a country might like to assess the implications of a particular form of technical advice implied by the option of a technical assistance consultant. Should it, for instance, accept a priori the introduction of a cheque system associated with one consultant's institutional background, or should it also try to evaluate the merits of a Giro system?

On a specific aspect of another form of the Fund's technical assistance, namely, the IMF Institute, like Mr. Kabbaj, I have no real explanation for the discrepancy between strong Board support for the Institute and the steady erosion of the Institute's resources and functions. Since disregard by management for the Board's support for the Institute cannot possibly be the case, I wonder what really is behind the downgrading of the Institute. I should also say that the announced reorientation of the Institute in the direction of providing only training for program countries represents a serious misunderstanding. The Fund has not only program country members, but also well-off industrial members which need to be trained to understand better the Fund.

On the electronic transmission of documents, I would like to join Mr. Fogelholm, because I too feel that the Fund lags far behind other institutions and private organizations. I would welcome the availability of the necessary technical facilities to introduce the relevant procedures. Like others, I also believe that a simplification of Fund facilities would help save manpower needs.

The Executive Directors agreed to resume the discussion in the afternoon.

APPROVED: October 30, 1991

LEO VAN HOUTVEN
Secretary

