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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/91

10:00 a.m., July 12, 1991

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
G. K. Arora	
C. S. Clark	
Dai Q.	
	J. M. Abbott, Temporary
	S. B. Creane, Temporary
J. de Groote	J. Prader
E. A. Evans	
R. Filosa	N. Kyriazidis
	A. F. Mohammed
	I. Fridriksson
	B. Esdar
J. E. Ismael	T. Sirivedhin
A. Kafka	G. Bindley-Taylor, Temporary
	J.-L. Menda, Temporary
	O. Kabbaj
L. B. Monyake	
	C. J. Jarvis, Temporary
G. A. Posthumus	
	Y.-M. T. Koissy
	R. Marino
A. Vegh	A. G. Zoccali Temporary
	N. Tabata
	M. Nakagawa, Temporary

L. Van Houtven, Secretary and Counsellor
T. S. Walter, Assistant

Also Present

Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; T. Cole, S. W. Hern, J. B. Kaiser, G. Vaughan. Exchange and Trade Relations Department: J. T. Boorman, Director; H. M. Flickenschild, P. Price. External Relations Department: J. D. Simpson. Legal Department: W. E. Holder, Deputy General Counsel; P. L. Francotte, J. S. Powers. Secretary's Department: C. Brachet, Deputy Secretary; R. S. Franklin. Treasurer's Department: D. Williams, Deputy Treasurer; B. E. Keuppens, C. P. McCoy. Advisor to the Deputy Managing Director: E. Brau. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: C. D. Cuong, B. R. Fuleihan, A. Raza, B. A. Sarr, S. von Stenglin. Assistants to Executive Directors: T. Berrihun, C. Björklund, J. A. Costa, H. Dognin, T. P. Enger, N. A. Espenilla, Jr., S. K. Fayyad, M. A. Hammoudi, P. L. Rubianes, D. Saha.

1. SURVEILLANCE - REPORT ON DELAYED COMPLETION OF ARTICLE IV CONSULTATIONS AND EXTENSIONS OF APPROVAL OF EXCHANGE MEASURES

The Executive Directors considered a staff paper on delayed completions of Article IV consultations and extensions of approval of exchange measures (EBD/91/206, 7/1/91; and Sup. 1, 7/3/91).

Mr. Abbott made the following statement:

At the start, I would like to thank the staff for its very useful innovation in preparing a consolidated report on the delayed completion of Article IV consultations and extensions of approval of exchange measures. This paper would be welcome simply as a housekeeping measure to help reduce the volume of the separate reports circulated to the Board--a goal that we have long supported. But, more important, it gives the Board an opportunity to focus in a more systematic manner on an important aspect of our surveillance responsibilities: the timely completion of Article IV consultations.

In our view, it is a cause for concern that 25 member countries are now behind schedule in completing the normal cycle for Article IV reviews. This Board has consistently and repeatedly expressed the view that the conclusion of bilateral Article IV consultations is an essential component of surveillance over exchange arrangements. Just as member countries have an obligation to cooperate in these reviews, we have a responsibility to ensure that consultations are carried through to the stage of Board consideration.

A useful feature of the report prepared by the staff is that it allows us to examine more systematically the reasons for delays in concluding Article IV consultations. In the footnotes to Table 1, four categories of delays are noted. Changes of government or unstable political situations are cited as the basis for delays in concluding consultations in four countries. This is fairly straightforward and understandable. Any further information that the staff could provide on the prospects for concluding consultations with these countries would, of course, be welcome.

For three countries, the delay is attributed to staff constraints. This is a rather general categorization, and I would appreciate a further explanation of the nature of the staff constraints and the steps that are being taken to remove them.

In three cases, delays are attributed to requests from the authorities of the member countries. From the information available to us, some of these requests seem to be better justified than others. Luxembourg's responsibility as EC President during the first half of 1991 provided a fully justifiable basis for requesting a delay, but we are not quite sure why the delay should extend all the way until January 1992. In the Republic of Yemen, the administrative problems involved in consolidating the accounts of the newly unified country provide a justification for delay, but, even granting the disruptions caused by the Middle East crisis, there seem to have been more slippages in the timetable than necessary. Brazil is also pegged as a country where the authorities have requested a delay. In our view, this is an inadequate explanation for the long delay in concluding an Article IV consultation with Brazil.

In 14 of the cases cited, the delay is attributed to ongoing discussions on the use of Fund resources. It is precisely in these cases, we believe, that closer monitoring and more discipline is in order. Program negotiations do not lend themselves to the regular timetables preferred for conducting Article IV consultations. Thus, there is some inherent tension between our desire to tidy up the work load by combining program reports with Article IV reviews and our responsibilities for systematic surveillance. We believe that, to the detriment of the surveillance function, there has been a tendency recently to accept too easily ongoing program negotiations as an excuse for tolerating slippages in Article IV reviews.

In the Board's reviews of surveillance, the standard has been consistently applied that an annual paper on each member country's status would constitute the key surveillance document. Also, there has been a firm view that a Board review and a summing up should be an essential feature of the conclusion of an Article IV consultation. This was a point of much discussion in recent Board deliberations on the handling of interim reports for countries on the bicyclic schedule. It is also worth recalling the Board's discussion on the question of which countries should be on an annual, and which on a bicyclic, schedule. While a range of views was expressed on the question of where to draw the dividing line between annual and bicyclic consultations, there was virtual unanimity on one point, namely, that G-7 countries and countries using Fund resources should be on an annual cycle.

Therefore, I believe that the "ongoing discussions on the use of Fund resources" mentioned in the footnote to Table 1 should not be used as a rationale for delaying consultations until a consolidated single report can be presented; instead, it should create the presumption that the timely completion of an Article IV consultation is a matter of some urgency. We recognize that some flexibility is inevitably required; however, in cases of extended delays based on continuing program discussions, timely Article IV reviews, including Board evaluation, would seem to be most useful.

Several of the cases summarized in the paper before us illustrate this point.

The negotiation of second- and third-year arrangements under the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) frequently seems to encounter delays that lead to lags in the completion of Article IV consultations. Mauritania falls into this category: although the problems that have held up completion of a second-year ESAF program--inadequate external financing and failure to take needed policy actions--are understandable, the newly scheduled August 1991 consultation discussions leave us a full year overdue for an Article IV review, even given the allowed three-month grace period. Moreover, the delay in Benin seems to be linked to similar delays encountered in that country's SAF negotiations. We believe that the problems that have caused delays in these program negotiations are precisely the sort of matters that should be brought to the Board's attention through the Article IV consultation process.

Slippage connected with stand-by negotiations is also a problem. Nigeria is out of cycle, even though it concluded a stand-by arrangement in January 1991. Its Article IV consultation was to have been staggered to coincide with the first review of the stand-by arrangement, which, in the event, did not take place in a timely manner. Slippage in the Article IV consultation with Paraguay is also associated with delays in negotiating the stand-by arrangement. A Paraguayan request for a stand-by arrangement was circulated in January 1991; however, it was withdrawn prior to consideration by the Board. As a result, the Article IV consultation was pushed off cycle, and, because of Paraguay's interest in negotiating a Paris Club agreement, the lack of a recently concluded consultation has caused some awkwardness for creditor governments. On-again off-again stand-by negotiations have also led to many delays in completing the Article IV consultation with Ecuador, although this now seems to be on the way to resolution. The delay in concluding the Article IV consultation with Uruguay likewise seems to be associated with difficulties in concluding a review of its stand-by arrangement.

As mentioned earlier, Brazil stands out as a very important country where slippage in Article IV reviews is particularly noteworthy. Based on the current schedule, there will be two full years between the conclusion of Article IV consultations with that country. As in Ecuador's case, this delay has been associated with on-again off-again attempts to negotiate a program. At one point in 1990, the stage of preparing a draft letter of intent had been reached. Since the most recent Article IV consultation in 1989, there has been a change in government, two major economic policy packages have been introduced, and important negotiations with commercial bankers have been conducted. Moreover, according to the press, the Brazilian authorities are again interested in negotiating a Fund-supported program. Despite the importance of these developments--and the importance of Brazil to the world economy and to this institution--the Board has not had an opportunity to systematically review economic developments in that country since October 1989.

In all these cases, delays in concluding Article IV consultations have denied the Board the opportunity of being informed on a timely basis of developments and problems emerging in either program countries or countries expecting to draw on Fund resources. Our Board responsibilities require us to consider these delays as a cause for concern. We would encourage member countries to cooperate by staying on an orderly cycle of Article IV consultations. Likewise, as the staff works to strike a balance between program and Article IV consultation requirements, we would encourage it to give additional weight to its surveillance responsibilities, particularly in those cases in which program issues merit Board review.

With respect to the new report format that the staff has developed, Column 2 of Table 1 gives the required date for completion of the next consultation as either 15 months or 27 months after the completion of the prior consultation. This procedure builds in an automatic allowance for the customary three-month grace period. However, as the consultations are on annual or biannual cycles, it would be more appropriate to show 12- or 24-month intervals in Table 1. The grace period should be treated as a grace period, not as a norm.

Moreover, as new names appear on the list in future reports, a fuller explanation of the particular circumstances causing delays in the completion of those countries' Article IV consultations would be useful.

Mr. Posthumus said that he shared Mr. Abbott's concern about the effect that delays in finalizing program discussions had on the timely completion of Article IV consultations with some countries--Brazil, for example. Similar problems had also developed when Article IV consultation discussions of countries following the bicyclic procedure had been postponed. The Fund had never intended for either type of situation to arise.

However, he took exception to the suggestion that the Board had agreed that both G-7 countries and countries with Fund-supported programs should be on the annual consultation cycle, Mr. Posthumus stated. On that point, the two groups of countries should be dissociated, as a good case could be made for holding biannual Article IV consultation discussions with program countries unless they had specific problems.

Mr. Esdar said that he shared the concern expressed by Mr. Abbott. On the one hand, if the discussions on stand-by or extended arrangements were ongoing, flexibility in handling delays in the completion of Article IV consultations was justified. On the other hand, if, as with some countries, the delays extended for as long as 9-12 months, and if the most recent consultation had been completed 18-24 months previously, there would be cause for concern.

Mr. Monyake said that he agreed with Mr. Posthumus on the issue of combining Article IV consultations with reviews of the use of Fund resources. In light of the Board's most recent discussion on the Administrative Budget (EBM/91/62, 4/24/91), and especially in light of the reaction of some Directors to the explanations offered for the proposed personnel-related budgetary increases, it would seem to be more economical--in terms of time, man-hours, and funds--if the staff could complete an Article IV consultation discussion and discuss the use of Fund resources on one trip, rather than make two separate visits to a country in a short period. Admittedly, it was essential to track developments in a country negotiating or implementing a Fund-supported program, and it might in other circumstances be desirable to proceed with the Article IV consultation process; however, in the Fund's current budgetary situation, it was not physically practicable to do so.

With respect to the staff constraints cited in the paper, Mr. Monyake added, it was important to remember that, during its most recent discussion on the budget, the Board had expressed its reluctance to increase the size of the staff. However, unless that question were addressed, staff constraints would continue to cause delays in the completion of Article IV consultations. Certainly, the staff assigned to deal with the countries in his constituency were fully extended and in need of reinforcement.

Mr. Arora observed that Mr. Abbott had raised an important point: undoubtedly, according to the Fund's By-Laws, the annual surveillance procedure had to be complied with. However, that point was perhaps more procedural than substantial in nature. As the staff paper clearly indicated, many countries were facing some extraordinarily difficult problems. In those circumstances, to produce an Article IV consultation report without any reference to a country's--or the international community's--efforts to deal with those problems would not be very beneficial.

Therefore, as Mr. Posthumus had pointed out, the underlying rationale for combining discussions on the use of Fund resources with Article IV consultations would inevitably seem to lead to delays, Mr. Arora remarked. Patience was called for, as, in real life, those kinds of problems had to be handled with a certain understanding. If, however, procedure were to be emphasized at the expense of substance, the Board might not be the beneficiary--and the countries affected certainly would not be.

Mr. Prader said that he shared the concerns expressed by Mr. Abbott. However, in order to be able to make a judgment on the issue, it would be helpful to know whether the number of countries currently experiencing delays in completing Article IV consultations--25--represented a significant increase over the numbers recorded in earlier years.

Mr. Evans commented that, although he, too, shared Mr. Abbott's concerns, he also sympathized with Mr. Arora's views. The successful completion of a discussion on the use of Fund resources was rather more important than the timely completion of an Article IV consultation. Nevertheless, if the staff felt that the authorities were unduly delaying the consultation process, the Executive Director for that country should be responsible for inserting a comment to that effect into the monthly report on the delayed completion of Article IV consultations.

Mr. Jarvis said that he agreed with many of Mr. Abbott's comments. However, there often might be less of a contradiction in practice between, on the one hand, the need to conserve staff resources and organize staff time systematically and, on the other, the need to complete consultations on a timely basis. In those countries in which programs were being negotiated, substantial discussions between the authorities and the staff would already have taken place, thereby reducing the time needed to complete the Article IV consultation. Obviously, those problems would have to be sorted out on a case-by-case basis.

With respect to Brazil--which Mr. Abbott had cited as a particularly clear example of a country whose Article IV consultation completion had been long delayed--the proposed deadline for the next consultation had been postponed until October 1991, Mr. Jarvis noted. It was not at all clear why such a late date had been set, especially in light of the impending mission to that country.

Mr. Kafka said that, with respect to the periodicity of consultations, he strongly agreed with Mr. Posthumus, Mr. Arora, and Mr. Evans. Mr. Prader had also asked a very useful question.

In the case of Brazil, Mr. Kafka observed, the Fund mission had been interrupted by the replacement of the Finance Minister. It would take the new Minister some time to assemble a new team and assess the economic situation, including both the changes that had recently been made and those that had not yet been implemented. Both the Brazilian authorities and the staff wished to move ahead as quickly as possible to complete the Article IV consultation and gain access for Brazil to Fund resources.

The Director of the Exchange and Trade Relations Department said that the objectives of, on the one hand, streamlining the reporting system by simultaneously preparing staff papers on the use of Fund resources and the Article IV consultation and, on the other, sticking as closely as possible to the established consultation cycle were not necessarily contradictory. However, as Mr. Abbott had correctly pointed out, tensions arose when--for whatever reason--negotiations on the use of Fund resources became protracted. Perhaps a ministerial change had taken place, the authorities were uncertain about their ability to steer a budget through the legislature before the agreed deadline, or other factors had intervened to delay discussions. In those situations, the staff had to decide whether the prospects for an early agreement on the use of Fund resources were favorable enough to justify a temporary postponement of the Article IV consultation. Unfortunately, the staff was not always infallible in its decisions, as unanticipated further difficulties sometimes arose. Sometimes, moreover, the authorities--dissatisfied that the negotiations had not been completed, yet hopeful that policy measures could be introduced in the near future--did not welcome the prompt conclusion of an Article IV consultation.

At present, as Table 1 indicated, few of the delays in the completion of Article IV consultations were due to staff constraints, the Director noted. In some of those situations, staff members were working on more than one country; protracted discussions with one of those countries meant that scheduled visits to the other country might have to be postponed. Although those difficulties would inevitably arise, the authorization of additional staff agreed by the Board in the current budget was at least a partial solution.

The staff would look carefully at the suggestions made with respect to the format of Table 1, the Director stated. The point was well taken that the grace period for completing Article IV consultations should not be treated as the norm, and the second and fourth columns in the table could be modified accordingly. Similarly, additional information could be included in the footnotes, particularly for the new cases that would be added to the report each month.

In order to place the information in Table 1 in historical perspective, the Director of the Exchange and Trade Relations Department said, it was helpful to know that, in 1989 and 1990, 30 and 28 consultations, respectively, had taken place after the deadline. Through end-May 1991, the completion of 15 consultations had been delayed--a slightly higher rate than in previous years. However, as a country that had completed none of its consultations during that period would not be captured by the preceding statistic, it was perhaps more useful to look at the number of countries whose Article IV reviews had exceeded the specified consultation interval in a given year: 24 in 1986; 38 in 1987; 45 in 1988; and 45 again in 1989. The Board paper on the biennial review of the Fund's surveillance over members' exchange rates (SM/90/103, Sup. 1, 5/29/90) clearly documented that growing problem.

The Chairman said that the Directors seemed to agree that the current Board discussion was a healthy reminder of the importance to the Fund of the timely completion of Article IV consultations. At the same time, it should be remembered that the pressure on the staff of an increased work load was a contributing factor to the difficulties experienced in meeting that objective. At present, Fund activity was at a peak--and not all of the burden on the staff was due to the responsibility of working on requests for Fund resources. For instance, at the informal session held earlier in the day, the Director of the Western Hemisphere Department had referred to ten countries in his region that were absorbing the staff's attention; however, he had not mentioned the strenuous efforts also required to deal with countries such as Panama, Nicaragua, Peru, and Guyana--even though the latter country could seemingly be termed a "success story." In general, that kind of drain on staff resources limited the attention that could be devoted to other countries. The Directors were well aware of that problem--as it also affected their responsiveness to the needs of all their constituents--and could be relied on to continue to work to find a solution.

The tables in the staff paper were welcome, the Chairman concluded. They should be reviewed periodically to determine whether further improvements in presentation could be made.

2. MADAGASCAR - EXCHANGE SYSTEM

In light of the preceding discussion on delayed completions of Article IV consultations and extensions of approval of exchange measures, the Executive Board took the following decision:

> The approval for the retention by Madagascar of certain exchange restrictions in the form of limits on the availability of foreign exchange for certain invisible payments, granted under Executive Board Decision No. 9659-(91/26), adopted February 22, 1991, is extended until September 30, 1991, or the consideration of the request by Madagascar of the third-year annual arrangement under the enhanced structural adjustment facility, whichever is earlier.

Decision No. - (91/91), adopted
July 12, 1991

3. OFFICE SPACE - PHASE III

EDs considered a staff paper on the need for Phase III of the headquarters building (EBAP/91/159, 6/20/91).

The staff representative from the Administration Department said that, at the outset, it would be useful to deal briefly with two issues that were basic to the proposed decision. First, it should be noted that, with respect to the recommendation to incorporate $8.3 million into the FY 1992 budget for the preparation of design and construction drawings, the most important component of that figure was the architects' fees. The contract with the architectural firm entitled it to a fee of 4.5 percent of the construction costs of Phase III; however, owing to the present unavailability of detailed design estimates, it was impossible to calculate the exact amount of those costs. Nevertheless, the agreed rate of 4.5 percent was noteworthy, given that the market rate for architects' fees was generally in the 5-7 percent range; hiring the same architectural firm that had built Phase I and Phase IIa had enabled the Fund to negotiate that lower rate, as that company's designing and engineering costs would be smaller.

Studies on optimizing the use of space in the headquarters building after the completion of Phase III constituted the second portion of the proposed $8.3 million expenditure, the staff representative continued. The goal of such studies would be to bring all the staff into the headquarters building for as long a period as possible. To that end, all trade-offs involving the use of space should be considered.

The third part of the $8.3 million requested in the budget included engineering studies, the staff representative noted. For instance, an analysis of the heating and air conditioning systems in Phase I and Phase IIa would have to be undertaken, in order to determine which components--if any--of those systems could be adapted simply and cheaply for use in Phase III.

It seemed likely that, at most, the architectural fees should amount to about $5 million, the staff representative considered. The space studies were expected to cost between $1 million and $1.5 million, while the engineering studies were budgeted at approximately $1 million.

The second major issue was the firmness of the $100 million that the staff had estimated as the cost of building Phase III, the staff representative from the Administration Department observed. In the absence of clear-cut designs, it was very difficult to determine the accuracy of such estimates. In order to compare the cost of owning versus leasing office space, the architects had made projections on the assumption that the same expensive technology used to construct Phases I and IIa would be employed in building Phase III; however, it was more likely that the application of more recent technological developments would lead to a reduction in costs. Discussions with World Bank staff on its recent experience with office construction had confirmed that point. Indeed, the official estimate of $100 million was probably on the high side, as the staff had rounded up the architects' projected cost of about $92 million, so as not to inject a downward bias into its analysis.

Mr. Monyake said that, in the absence of further comment from Directors, the proposed decision should be approved unconditionally. The matter had been before the Board for more than two years, and, as was noted on page 1 of the staff paper, Directors had in 1988 "approved a management proposal to acquire the property adjacent to the Fund's headquarters owned by the Western Presbyterian Church (WPC), so as to permit an addition...to the headquarters building." At that time, most Executive Directors had agreed with the proposition that it was preferable for reasons of economy--as well as convenience and efficiency--that the Fund should accommodate its staff on premises that it owned, rather than house them in leased space for an extended period. However, as time passed, the costs of both constructing Phase III and replacing the WPC--not to mention the cost of renting outside the Fund's premises--had continued to escalate. Therefore, in the interest of cost-effectiveness, the Board should assist management by arriving at a conclusive decision that would allow the necessary work to proceed, and by not attaching conditions that would create unnecessary uncertainties or delays. To that end, the two closing sentences in the draft decision, beginning with "[it] is understood, however, that...", should be deleted.

Mr. Posthumus said that, especially in light of the intention to increase the size of the staff over the longer term, it was somewhat disconcerting to read on page 5 of the staff paper that the 60 newly authorized staff positions might require the continued leasing of office space. He wondered whether the Fund was consistently lagging behind the growth of the staff in providing adequate working space.

Moreover, the assumption made on page 11 of the staff paper about the feasibility of financing Phase III by drawing down the Fund's reserves was a cause for concern, Mr. Posthumus commented. The Treasurer's Department support of that suggestion--which was not a good idea--was especially worrisome.

Ms. Creane made the following statement:

> At the time of this past spring's budget discussion (EBM/91/62, 4/24/91), we were not alone in suggesting that a decision to approve the bulk of the proposed capital budget, namely, the $8.3 million for Phase III plans and drawings, would essentially pre-empt a formal Board decision on whether to proceed with Phase III construction. Subsequently, management agreed that it would be desirable to reach a formal decision on construction before any substantial design work began. Unfortunately, the body of the staff paper under consideration today only partially addresses the issues needed for a reasoned decision by the Board on proceeding with construction; moreover, its proposed decision recommends approval of the same $8.3 million design work but, once again, defers the final decision on construction to a later date. In other words, it takes us back to the starting point--the time of the budget discussions.
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> Today's paper contains a concise historical review of the discussion on Phase III over the years and a clear explanation of

the Fund's current space needs, as well as of current leasing costs versus construction costs. However, it omits a discussion on a few vital areas that are essential to make a final decision on whether or not to proceed with construction--which, of course, is probably related to the fact that the proposed decision falls short of this recommendation.

First, the paper convincingly matches the current space needs, as measured by the number of staff housed in International Square, plus the increase in personnel approved earlier this year, with the proposed space available through the plans for Phase III. We recall, however, that we are on the verge of proceeding with what may be an historical, thorough review of the Fund's budget priorities, and by extension of the Fund's administrative staffing outlook. Picking up on Mr. Posthumus's concerns, we would not be surprised if management--and not a few members of the Board--has in mind further increases in the staff ceiling and possibly a refitting of the size of different departments. Therefore, it would strike us as rational to defer the start of an $8.3 million expenditure on design work for building expansion until this review takes place. Management has promised that the initial phase of the budget review will take place before the Board recess, and the whole discussion of budget prioritization is to be completed before the next budget review, that is, probably by late fall 1991. Therefore, this would be a short delay that would seem to have a substantial payoff in terms of long-term planning.

A more important issue is that the Board still does not have enough information to proceed with the decision that construction, at this time, is the most cost-effective option. Before we can reach this conclusion, we need additional information from the staff describing the different leasing and buying options available to the Fund at present. The staff paper does a more than credible job of explaining how, at the current cost of leasing, the estimated cost of construction is far more advantageous financially. However, we would be interested, first, in examining the comparative costs of buying a nearby building that is already standing--for example, the neighboring PEPCO building. Additionally, while it is probably accurate that, at the current lease rate, construction is a more viable option than maintaining facilities at International Square, we would be interested in examining alternative lease rates. Even with the sharp decline in Washington, D.C. office rental rates of as much as 40 percent, lease rates still might not be close to the "break-even" point of approximately $19 a square foot. However, we would be interested in some explicit discussion of the condition of the current real estate market--and a consideration of whether the current lease rate at International Square is a reasonable market value rate, even for high-quality space--before taking a rather expensive multimillion-dollar decision.

I would like to observe that, just this morning, COMSAT, one of the largest public companies in the area, made the radio news and the front page of the Washington Post business section precisely because of its decision to construct its own building--despite 45 million square feet of vacant office space in Washington, D.C. I quote from the Washington Post of July 12, 1991: "It took developers nine months to finance construction....Amid the glut of office space in the Washington area and the continuing erosion of real estate values, lenders have been unwilling to fund new construction, even with a tenant in hand...." The article continued: "When construction begins later this year, the COMSAT building will become one of a small number of new major construction projects in the Washington area." I would also observe, as an aside, that the estimated construction costs for the Fund building are three times the amount for twice the size of the COMSAT building, although that probably is related to the different locations of the building sites.

We are willing to be convinced that there is still a strong argument for proceeding with construction in the long term. However, given the depth of the current depressed real estate situation in Washington, D.C., as well as the likely newsworthiness of a decision by the Fund to build at this particular time--and not just in local business circles or on Capitol Hill--we would like to be able to say that we and the rest of the Board gave a thorough review of the facts and numbers on alternative leasing or acquisition options and concluded that construction was the best-cost option.

Finally, and most important, there is the difficult issue of the financing of the construction--another subject absent from the paper under consideration today. The alternatives range from substantially cutting back reserves to raising charges to changing the present accounting rules of the Fund. The issue is admittedly a sensitive one, but it is equally an important one, and we believe that it is integral to any further decision on Phase III construction.

Rather than approaching the Phase III construction question--as inevitable as the outcome might seem to all of us here--in a piecemeal fashion, we suggest that the problem, with all its attendant awkward issues, should be addressed frontally; on this point, we agree with Mr. Monyake that we should expedite a conclusive decision. A decision today to approve expenditures amounting to over one eighth of total construction costs would push us further along the inevitable road of a decision in favor of construction without the benefit of a thoughtful review of all the facts. We ask that today's partial decision be deferred until a thorough consideration of, and decision on, the project as a whole can be made.

Mr. Al-Jasser said that the staff paper was a reminder that the Fund's long-term strategy had always been to accommodate all Washington-based staff in the headquarters building. He strongly endorsed that strategy and consequently welcomed the discussion on the need for Phase III. The continued presence of Washington-based staff outside the headquarters building was undesirable, as it reduced the efficiency of the institution and adversely affected the staff's morale. Irrespective of how the issue was addressed, the staff accommodated outside the headquarters building would always feel unequal. Therefore, that anomaly had to end as soon as possible.

Certainly, the Fund could consider buying buildings elsewhere in the Washington, D.C. area, Mr. Al-Jasser continued. However, to have the staff scattered among different buildings in different parts of the city did not fit the image that he held of the Fund as a lean organization, with all of its staff in one building. It was immeasurably important to maintain that leanness, in order to ensure the institution's efficiency; therefore, the Board should proceed as expeditiously as possible, especially as neither major reductions in Fund staffing nor a relocation of the headquarters building were likely to take place in the immediate future. The longer-term interests of the institution, including the staff's morale, thus pointed toward the accommodation of all its personnel in one building.

The staff calculations showed that, from a financial perspective, it was cost-effective to proceed with the construction of Phase III, Mr. Al-Jasser considered. Consequently, he strongly supported the proposed decision to authorize the expenditures for the design work. Nevertheless, like Mr. Posthumus, he was troubled by the statement in the staff paper that, owing to the recently authorized increase in the number of staff positions, the practice of leasing space outside the headquarters building might have to be continued. As that would defeat the purpose of constructing Phase III, his support was contingent on the understanding that the design work would be geared toward accommodating all Washington-based staff in the expanded headquarters building for the remainder of the decade. In that regard, the staff should consider all options available to improve the efficiency of space utilization in Phase III, as well as in the existing structure. All relevant trade-offs must be carefully assessed, in order to achieve an optimal design that would satisfy the needs of the Fund for the foreseeable future. Certainly, that could be achieved with some innovative thinking and design work. Subject to that proviso, therefore, he supported the staff proposal.

It would be useful to hear the staff's answers to the questions raised by Ms. Creane, Mr. Al-Jasser concluded. If only in terms of the data presented in the staff paper, there seemed to be differences of view that had to be thrashed out. For example, it was important to know whether the comparators for downtown real estate prices were $17 per square foot or $35 per square foot.

Mr. Esdar said that he could generally go along with the proposed decision to authorize an expenditure of $8.3 million for design work. The staff paper suggested that that work should begin at the same time as the process of filing a formal application with the D.C. zoning authorities; however, given the risk that the application process might be delayed or encounter difficulties, perhaps it would be more appropriate to begin the design work only after obtaining formal permission for construction from the authorities.

With respect to the capacity of the new annex, Mr. Esdar continued, he, like other speakers, had been astonished to read in the staff paper that the recently authorized increase of some 60 staff positions might require the continued leasing of outside space. Perhaps the so-called pockets of spare space that would be created in Phase III could provide sufficient flexibility to adjust to changing needs. That concern should not be taken as support for a continuing increase in the number of Fund staff; however, the new annex should provide adequate space for the existing staff as well as some flexibility for future needs.

Mr. Végh said that the staff paper, which he had read with interest, led to the conclusion that, as soon as the requisite zoning approval had been obtained, it would be desirable to proceed with the construction of Phase III, given the benefits in terms of convenience and efficiency. In terms of a straight comparison of housing personnel in owned space versus leasehold space, the cost-effectiveness of the proposal was rather obvious; however, if the decision were to be approached from the point of view of an ex-ante budgetary restriction, other options came to mind. Like Mr. Al-Jasser, he would like to hear the staff's answers to some of Ms. Creane's questions on the real estate market in Washington, D.C.

Nevertheless, before adoption of the proposed decision, which would entail substantial capital expenditures over the medium term, two aspects seemed to warrant greater discussion, Mr. Végh commented. The first aspect, which other speakers had referred to, was the limited physical absorptive capacity of the planned new building, as well as the fact that the recently authorized increase of some 60 positions might--unless the vacancy rates provided sufficient leeway to accommodate the new staff--require the continued lease of space. It was not clear what contingencies were envisaged in the face of the new demands on the Fund's resources that had been discussed during the initial presentation of the medium-term budgetary outlook. The relative scarcity of suitable space in the immediate area and the substantial costs involved in relocating to or from currently leased facilities did not constitute a reassuring prospect for his authorities, who were facing hard budget constraints.

The second issue, Mr. Végh continued, concerned the sequencing of the discussion on the appropriate means of financing--on a discounted-value basis--the Phase III expenditures, which had been estimated at $130 million. It would have been preferable if the Board had waited to approve in principle the planned addition until the financing options had been discussed and an agreement in principle had been reached. In that connection, the increasingly rigid structure of the Fund's budgetary expenditures and the already high basic and adjusted rates of charge required that an imaginative and open-minded approach be taken with respect to cost-effective options for accommodating expansion possibilities.

He could go along with the proposed decision, Mr. Végh concluded, on the expectation that the Phase III addition would constitute the least-cost option in a medium-term context, and that the resulting capital expenditures would not fall primarily on the users of Fund resources.

Mr. Jarvis said that his chair had been one of those that had questioned the justification for approving further preparatory expenditures on the project before a decision in principle had been made on building an addition to the headquarters building. His authorities' concern had been that that kind of expenditure could not easily be recouped--unlike, for example, the purchase of the land that the WPC was on. Therefore, the staff paper was welcome, as it set out a very good argument, which, in conjunction with the staff's remarks at the beginning of the discussion, was quite convincing.

He shared some of the concerns raised by other Directors, Mr. Jarvis remarked. In particular, it probably would have been better to decide on the method of financing before making the decision to proceed with the design work. However, in light of the fact that the economic argument for the construction of Phase III was not affected by the method of payment, he could go along with the immediate proposal.

Ms. Creane's arguments were interesting, Mr. Jarvis noted, especially her suggestion to defer a decision until the availability of more information could enable the Board to take a final position. Certainly, the sequencing of decisions was a particular problem with that type of project, and, in the issue under consideration, it had been a cause for concern for some time. However, Ms. Creane's proposal might itself lead to some problems of sequencing, as further details of the project, including its actual cost, would not be known until additional work on planning the new building could be carried out. As the economic case presented in the staff paper was very strong, the Board should go along with the proposed design work at present and come back for a final decision when more information was available. Moreover, as the final costs could not be known at present, the decision should be left unchanged; specifically, the final two sentences, which referred to the understanding that the Board would subsequently come back to make a definitive decision, should not be deleted.

Mr. Koissy said that he fully endorsed the conclusions of the staff paper on the need to address the Fund's long-term space requirements and accommodate its growing staff in a manner that was convenient, more advantageous financially, and in line with its previously stated policy objective. Therefore, he also endorsed the proposed decision to approve in principle the construction of Phase III of the headquarters building, as well as the $8.3 million requested for engineering, design, and related studies for the headquarters building, as proposed in the FY 1992 capital budget. His only regret was that the present extension would not provide sufficient space for further growth, should that become unavoidable in the future.

The decision to go ahead with the headquarters extension plan would have an important financial impact on the Fund's income position and its rates of charge, Mr. Koissy observed. However, management could be trusted to work out the most appropriate means of financing those costs, so as to mitigate that potentially negative impact. He looked forward to a fruitful discussion on that issue in the near future.

Mr. Prader said that, although he was mindful of Ms. Creane's arguments, he, like Mr. Al-Jasser, would prefer to accommodate all Fund employees in one building. It would be awkward if the headquarters building--even with the addition of Phase III--could not fulfill that need; therefore, the proposed decision was acceptable, but only on the condition that all employees would be accommodated in one building.

Following the original discussions on that topic in 1988, Mr. Prader commented, consideration could have been give to the idea of having an international competition for the architectural design of Phase III. Understandably, cost factors had been important in awarding design rights to the original architects of the headquarters building, but other factors also merited consideration.

Mr. Menda said that he supported the proposed decision. However, while endorsing Phase III in principle, his authorities believed that it was appropriate to know more about the total costs of the envisaged operation and--an even more pressing concern--the financing modalities. Financing the entire operation through the Administrative Budget would be inappropriate, as it would provoke a significant increase in the rates of charge. His authorities' final position would depend on the completion of a comprehensive study of the pros and cons of the different modalities of financing, which, one would hope, would be completed in the near future.

Like many earlier speakers, he was surprised to read that the increase in space provided by Phase III would be insufficient to accommodate the additional manpower that would be recruited during the 1992-94 period, Mr. Menda commented. During the next phase--the design work--more study should be given to the possibility of expanding the capacity of the new building.

Mr. Evans said that he supported the proposed decision, primarily because the additional work mandated by that decision was essential to provide the Board with the solid information needed to take a final decision on the construction of Phase III. It was highly unlikely that the completion of Phase III would allow all Fund staff to be accommodated in one building, except in the very short term. At the same time, it did not seem to be essential to either the efficient operation of the Fund or to staff morale that all staff should be placed in one central building.

The effect on morale would depend on whether space was leased at, for example, International Square or Potomac, Maryland, Mr. Evans suggested. With respect to that point, and in preparation for the Board's final decision on the matter, the staff should look at options involving the construction or purchase of a building--or even the lease of space--at locations other than Washington, D.C. A location such as northern Virginia, for instance, possessed many clear advantages.

Mr. Dai said that he could go along with the staff's proposal. He especially agreed with Mr. Al-Jasser's views.

Mr. Clark said that he supported the proposed decision. He agreed with Mr. Evans and Mr. Jarvis that the Fund should proceed with that step, in order to arrive at reliable cost estimates. He also shared the concern that other speakers had expressed about the possibility that Phase III might not fulfill the objective of accommodating all staff in one building, and that, as a result, plans for Phase IV would be under consideration before Phase III had been completed.

Mr. Fridriksson noted that his chair had supported the proposals for Phase III in discussions in the past. He wished to record that his authorities continued to support the Phase III addition to the Fund building. He agreed with Mr. Al-Jasser and Mr. Prader that there was value in having the entire staff under one expanded roof and hoped that that would be possible.

Mr. Kabbaj said that, as his chair's position was very similar to that expressed by Mr. Al-Jasser, he supported the proposed decision. However, Like Mr. Posthumus, Mr. Al-Jasser, and other speakers, he hoped that, with the completion of Phase III, the headquarters building could accommodate all staff based in Washington, D.C.--if not forever, then at least for a reasonable period of time.

Substantial financing would be needed, Mr. Kabbaj added. He joined other speakers in calling for imaginative proposals in that area, so that all options could be examined. At present, no possibility should be excluded.

Mr. Nakagawa said that he broadly agreed with the staff's conclusions and recommendations, and he supported the proposed decision. He also shared Mr. Al-Jasser's views with respect to the question of staff morale;

throughout the lengthy period that the Board had been discussing that topic, the goal had always been to ensure that all staff members should be accommodated in one building.

Mr. Bindley-Taylor remarked that he also agreed with the staff paper's conclusions. In order to arrive at a final decision, additional planning--which should be based on the premise that all staff members would be housed in the headquarters building--would obviously be necessary. However, as Mr. Clark had pointed out, it was a cause for concern to realize even before the completion of Phase III that a Phase IV would inevitably be needed.

If the proposed sequencing of decisions were carried out as planned, some of the questions raised by Ms. Creane would automatically be addressed, Mr. Bindley-Taylor observed. For instance, preparation of the architectural designs for Phase III would facilitate a serious consideration of the feasibility of the lease option.

The possibility of international bidding on the architectural design of Phase III had been raised by Mr. Prader, Mr. Bindley-Taylor recalled. That position had always been favored by his chair.

Mr. Marino said that most of the elements needed to justify the construction of Phase III of the headquarters building were present: additional space was urgently needed; there was a desire to accommodate all locally based staff in the headquarters building; and construction of the new wing seemed to be cost-effective when compared to the option of leasing the required space.

Nevertheless, Mr. Marino continued, two issues remained unresolved. The first was whether, from a long-term perspective, the current size of the Fund staff was too large or too small. The position that one took on that issue would naturally affect one's response to the suggestion to expand the size of the headquarters building.

The question of who would pay for Phase III was the second unresolved issue, Mr. Marino commented. He agreed with Ms. Creane that that question should be addressed at an early stage; in that context, it would be helpful if the staff could indicate the size of the majority that would be needed to enact that decision. It would be very unfortunate if, after close to $40 million had already been spent, the users of Fund resources were to find out that they would have to pay not only those expenses, but also the approximately $100 million needed for the actual construction. In those circumstances, his chair would have preferred to defer a decision to spend the $8.3 million until the Executive Board had reached a consensus on the most appropriate means of financing the project. Nevertheless, he was open to any arguments that the staff could adduce for proceeding with the project in the piecemeal fashion that had been proposed.

Mr. Mohammed said that he could go along with the decision as proposed. He hoped that the financing alternatives could be worked out before the final decision on construction was taken.

Mr. Kyriazidis stated that he could also go along with the proposed decision. However, given that the new building would not fully accommodate even the immediate needs of the Fund, he wondered whether the Board should not be giving consideration to the possibility of constructing a Phase IV, rather than focusing on Phase III.

The Director of the Administration Department said that, as Mr. Jarvis had explained, the decision that the Board was considering was the second in a sequence of three steps that had been designed to bring the Fund to a final decision on the construction of Phase III of the headquarters building. The first step had been to acquire the land to build Phase III--a necessary precondition to any decision to begin construction. With the authority of the Board, the land had been acquired, and, as a result, the Fund owned the whole block. Inevitably, the Board had at that time discussed the pros and cons of building Phase III, but a clear consensus in favor of that course of action had not developed.

During the budget discussion on the proposal to spend $8.3 million on design work, the Director continued, it had been noted that the Board should solidify its decision to move ahead--in principle, at least--with the Phase III construction plans. Accordingly, the second step of the process--which was currently under consideration--was to obtain the Board's permission to draw up the building designs, with a view to developing firm cost estimates that could be used to make the final decision on construction, and to obtain the necessary building permit from the Zoning Commission of the District of Columbia. Securing an agreement in principle would be an important decision for management and the staff, as it would send a clear signal of the direction that further work on the project should take.

After the design work had been completed and the zoning permit had been obtained, the Board would be ready to take the third and final step of the process by deciding on the actual construction of Phase III, the Director remarked. In making that decision, the Board would have to judge whether the total cost of the project was acceptable, taking into account the condition of the local real estate market and the staffing situation at that time. Acceptable methods of financing the construction would also have to be available.

Throughout the process, management and staff had been at pains not to lose unnecessary time, the Director commented. For that reason, the proposed decision had been drafted in such a way that the design work on Phase III could begin immediately, even though approval of the zoning application--which could take as long as 18 months--had not been obtained.

Speakers had expressed concern about the possibility that, even with the completion of Phase III in 1995, the headquarters building would not be large enough to accommodate all Fund staff members, the Director noted. At present, it was impossible to predict the growth rate of Fund staff, including contractual employees, during that period; however, although it was conceivable that the size of the staff could remain relatively constant, recent budget discussions would indicate that it was more likely that growth would continue.

One of the Fund's objectives was to accommodate all its employees in one building, the Director recalled. However, and perhaps more justifiably, another of its objectives was to house its staff on property that it owned, regardless of location. Naturally, the former objective, if feasible, would be more satisfying; however, that outcome would be contingent on both the future size of the staff and the number of employees that could be accommodated in the new headquarters building. In that respect, it would not be desirable if the completion of Phase III were to create a housing situation similar to the existing one, in which extremely expensive planning steps were needed to counteract the problems caused by the housing of so many staff members under the same roof. Small sections were moved around--on a week-to-week basis, in some instances--in a desperate attempt to minimize the amount of outside space needed to accommodate the staff.

Nevertheless, with the completion of Phase III, it might be possible to accommodate more staff in the headquarters building than the projections in the staff paper would indicate, the Director of the Administration Department said. Much would depend upon the space standards adopted for Phase III. However, if it appeared that the new building would not be able to accommodate the overflow, other options for housing the staff, based on the size of the overflow, would need to be considered.

The staff representative from the Administration Department said that, as Directors had noted, imaginative strategies would be needed to achieve the objective of accommodating all staff in the headquarters building. The estimates in the staff paper were based on the assumption that the standard size of offices and conference rooms would remain unchanged, and that the cafeteria and health and fitness facilities would expand moderately; however, it should be remembered that $1-$1.5 million of the proposed $8.3 million expenditure for Phase III was earmarked for space utilization studies. In designing the new building, the staff and management would examine all options to increase the amount of available space, with the objective of not only housing all staff in the main building, but also allowing for a moderate expansion in the size of the staff over the medium term. If the current parameters affecting office size were modified somewhat, a substantial number of staff could be accommodated in Phase III.

Hard evidence of the supposed decline in the local real estate market had not yet surfaced, the staff representative commented. According to real estate lawyers engaged by the Fund, the average rental cost in the central business district was still slightly more than $36 per square foot. Rental costs were under $30 per square foot on Capitol Hill and, in the West End--Georgetown--$34 per square foot. Meanwhile, the average rate was $41 per square foot and $34 per square foot, respectively, along the Pennsylvania Avenue corridor and at the International Square building. As further evidence of the market's vitality, the Fund had learned in its inquiries that it would be in stiff competition with an agency of the U.S. Government if it attempted to rent additional office space at the International Square building.

It had been decided not to bid the architectural work, partly because of the cost advantages of using the same firm that had designed Phase I, the staff representative remarked. That firm retained the original drawings and understood the engineering of the building, which would also make it easier for it to obtain zoning approval, as the authorities required that the designs used in building Phase I and Phase IIa had to be followed in constructing Phase III. However, following the World Bank's lead, management and staff intended to open the construction management and general contracting subcontracts to international bidding. Although the World Bank had received bids only from North American companies, the number of large companies in the Washington area whose parent companies were based outside the U.S. argued in favor of the same approach.

The suggestion had been made that the design work should be postponed until zoning permission had been secured, the staff representative from the Administration Department noted. However, the first hearing of the District of Columbia Zoning Commission on Phase III would not be held until September 1991, and--assuming that the approval process would take the normal 18 months--the Fund would not obtain permission to build until 1993. As it would take 12-18 months to complete the drawings and establish definitive construction costs, postponement of the design work would effectively delay the completion of Phase III until 1997 and incur substantial additional costs in the process.

Ms. Creane said that she wished to go on record as opposing the proposed decision.

The Executive Board then took the following decision:

> The Executive Board, with one objection, approves in principle construction of the Phase III headquarters addition and authorizes management to expend funds on planning and design, as set forth in EBAP/91/159 (6/20/91).

Adopted July 12, 1991

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/91/90 (7/10/91) and EBM/91/91 (7/12/91):

4. PERU - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY - POSTPONEMENT

Paragraph 4 of Decision No. 9678-(91/38), adopted March 15, 1991, shall be amended by substituting "six months" for "four months." (EBD/91/212, 7/9/91)

Decision No. 9773-(91/91), adopted
July 11, 1991

5. STAFF APPOINTMENT - EXTENSION

The Executive Board approves the proposal relating to the extension of a staff appointment under Rule N-1, as set forth in EBAP/91/164 (6/26/91).

Adopted July 10, 1991

6. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 90/115 through 90/120 are approved.

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/91/175 (7/10/91) is approved.

APPROVED: December 31, 1991

LEO VAN HOUTVEN
Secretary