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EBAP/91/277

November 21, 1991

To: Members of the Executive Board
From: The Secretary
Subject: Budgetary Outlook in the Medium Term

The attached memorandum by the Managing Director on the budgetary outlook in the medium term is being scheduled for discussion on Wednesday, December 11, 1991.

An informal background meeting is scheduled for 3:00 p.m. on Tuesday, December 3, 1991 in Committee Room 12-120 to answer any technical or factual questions prior to the Board meeting on December 11, 1991.

Mr. Brau (ext. 7854) or Mr. Hicklin (ext. 7137) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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CONFIDENTIAL

November 21, 1991

To: Members of the Executive Board
From: The Managing Director
Subject: The Budgetary Outlook in the Medium Term

The purpose of this memorandum is to provide the basis for an Executive Board discussion on the scale and prioritization of the Fund's activities over the next year and into the medium term. The discussion will help me to make recommendations concerning the FY 1993 budget, which I will present to the Executive Board in April 1992. I intend to request a supplementary budget appropriation for FY 1992 and my request will be submitted to you on December 6, 1991, in conjunction with a paper on the midyear review of the FY 1992 budget.

Executive Summary

1. Directors will recall that in the medium-term budget paper presented during the last financial year, I discussed the developments in Fund activities over the recent years which had increased the complexity and magnitude of work expected from the staff, and reached the conclusion that a large imbalance had developed between the work that was expected and the staff resources available to meet those expectations. I expressed my deep concern that if the resource imbalances were not addressed, the institution risked a deterioration in the quality of the work performed, and concluded that an increase in staff resources on the order of 200 staff years was necessary from the FY 1991 base. I noted that the resource imbalance which had developed in recent years was imposing an unacceptable cost, in terms of a deterioration of the human capital on which the effectiveness of the institution depends.

2. In my budget presentation for the current financial year, FY 1992, I proposed an increase of 78 staff years as a first step toward addressing the resource imbalance. The Executive Board approved an increase of 56 staff years, with the understanding that a more in-depth examination of the Fund's activities and staff requirements would be conducted to serve as background for a supplement to the FY 1992 budget and for future budget requests.

3. Thus, a budget survey was undertaken in the summer of 1991. The results are reported in a companion paper (see EBAP/91/278) and highlights are summarized in Section I below. In light of the many questions Executive Directors earlier had about the activities of individual departments, I also wish to call Directors' attention to the presentation of detailed departmental profiles that describe each department's structure and activities, and sources and uses of resources, on a comparable basis. The data base of the budget survey will henceforth be updated on a regular basis.

4. The discussion of the developments in Fund activities over recent years presented in last year's medium-term budget paper remains relevant but, in light of more recent developments, in need of updating. For example, since the time that paper was presented, six countries have applied for membership, including the Soviet Union. In addition, that paper did not anticipate the Special Association status for the U.S.S.R., or the even more recent developments within the U.S.S.R. that require us to work not only at the union level but also with each of the republics. Although it was fortuitous, the budget survey was conducted just prior to the unfolding of the developments in the Baltic states and the U.S.S.R. since August 1991. This has facilitated incorporating the implications of the work on the Baltic states and the U.S.S.R.--as we now know it--into the medium-term assessment and the budget supplement for FY 1992, and also facilitated the assessment of the near-term shifts necessary to meet these immediate needs. I must stress, however, that the full implications of the work on the Soviet Union and republics will only become clear over time.

5. The recent developments have created a quantum increase in work demands on the Fund. As many Governors stressed at the Annual Meetings, however, these developments do not diminish the expectations of our existing members concerning the work the Fund is to perform in carrying out its responsibilities in all accustomed fields and with all members. I summarize the challenges and priorities in the period ahead in Section II.

6. The budget survey and in-depth examination of Fund activities this summer have reinforced the earlier judgment that additional staff resources are required to achieve the objective of a better balance between the Fund's work load and its staff resources. Recent developments in the Soviet Union significantly increase the required level of staff resources, and, given short-run recruitment constraints, also lengthen and complicate the path toward that objective. In Section III, I present the near-term response, including temporary redeployment and the outline of a FY 1992 budget supplement.

7. In Section IV, I discuss my views concerning the staff resource requirements and staff allocations by major Fund activities for FY 1993 and FY 1994-95. I see FY 1993 as another year of transition toward the medium-term staff resource objective. Again, limits on our ability to recruit and absorb new staff will mean some continued temporary redeployment and less progress than I would like to make toward our staffing objective. By FY 1994, however, we need to achieve a reasonable balance between work load and staff resources--given the work load expected at this time. My proposal involves an increase in the staff by some 280, or 12 percent, between the FY 1992 budget approved by the Executive Board and FY 1994. Over half of this increase is required for work on the U.S.S.R. and the Baltic states. The proposal has been kept moderate by incorporating selective activity cuts, described in Sections III and IV, which need your support and approval.

8. Several of these modifications will be difficult to implement. Nor do they produce large, dramatic, one-shot reductions in Fund work. In this context, I do not see the basis from Executive Board discussions or the statements of our Ministers to propose a major cut in one or more Fund activities. As requested by some Directors, I have included a zero-growth option (after allowing for new members) in Section IV, but I strongly recommend against such a course of action.

9. The past few years have seen the continuous internal review of the efficiency of the Fund's work and the application of new technology. This has permitted the Fund to hold the allocation of resources to support functions relatively stable and also has enabled us to perform activities in other areas more efficiently. These efforts to achieve productivity gains will continue in all areas of the organization and in all activities.

10. My overall staff resource objective to be achieved by FY 1994 is very conservative and I will review it on a continuous basis in light of evolving events. Moreover, it is critical that the additional resources include an appropriate mix of experts, consultants, experienced

professionals on secondment from member governments, and new staff. To achieve the ambitious recruitment goal and make appropriate internal preparations to absorb this staff increase, I need to have a clear endorsement from the Executive Board at this time. Your approval of my plan will permit an orderly phasing-in of the required staff increase.

11. Accordingly, in the documentation to be submitted to you on December 6, 1991, concerning my request for a supplementary budget appropriation for FY 1992, in conjunction with the midyear review of the FY 1992 budget, I will be asking your authorization to recruit up to 280 additional staff, including consultants and experts, through FY 1994, from the authorized staffing level approved in the FY 1992 budget. The expenditure authorizations consistent with this staffing expansion will be sought in the supplementary appropriation to the FY 1992 budget, and in my budget proposals for FY 1993 and FY 1994.

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I. Budget Expenditure Survey

In FY 1991, the Fund's administrative expenditures totaled \$279 million, involving 2,308 paid staff years (including the Executive Board and management). 1/ In addition, an estimated 179 staff years of unpaid overtime were performed. The bulk of the Fund's administrative costs is financed through GRA charges (with reimbursements received for SDR and SAF/ESAF operations). The SDR amount of the budget determines its impact on charges, influenced by the SDR/U.S. dollar exchange rate. In addition, other reimbursements for technical assistance, publication sales, and cost sharing with the IBRD totaled \$13 million.

To help address a number of issues raised by Executive Directors in April 1991 in their discussion of my budget proposal for FY 1992, and as part of the medium-term budgeting exercise, an expenditure survey was undertaken in June 1991 to provide an improved view of how resources were utilized in FY 1991 and are projected to be used in FY 1992. In addition to asking departments to provide their projections of resource use in FY 1993 and the medium term, all managers (essentially front offices and division or sections chiefs) were also asked to allocate staff time spent in FY 1991 and FY 1992 on a range of activities, to answer a series of questions on the balance between work load and resources, and to provide an in-depth description of the functions and output of each of the principal work units of each department (departmental profiles). The results of this survey provide a better basis for deciding on overall resource needs and on the priorities of resource use in the years to come. The survey was expensive, involving some 12 staff years equivalent to \$1.7 million, and had to be undertaken at a time when the staff was already stretched. The data will henceforth be collected on a regular basis and with reduced resource effort. In the following paragraphs, I wish to draw the attention of Executive Directors to a number of results revealed in the survey (pertaining to the 85 percent of paid time not related to holidays or leave). I will highlight only a few points; much further material and supporting detail is contained in the companion budget survey paper, EBAP/91/278. The departmental profiles are contained in the handbook "FY 1992 Activities and Organization" (being issued).

1/ The concept of total effective staff years that is most useful for the discussion in this paper differs from that used in the budget document for FY 1992. In particular, the definition used in this paper subtracts from the total budgeted number of staff years shown in Table 5 of EBAP/91/76, Sup. 2, the number of vacancies, and also excludes summer interns, special appointees, and temporary staff charged against Fund-wide pools (e.g., sick/maternity leave replacement), and paid overtime for staff in grades A1-A8; however, it includes the Executive Board and its staff as well as externally financed experts.

1. Country-specific work

Country-specific work occupied 714 paid staff years (31 percent of paid staff time) in FY 1991 and a substantial portion of the estimated 179 staff years of unpaid overtime (Table 1). The survey confirms the intense pressure of work related to program and near-program countries. 1/ In the eight years to FY 1989, the Fund had been actively involved with an average of 60 such countries each year. This figure rose sharply in FY 1990 and again in FY 1991. In FY 1991, fully half of the membership--80 countries--were undertaking economic reform programs supported by the Fund or were engaged in discussions on such a program. The high number of program and near-program countries is expected to increase further in FY 1992 and in FY 1993. No significant difference was observed between the staff time spent on countries with arrangements in place and those negotiating arrangements ("program and near-program countries," respectively). This is indicative of the substantial preparation required and the complexity of negotiations, even if programs are not presented to the Board. Several of the more intensive cases in FY 1991 involved efforts to resolve protracted overdue obligations to the Fund to which great importance has been assigned. Many of the program countries, especially those under SAF/ESAF arrangements, are engaged in complex structural reforms which involve considerable staff time, including for coordination with the World Bank and other institutions. On average, Fund-wide work activity (excluding technical assistance) on program and near-program countries averaged about 5 staff years per country in FY 1991. 2/ The work with previously centrally planned economies has involved especially large amounts of staff time (6.6 staff years per country excluding technical assistance).

Work on those 81 countries in FY 1991 that were neither program nor near-program cases ("Article IV only" countries, but including some prospective members) required close to 2 staff years per country, excluding technical assistance. The complexity of this work varied and, in particular, the in-depth analysis of the G-7 countries involved considerably more time than the average. In general, when a country changes from Article IV consultation only to program/near program status, the survey data suggest that an additional 3 staff years were devoted on average each year for that country.

The survey revealed that resources devoted to technical assistance (averaging just over 1 staff year per member country) are fully stretched and that a significant excess demand for resources exists. In the past, technical assistance has been provided to both program and nonprogram countries. The survey shows that the emphasis is changing in response to the large increase in demand (Eastern Europe) and the recognition that

1/ It is to be noted that the term "country" used in this document does not, in all cases, refer to a territorial entity that is a state, as understood by international law and practice.

2/ These estimates include staff in all departments and all grades. Further detail is provided in the companion budget survey paper.

Table 1. Resource Allocation Scenario for FY 1991 to FY 1994-95

(In staff years)

Activity	FY 1991	Pre-Baltic/ USSR Special <u>Association</u> FY 1992	Post-Baltic/ USSR Special <u>Association 1/</u> FY 1992	FY 1993	FY 1994-95 (average)
1. Country-specific work	<u>714</u>	<u>754</u>	<u>780</u>	<u>881</u>	<u>940</u>
(i) Members as of Oct. 31, 1991	704	741	709	749	808
(a) Surveillance and/or program work	(515)	(551)	(534)	(551)	(581)
- "Art. IV only" countries	/132/	/131/	/119/	/108/	/147/
- Program/near program countries	/383/	/419/	/415/	/443/	/434/
(b) Technical assistance	(189)	(191)	(175)	(197)	(226)
(ii) Prospective members <u>2/</u>	10	12	72	133	133
(a) Surveillance and program work	(9)	(10)	(42)	(76)	(76)
(b) Technical assistance	(1)	(3)	(30)	(57)	(57)
2. Policy development, research, evaluation	235	238	232	230	235
of which: World Economic Outlook	(42)	(42)	(41)	(41)	(41)
3. Statistics, information, external liaison	165	163	163	153	153
4. External training	64	68	71	78	78
5. Administrative services	<u>341</u>	<u>349</u>	<u>350</u>	<u>337</u>	<u>337</u>
of which:					
(a) Administrative finance	62				
(b) Personnel management	58				
(c) Data processing, communications and information management	85				
(d) Building services and supplies	38				
(e) Language services	34				
(f) Other administrative services	64				
6. Board of Governors, Executive Board Offices	276	272	272	269	269
of which: Staff support services	(80)	(75)	(75)	(72)	(72)
7. Supervision and management	125	130	130	142	147
8. Staff training and development	40	49	49	69	69
9. Paid leave and holidays	<u>348</u>	<u>348</u>	<u>348</u>	<u>373</u>	<u>420</u>
10. Total (items 1 to 9) <u>3/</u>	2,308	2,372	2,397	2,535	2,650
Memorandum Item:					
11. Total budgeted staff years <u>3/</u>	2,459	2,538

1/ Taking into account the additional work load on the Baltic states and the U.S.S.R. since the baseline for FY 1992 was prepared in July 1991.

2/ Estonia, Latvia, Lithuania, the Marshall Islands, Micronesia, Switzerland, and the U.S.S.R. The U.S.S.R. and the Baltic states account for most of this category; resources spent on the work on the Marshall Islands, Micronesia, and Switzerland are estimated to increase from 2 staff years in FY 1991-92 to 4 staff years in FY 1993-95.

3/ Including Executive Directors and their staffs, as well as externally financed experts. (Excluding these categories, the budgeted staff increased from 2,242 in FY 1991 to 2,298 in FY 1992.) The total budgeted staff years (line 11) differ from the total effective staff years (line 10) by including unutilized budgeted resources and net vacancies (76 in FY 1991 and 85 in FY 1992); summer interns (8 in FY 1991 and 7 in FY 1992); special appointees (4 in FY 1991 and 4 in FY 1992); temporary staff charged against Fund-wide pools (e.g., sick/maternity leave replacement: 21 in FY 1991 and 26 in FY 1992); paid staff overtime (34 in FY 1991 and 35 in FY 1992); and paid overtime and temporary staff in the offices of Executive Directors (8 in FY 1991 and 10 in FY 1992).

carefully targeted technical assistance is critical to the effectiveness of economic reform programs.

2. Noncountry-specific work

The expenditure survey allows a distinction to be made between those noncountry-specific activities performed as inputs to other Fund activities and those which are products and services made available outside the Fund. The latter category includes, for example, the production of statistical and nonstatistical publications and the provision of library services to the World Bank (for both of which activities reimbursements have increased over time). Separately, external training to officials of member countries is provided through the IMF Institute. These products and services utilized approximately 6 percent of total staff years in FY 1991.

Of the remaining resources, work on policy development, evaluation, and research accounted for a further 10 percent of the Fund's resources and encompassed a very wide and disparate range of activities. Multilateral surveillance, including World Economic Outlook (WEO) (totaling 42 paid staff years Fund-wide, including area department contributions), is the largest single category. Though the time spent on several of these areas, such as conditionality, debt, capital markets, and the Fund's liquidity, access and quota policies, the policy on overdues and burden sharing, is unsurprising, it is notable that the time devoted to either monetary policy or trade policy issues, for example, was relatively small.

Time spent by the Executive Board, and by the staff in direct support of the work of the Executive Board and the Board of Governors, occupied 276 staff years (12 percent of the Fund total).

The array of administrative policy and service activities, external relations, as well as the supervisory and managerial responsibilities and staff training, accounted for about 24 percent of staff years. The survey provides considerable disaggregation of these activities and reveals a complexity and diversity of the functions required to support the Fund's work. Unit managers' survey responses show that an impressive range of improvements in efficiency has been implemented over the past two to three years that has allowed administrative resources to grow less than the growth of activity Fund-wide. However, the time spent on training and supervision is very small relative to assessed needs, with adverse consequences for the Fund's efficiency.

3. Work load and resources

A common observation of unit managers, made most frequently in those departments closely associated with country-specific work, was that budgeted staff resources were insufficient to perform the activities of their units at sustainable levels and at the customary high quality. These observations are supported by data on excessive overtime in many areas, of underutilization of leave and of inadequate time spent on training and supervision. It was felt that such shortcuts have been taken for some time

already and, though taken to try to maintain quantity and quality of work in the short run, will prove damaging to the Fund's work, if continued, and should be corrected without delay. It was also noted that the lack of time in present circumstances to conduct analysis, or think more deeply about the issues that arise, causes concern and is a factor that in addition to the excess work load adversely affects the morale of staff. Some observations of managers have implications for personnel as well as budgetary policies. A common issue raised was that insufficient attention was given to the problems generated by frequent movements of assignments in circumstances when no overlap is provided for, including a lack of continuity and losses of institutional memory and efficiency. Most managers felt that, in retrospect and given Executive Board and management policies and guidelines, they could not have allocated resources in a materially different manner over the past year.

II. The Fund: Challenges and Priorities in the Period Ahead

With the recent and prospective membership of countries turning from command methods of economic management to market-based methods, the Fund is experiencing the last quantum increase in its membership prior to achieving universality. At the same time, the Fund's surveillance, technical assistance, and use of Fund resources work with members has already reached the highest ever level of intensity. These circumstances raise complex new issues for the membership and for the Fund, including how best to assist the former centrally planned economies in their historic transformation; they also heighten the long-standing challenges other countries have faced for some time already, giving these challenges a new urgency in several respects. The issues are under consideration by Executive Directors in their World Economic Outlook and other discussions. They include the challenges of assisting the transforming economies in their stabilization and reform efforts and of integrating them into the multilateral monetary and trade system that itself needs further strengthening; the measures required, particularly in industrial countries, to achieve an increase in global savings when demand for capital is rising sharply; the steps necessary to remove structural rigidities to noninflationary growth in low- and high-income countries; the implementation of the debt strategy; the issues concerning poverty, nonproductive government expenditure, the environment, and others. Nor can we forget the small and medium-sized industrial countries and those developing countries that have been able to achieve high rates of growth and a high degree of integration into the world economy.

From the perspective of managing the institution's work and its resources, the point to be made concerning these issues is that they cut across--and challenge--the Fund in all its key responsibilities of bilateral and multilateral surveillance, economic and technical policy advice, and financial assistance to members. The challenges concern not only the Fund's bilateral relations with the transforming economies, though that is, of course, an important matter. The scale, complexity, and interconnection of the problems now faced by the international community mean that only

cooperation among all concerned will lay the basis for success. It is, thus, a source of satisfaction to management and staff that member countries also turn to the Fund for help and rightly expect much from an institution whose essence is cooperation. I am convinced that the Fund will rise to this expectation.

The budget survey just completed does establish, however, that the institution's staff resources are already stretched in many areas, and excessively so in some. This means that clear priorities, increased resources in the right places, and good management are needed to utilize effectively the institution's prime source of practical effectiveness: the high quality and dedication of its staff. I can only reiterate my conviction that better attention to maintaining and, indeed, improving the quality of the staff is necessary at all times.

The Executive Board, senior management levels, and staff will need to cooperate in deciding resource issues to meet the challenges. To the extent we fail, jointly, to set priorities, the task of managing our work is made increasingly difficult and the demands on resources are necessarily larger. In developing the resource allocation choices presented below, I wish to underline my belief that staff resources need to be adequate in order for the Fund to be able to continue to pursue with vigor its activities and output in all of its principal fields of responsibility with all members: multilateral and bilateral surveillance; policy development and research; policy advice and financial assistance for economic adjustment; technical assistance and external training; and provision of statistical and information services. The need for the effective discharge of all of these responsibilities has been emphasized in the Executive Board and by our Governors at the time of the Interim Committee and Annual Meetings. Our joint task, therefore, is to consider what size and structure of our resources is necessary to enable us to perform our responsibilities with the quality and timeliness that is expected of us.

The ability of the Fund to carry out these responsibilities in the period ahead is affected by three major factors. First, the existence of a considerable imbalance between work load and staff resources in the recent past; this imbalance is evidenced by numerous and cumulative symptoms to which I had already drawn the attention of the Executive Board in the paper on the budgetary outlook in the medium term that was issued in early 1991; second, the growth in the complexity and magnitude of our work load, including with the many existing members that are carrying out the far-reaching economic and financial reforms that the Fund has advised for so long; and third, the prospective membership of several new countries, including the three Baltic countries and the U.S.S.R., which face emergency needs that will require large amounts of policy and technical assistance both in the short term and beyond.

The Fund must continue to develop innovative responses to these challenges and also to keep its activities under continuous review. I believe that all of the Fund's activities and expenditures should continue to be subject to critical examination, with a view to streamlining,

redeployment, and, where appropriate, phasing down or phasing out. I also continue to consider it an important goal, in itself, that the Fund remain a relatively small and decision-oriented monetary institution, with a short chain of communication.

Respecting the above objectives and guidelines and given the severe resource constraint in the short run, the Fund's responses will need to involve two phases: a response in the near term and a response in the medium term. In the short term and beginning immediately, the response involves the temporary postponement of work on some surveillance, research and policy development activities, and a shift of staff resources toward work on the prospective member countries. Executive Directors have already been consulted on these steps (see Buff Document No. 91/210, 11/13/91) which are further described in the next section. The point I again wish to underline here is that these necessary immediate steps--which inevitably involve the postponement of some work with the present membership--are temporary, and will be reversed as soon as the Fund is able to recruit and train the appropriate staff. The proposed unwinding of these temporary measures is then described in Section IV. That section also presents those permanent increases in resources, cuts in activities, streamlining, and redeployment of resources and expenditures that I believe are called for in the new circumstances.

III. Near-Term Response to Prospective Members

The estimates of departments concerning their activities in FY 1992 and beyond that were originally prepared for this paper were developed in July 1991. At that time, the medium-term perspective envisaged only a small level of activity with the U.S.S.R. The subsequent dramatic events in the U.S.S.R. and the Baltic states have substantially altered the nature of the medium-term assessment. To a greater degree than envisaged earlier, FY 1992 and FY 1993 have to be seen as transitional years in the evolution of the appropriate size and structure of the Fund.

It is now estimated that at least 140 1/ staff years are needed for pre-membership and subsequent work with the Baltic states and with the U.S.S.R. and its constituent republics, consistent with the Fund's Special Association agreement with the U.S.S.R. The provision of needed translation and interpretation services will be additional. Of the total resources required, about half would be used for technical assistance work, including external training, by staff and by experts. The above estimates may well require revision as experience is gained. Underlying the estimates is the need for the Fund to develop an understanding of economic and financial developments in and among the Soviet republics, if the Fund is to be of effective assistance. Also underlying the estimates is the clear evidence

1/ Some 130 staff years for country-specific work, and some 10 staff years for external training, corresponding to some 160 staff positions or consultant/expert years, taking into account average leave utilization.

to date that the Baltic states and the U.S.S.R. are likely to require an even larger relative amount of technical assistance than do the members with formerly centrally planned economies in Eastern Europe.

Staff resources for these activities will need to be recruited and trained. In order to mount an effective early start in the Fund's work with the U.S.S.R. and the Baltic states, highly experienced and versatile staff need to be released from other activities. These staff members need to be drawn from a limited pool of staff possessing wide operational experience, thus necessitating temporary recourse to staff engaged in surveillance and certain research and policy development work. Accordingly, staff resources for Article IV-type work with the U.S.S.R. and membership preparations for the Baltic states and the U.S.S.R. are being released by the temporary postponement of Article IV surveillance activities, as follows: annual consultations will continue to be held with the seven largest industrial countries and with program countries as well as arrears cases. Program countries are meant to include countries where substantive discussions are under way on a program to be supported by Fund resources. For all other members, the consultation cycle specified as of end-June 1991 will be shifted on an across-the-board basis and will apply to consultation missions scheduled after November 15, 1991 and until May 1, 1993. Countries currently on the standard cycle will be shifted to the bicyclic procedure with an interim consultation as the next consultation in all cases. Countries currently on the bicyclic procedure will be shifted to a 24-month consultation cycle. The implication is that the next consultation will take place 24 months from the date of the previous full or interim consultation. The 18-month cycle will be shifted to 24 months, and the 24-month cycle will remain unchanged. Staff resources released by these measures, including some reductions in resources applied to consultation work with the G-7 members, have been transferred to, and within, the European Department and involve a total of 24 staff years on an annual basis. As soon as sufficient staff have been recruited and trained, management will advise the Executive Board when and on what schedule the former consultation cycles applicable to the countries concerned can be resumed. Management now expects that this will be possible in May 1993, although the question will be discussed at the time of the Board review of the situation in November 1992. In the meantime, flexibility will be exercised as far as possible and, as staff resources are being recruited and trained in the area departments affected, steps will be taken by these departments to maintain contact with the country authorities through short staff visits and other means.

At the same time, a total of 6 staff years are released on an annual basis from research and policy development activities of the Research and Treasurer's Departments for work on the U.S.S.R. and Baltic states. The work being shifted involves: curtailing the coverage of some issues in the spring 1992 WEO; responding to requests for WEO-related data only as time permits; postponing the building of the Eastern European bloc of MULTIMOD; postponing some of the work on systemic risk and SDRs; cutting back technical assistance to area departments on debt issues and medium-term scenarios. Some of this work will be resumed as soon as feasible, in part with the help of temporary consultants. The Exchange and Trade Relations

and Fiscal Affairs Departments are allocating increased resources to their work on the U.S.S.R. and the Baltic states, and participate in mission activity in line with their customary practices.

The technical assistance and external training staff and expert resources needed for work with the Baltic states and the U.S.S.R. are being enlarged through aggressive recruiting. In the meantime, some postponement of technical assistance work with members is unavoidable, but will be minimized. In these circumstances, management believes that a reinforcement of technical assistance management is helpful and is taking steps to this end, with two principal aims: to prioritize appropriately among the claims on the Fund's technical assistance work, and to ensure that new demands for technical assistance do not result in a lasting diversion of resources away from the priority technical assistance being supplied to many members in need of such assistance and with whom the Fund has been actively involved.

The resource shifts in FY 1992 involved in the measures described in this section are recorded in Tables 1 and 2. Two estimates are presented for FY 1992: one based on the estimates provided in July 1991 on the basis of the expenditure survey, and one that incorporates the temporary adjustments in activities necessary to accommodate the additional work on the Soviet Union and the Baltic states, given existing staff and expected staff additions.

At the same time, I have made a request which, it is hoped, will contribute to an increase in the external funding of the increased technical assistance to members and prospective members that will be needed, as described in Section IV, 1.1, below.

To make possible the necessary early recruitment of additional staff, experts, and consultants, I will also ask for Executive Board approval of a supplementary budget for FY 1992. My request will involve the following elements related to work on the Baltic states and the U.S.S.R.:

- A consultant budget for Article IV-type work with the U.S.S.R. Such a budget is new in the practices of the Fund as far as work directly with (prospective) members is concerned and will enable the Fund to avail itself quickly and flexibly of the services of consultants, as needed.
- The establishment of an enlarged budget for the remuneration of technical experts and consultants for use by the Fund's technical assistance departments, including the IMF Institute, in their work with all member countries. This budget will enable technical assistance services to be resumed in the shortest possible time for all members.

Table 2. Resource Allocation Scenario for FY 1992 to FY 1994-95

(In staff years; year-on-year changes)

Activity	Post-Baltic/ USSR Special Association 1/ FY 1992 over FY 1991	FY 1993 over FY 1992	FY 1994-95 (average) over FY 1993 2/
1. Country-specific work	<u>67</u>	<u>101</u>	<u>59</u>
(i) Members as of Oct. 31, 1991	5	40	59
(a) Surveillance and/or program work	(19)	(18)	(30)
- "Art. IV only" countries	/-13/	/-11/	/39/
- Program/near program countries	/32/	/28/	/-9/
(b) Technical assistance	(-14)	(22)	(29)
(ii) Prospective members 3/	62	61	--
(a) Surveillance and program work	(33)	(34)	(--)
(b) Technical assistance	(29)	(27)	(--)
2. Policy development, research, evaluation	-2	-2	5
3. Statistics, information, external liaison	-2	-10	--
4. External training	7	7	--
5. Administrative services	9	-12	-1
6. Board of Governors, Executive Board Offices	-4	-3	--
7. Supervision and management	5	12	5
8. Staff training and development	9	20	--
9. Paid leave and holidays	--	<u>25</u>	<u>47</u>
10. Total (items 1 to 9)	89	137	115

1/ Taking into account the additional workload on the Baltic states and the U.S.S.R. and the reduction in other activities since the baseline for FY 1992 was prepared in July 1991.

2/ This column indicates the change between the average level of staff resources projected for the two years FY 1994-95, and the level projected for FY 1993.

3/ Estonia, Latvia, Lithuania, the Marshall Islands, Micronesia, Switzerland, and the U.S.S.R.

- The allocation of additional budgetary staff positions to several departments to enable these departments to recruit urgently needed staff for work with the Baltic states and the U.S.S.R.
- Directors will also recall that I had originally requested authorization in FY 1992 for 78 additional staff years, but that only 56 were approved. It was understood that I would provide specific justifications for the additional staff years in a FY 1992 supplement. Thus, I will also be requesting budget positions for recent staffing changes that were not included in the final authorization for FY 1992. In addition, I shall also be requesting authorization that will allow the Fund to increase to the size I now consider necessary by FY 1994.

A proposed decision concerning a supplementary budget for FY 1992 will be circulated to the Executive Board on December 6, 1991 in conjunction with the paper on the midyear review of the budget for FY 1992.

IV. Resource Allocation Scenarios for FY 1993 and FY 1994-95

This section incorporates preliminary projections of the resource allocation impact of a supplementary budget request for FY 1992, depicts the use of resources in FY 1993, which will be a further transitional year, and traces the evolution of the Fund's size and structure to FY 1994-95. By 1994-95, the temporary redeployment of staff associated with accommodating the immediate demands from the U.S.S.R. and the Baltic states will be unwound as the Fund is able to recruit and effectively absorb the required increase in staff resources. Each major work activity is treated separately and the rationale for judgments on relative priorities is spelled out. Quantified scenarios are used to indicate which of the work activities of the Fund, and the expenditures thereon, should increase, stay the same, or decrease. Two basic scenarios are presented: a "management's proposal," and a "zero-growth scenario" describing the implication of no growth in staff resources and real expenditure relative to the FY 1992 outturn.

The management's proposal, in the first instance, estimates the changes in work activity, and the expenditure required on such activity, in response to changes in external conditions and circumstances and in accordance with present Executive Board policies, and with personnel and administrative policies and practices that are fundamentally unchanged, but are continually evolving to generate greater efficiency. Depending on the conditions affecting each activity category, some activities increase and others decrease as a consequence of these changes. In addition, the management's scenario incorporates my preliminary views on needed and feasible shifts in priorities, several of which require Executive Board endorsement, in light of the overall situation faced by the institution.

The resource allocation scenarios describe the anticipated use of effective staff years (excluding overtime) and do not refer to authorized

staff years, the major difference between the concepts being the average vacancy rate during the period in question. 1/ The scenarios report point estimates of staff years as the best available central estimates. The use of point estimates should not detract from the inevitable uncertainties--rising with time elapsed--attaching to many estimations; the alternative of use of range estimates was judged as less helpful to transparency of exposition.

While it is too early to have firm expenditure projections, Table 3, below, displays the estimated range of budgetary expenditures based on the latest input available.

Table 3. Administrative and Capital Budget Projections
for FY 1993 to FY 1995

(In millions of FY 1992 U.S. dollars)

	FY 1992 Budget	FY 1992 Rev. Est. (Including supple- mentary budget)	FY 1993 Projection	FY 1994-95 Average
Administrative budget expenses <u>1/</u>	350.9	356 - 359	375 - 380	403 - 409
Reimbursements <u>1/</u>	(20.7)	(19)-(20)	(21)-(22)	(22)-(23)
Net administrative budget expenses	330.2	336 - 340	353 - 359	380 - 387
Capital budget	18.0	18.0	13 - 15	13 - 15 <u>2/</u>

1/ For purposes of this projection, includes UNDP project costs or reimbursements.

2/ Excludes Phase III construction costs.

1/ To convert the estimates of effective staff years, see definition in footnote on page 1, to the budget proposal for FY 1993 (and later years), the following steps will be taken: (i) estimates of staff years spent on summer interns, special appointees, and temporary leave replacement will be added; and (ii) a projection of the average vacancy rate in FY 1993 will be made, and the implied number of vacant positions will be added. The result of these adjustments will be a figure for the total of authorized staff years for FY 1993 that the Executive Board will be asked to approve. Within this total, the staff ceiling and the total authorized staff years by department will be determined.

1. Management's proposal for FY 1993 and FY 1994-95

a. Summary

The overall result of the estimates for each work activity category reported below is an increase in needed staff resources of 278 staff years between the initial estimates for FY 1992 and FY 1994-95. In order to achieve the levels of activity now expected for FY 1994-95, it will be essential to have recruited and absorbed this increase by FY 1994. These resources will have permitted the Fund to end all temporary emergency redeployments of resources instituted in late 1991, and to have resumed from FY 1994 or earlier full surveillance activities of increased quality with all members. With this increase in resources, the deployment of staff within the Fund will have shifted further in favor of country-specific work, as the area and certain functional departments will be the principal beneficiaries of the resource increase. Specifically, the share of resources devoted to country-specific work would rise from 31 percent of effective staff time in FY 1991 to over 35 percent in FY 1994-95.

The increase in required staff resources between FY 1992 and FY 1994-95 includes some 130 staff years for work on the Baltic states and the U.S.S.R. The overall increase of 278 represents a rise of 12 percent over the initial estimates for FY 1992 and would have been higher were it not for the savings of 45-50 staff years due to permanent cuts in activities and redeployment of resources that I am proposing.

In my last memorandum on the budgetary outlook in the medium term (EBAP/91/95, 2/15/91), I had judged that an increase in staff resources on the order of 200 staff years over FY 1991 would be required to prevent a deterioration and, indeed, improve the quality of Fund work and help eliminate by FY 1994 the imbalance between work load and resources that has existed in the Fund for some time. After adjusting for the increase in work load associated with the Baltic states and the U.S.S.R. and republics, the new estimates now available and based on the in-depth review made possible by the recent budget survey are broadly consistent with these earlier judgments.

In the estimates presented below, the resource imbalance is manifested in the allocations of staff resources to increase training activities and staff supervision, and to reduce excessive unpaid overtime, areas that have suffered deterioration for a prolonged period of time and that require correction without delay. While the resource imbalance manifests itself in these areas, it was caused by the fact, now evident but at the time thought to be a temporary phenomenon, that the Fund did not adequately adjust its resources to the major increase in work load experienced in the last few years, both in complexity (SAF/ESAF operations, structural reforms, debt reduction operations, and other elements) and quantity (an increase in work load related to program/near programs from 50-60 in the mid-1980s to 80-90 at present and in future).

In FY 1993, we shall do our best to recruit, absorb and train staff of the required quality, and to make innovative use of consultants and experts, so that the increase of some 280 staff is effective as soon as possible. However, to ensure that the work load in FY 1993 does not become more excessive, I am making resource allocation proposals on the basis that an additional 130-140 staff years can be absorbed effectively by FY 1993. Given the increase in work load, this constraint requires that the temporary redeployment of staff implemented in FY 1992 be carried into FY 1993, if the work load is to be managed in an orderly manner. These temporary redeployments in FY 1993 total 25-30 staff years.

b. Activity on country-specific work

The Fund's major work activity category encompasses all bilateral surveillance work with members, all work dealing with members' requests for use of Fund resources whether or not a Fund arrangement is concluded (termed program/near program work), including work under the intensified cooperative strategy on overdue obligations to the Fund, and all technical assistance to members. The resources, about half of which are provided by the area departments, were employed for surveillance work, program/near-program work, desk work, technical assistance work, and financial operations in the amounts recorded in Table 4. Since the survey was conducted, the estimate of staff years that will be allocated in FY 1992 to total country-specific work has increased.

The resource use per member country rises on average with a switch from bilateral surveillance work to work also involving program/near-program activity (Tables 5 and 6). Fund-wide in FY 1991, and inclusive of technical assistance work, resource use amounted to 2.5 staff years per member with bilateral surveillance work only, and to 6.4 staff years per member with both bilateral surveillance work and program/near-program work; resource use for work with formerly centrally planned economies entering into Fund arrangements was higher at 10.1 staff years per member. Partial information for FY 1992 indicates that resource use per member in these categories will be similar to that estimated for FY 1991.

Table 4. Country-Specific Work

	FY 1991			Pre-Baltic/USSR Special Association FY 1992			Post-Baltic/ USSR/Special Association FY 1992
	Staff	US\$ million	Percent of total	Staff	US\$ million	Percent of total	Staff
	years			years			years
<u>Sources of Resources</u>							
Area departments							
AFR	108.0	16.4	16.8	118.8	20.7	17.4	...
CTA & SEA	54.0	8.2	8.4	59.5	9.9	8.3	...
EUR	66.9	9.5	9.7	76.4	12.1	10.2	...
MED	29.0	4.6	4.7	30.3	5.4	4.5	...
WHD	86.3	11.6	11.9	92.9	14.5	12.2	...
Subtotal	344.2	50.3	51.5	377.9	62.6	52.7	...
Functional & special service departments							
ETR	44.9	6.6	6.8	51.6	8.5	7.2	...
FAD	81.2	11.3	11.6	84.1	13.3	11.2	...
CBD	94.3	11.4	11.7	90.2	12.7	10.7	...
STA	23.3	3.4	3.5	24.8	4.0	3.4	...
RES	9.2	1.4	1.4	7.9	1.4	1.2	...
TRE	38.5	4.4	4.5	36.6	4.7	4.0	...
LEG	14.6	1.7	1.7	15.8	2.0	1.7	...
Subtotal	306.0	40.2	41.2	311.0	46.6	39.3	...
Other departments	63.6	7.1	7.3	64.6	9.6	8.1	...
TOTAL	713.8	97.7	100.0	753.5	118.8	100.0	780.5
<u>Uses of Resources</u>							
Bilateral surveillance	162.4	23.3	23.9	176.7	29.6	24.9	...
Use of Fund resources and near programs	215.9	31.7	32.5	234.0	39.2	33.0	...
Desk work, contacts with other organizations	114.7	14.0	14.3	120.0	20.4	17.2	...
Financial operations and reporting	30.7	3.8	3.9	29.7	3.7	3.1	...
Technical assistance	190.2	24.8	25.4	193.2	25.9	21.8	...
TOTAL	713.8	97.7	100.0	753.5	118.8	100.0	780.5

Table 5. Country-Specific Work: Resource Use in Work with Members with Article IV Surveillance Only, FY 1991

	Fund-wide			Standard Cycle				Bicycle		Other cycle		Total	
	Quota terciles			G-7 countries		Other countries							
	1	2	3	Staff years	US\$ million	Staff years	US\$ million	Staff years	US\$ million	Staff years	US\$ million	Staff years	US\$ million
Number of countries in group	27	27	27	7	7	33	33	30	30	11	11	81	81
Consultations, desk work, contacts, financial reporting, other	72.7	38.6	29.7	30.0	3.7	66.2	8.5	38.5	5.0	6.2	0.7	140.9	17.9
Subtotal per country	2.7	1.4	1.1	4.3	0.5	2.0	0.3	1.3	0.2	0.6	0.1	1.7	0.2
Technical assistance	<u>6.8</u>	<u>28.9</u>	<u>28.1</u>	<u>0.4</u>	<u>0.1</u>	<u>33.2</u>	<u>4.4</u>	<u>20.9</u>	<u>2.6</u>	<u>9.3</u>	<u>1.2</u>	<u>63.7</u>	<u>8.3</u>
Subtotal per country	<u>0.3</u>	<u>1.1</u>	<u>1.0</u>	<u>0.1</u>	--	<u>1.0</u>	<u>0.1</u>	<u>0.7</u>	<u>0.1</u>	<u>0.8</u>	<u>0.1</u>	<u>0.8</u>	<u>0.1</u>
Total	79.4	67.5	57.7	30.4	3.8	99.4	12.9	59.4	7.6	15.5	1.9	204.6	26.2
Total per country	2.9	2.5	2.1	4.3	0.5	3.0	0.4	2.0	0.3	1.4	0.2	2.5	0.3

Table 6. Country-Specific Work: Resource Use in Work with Members with Article IV Surveillance and with Fund-Supported Programs/Near Programs, FY 1991

	Members with SBA, EFF, SAF, ESAF				Members with near programs (shadow, intensive discussions, overdues)		Members with Fund arrangements/near programs	
	Total		Of which: formerly centrally planned economies		Staff		US\$	
	Staff years	US\$ million	Staff years	US\$ million	Staff years	US\$ million	Staff years	US\$ million
Number of countries in group	60	60	7	7	20	20	80	80
Consultations, program work, program finance, contacts with IBRD and other organizations, desk work, financial operations and reporting	292.7	42.3	46.3	7.1	89.9	12.6	382.6	54.9
Subtotal per country	4.9	0.7	6.6	1.0	4.5	0.6	4.8	0.7
Technical assistance	<u>97.9</u>	<u>12.8</u>	<u>24.1</u>	<u>3.2</u>	<u>28.5</u>	<u>3.7</u>	<u>126.4</u>	<u>16.5</u>
Subtotal per country	<u>1.6</u>	<u>0.2</u>	<u>3.4</u>	<u>0.5</u>	<u>1.4</u>	<u>0.2</u>	<u>1.6</u>	<u>0.2</u>
Total	390.6	55.1	70.4	10.3	118.4	16.3	509.0	71.4
Total per country	6.5	0.9	10.1	1.5	5.9	0.8	6.4	0.9

The resources used in FY 1991 and planned in FY 1992 for country-specific work were deployed for Article IV consultations and for program/near-program countries, by area department, as recorded in Table 7. Table 7 also shows the best estimates of the area departments and of management for Article IV consultations and program/near-program countries in FY 1993 and FY 1994-95.

Table 7. Basic Determinants of Country-Specific Work Activity

(Number of countries) ^{1/}

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994-95
	Actual	Actual	Est.	Proj.	(average) Proj.
Nonmembers with Fund involvement	2	3	4	--	--
Membership pending, end of period	2	2	7	--	--
Members, end of period	152	155	156	163	163
Other Article IV consultations	2	3	4	3	3
Article IV consultations (cycle)	154	158	160	166	166
12-month	(111)	(116)	(118)	(121)	(121)
bicycle	(32)	(31)	(31)	(34)	(34)
18/24-month cycle	(11)	(11)	(11)	(11)	(11)
Program & near program countries	73	80	84 ^{2/}	90	85
Cases with arrangement in period (SBA, EFF, SAF, ESAF, CCFE) ^{3/}	(56)	(60)	(57)	(...)	(...)
Intensive discussions cases (inc. protracted arrears) ^{4/}	(17)	(20)	(27)	(...)	(...)
	[8]	[9]	[9]	[...]	[...]

^{1/} The information in this table is shown for each area department in Annex Table 1.

^{2/} For FY 1992, indications in November 1991 are that the number of program and near program countries (in CTA, EUR, MED) may be higher than the projections incorporated in this table (which were made in August 1991).

^{3/} In FY 1991, excludes two countries (Somalia and Zaire) which had arrangements in place for a very short period. Includes countries which had CCFE drawings.

^{4/} Excludes countries that had arrangements in place during the year (except Somalia and Zaire in FY 1991, which had arrangements in place for a very short period). Also excludes Cambodia.

As Directors are aware, Fund membership totaled 156 countries as of end October 1991, and the Fund had 7 membership applications pending (Estonia, Latvia, Lithuania, Marshall Islands, Micronesia, Switzerland, and the U.S.S.R.). In addition, the Fund is conducting Article IV consultations with Aruba, The Netherlands Antilles, Hong Kong, and will conduct similar consultations for the U.S.S.R. Assuming the application process is completed for the 7 countries in FY 1993, 166 countries will be eligible for Article IV consultations from that financial year, up from 154 in FY 1990, and 160 in FY 1992, at the permanent cycle frequency indicated in Table 5. At the same time, the number of members and prospective members with

programs/near programs is projected to rise to 90 in FY 1993, from 73 in FY 1990, 80 in FY 1991, and 84 in FY 1992, before declining to an estimated 85 in FY 1994-95. These estimates are inevitably uncertain. If program/near-program activity with members were significantly lower in the period ahead, a strengthening of the Fund's surveillance work would assist those members with continued fragile economic and financial positions and relatively high levels of outstanding Fund credit.

It is important to emphasize that the above-mentioned projections in the present policies scenario are the result of a set of careful judgments, made separately by each area department (see Annex Table 1), with due allowance for the uncertainties inevitably involved. Several assumptions were employed in making the present policies scenario projections:

(i) Article IV consultation cycles continue through the projection period at the cycle in effect from FY 1992 and it is assumed that, aside from the U.S.S.R. with which an annual Article IV-type consultation would continue, 4 of the 6 applying countries would have a 12-month and 2 would have a bicyclic consultation frequency; (ii) in the period to November 1992, the number of members entering into ESAF arrangements will accelerate, but no assumption is made concerning the extension of this deadline for entry into an ESAF arrangement, nor is a change in ESAF eligibility assumed. However, it is assumed that after disbursements under any ESAF arrangements have ceased, Fund relations with the members concerned are close, involving attentive macroeconomic monitoring, special analytical studies on subjects relevant to their macroeconomic policies, and continued provision of substantial technical assistance where requested. In any case, with a number of additional members expected to enter into ESAF arrangements before November 1992 while SAF arrangements expire, SAF/ESAF-related activities are projected to remain at their level of FY 1991 and FY 1992 through FY 1995, trending down thereafter; (iii) no estimate is given of the number of stand-by arrangements, extended arrangements, or ESAF arrangements for FY 1993 to FY 1995. However, staff and management have carefully considered which members can be expected to be "active" in the sense of requiring close attention as program/near-program countries by staff, management, and Executive Directors. Based on the budget survey data, work with these members is known to absorb equivalent resources whether or not an arrangement with the Fund is in effect at a particular point in time in FY 1993 to FY 1995.

In the projections of the work load (Tables 1 and 2), the resource requirements for work with prospective members are distinguished from work with present members. For present members, as can be derived from the information in Annex Table 1, there is a small net increase from 83 in FY 1992 to 86 in FY 1993 in the number of program/near-program countries. This number trends downwards to 81 program/near-program cases Fund-wide by FY 1994-95, though no decline is projected in the European, Middle Eastern, and Asian Departments. It is important to emphasize that the small net increase in present members requiring staff and other resources for program/near-program work in FY 1993 is the result of diverse changes across the membership, involving the termination of Fund arrangements with a few members and the larger number of members expected to request Fund

assistance, some for the first time in a long period. In addition to the changes in the proportion of the existing membership engaged in program discussions, the resources required for consultation work in FY 1993 and FY 1994-95 will depend on the unwinding of the temporary changes in the consultation cycle described in Section III; in the projections, the resumption of the normal consultation cycle is assumed from May 1993. Two other factors will affect the amount of time that will be devoted to country-specific work, and involve a shift in priorities and a redeployment of resources:

- First, I believe that we need to consider ways of simplifying the Fund's financial facilities. As part of this work, the external contingency mechanism (ECM) of the CCFF should be reconsidered in favor of a simpler procedure that achieves the essential aims of the mechanism. In the meantime, the review of the CCFF, scheduled for mid-1992, could be postponed while work is initiated on a more general review of facilities. Also, the staff work on overdue obligations is being reviewed. In all, it is estimated that some 5 staff years would be released in FY 1993.
- Second, resources can be saved by reducing the time spent by Fund missions in the field in awaiting the preparation by country authorities of basic data. I request the support of Executive Directors and of their authorities in this objective and have asked department heads to request appropriate assurances on data preparation prior to the departure of each staff mission, including for technical assistance. If mission time in the field is reduced by less than 10 percent as a result of improved data preparation by the authorities, savings would amount to 5 staff years.

Concerning technical assistance work with present members, it is assumed that work activity will return in FY 1993 to the level initially envisaged for FY 1992, before the temporary redeployment of some 30 staff years on an annual basis in the second half of FY 1992 to work on the U.S.S.R. and the Baltic states; in view of heavy and growing assistance demand, this assumption implies a further prioritization of technical assistance toward members with programs/near programs. However, for FY 1994-95, an increase of 35 staff years is projected to help deal with the increasing demand for technical assistance by members, in particular, related to the implementation of Fund-supported programs. The Central Banking Department is being restructured, and its medium-term staff requirements in this context are not clear at this time.

Included in the resource estimates for country-specific work with present members are allocations that should lead to a reduction in excessive unpaid staff overtime in FY 1993 and FY 1994-95, as explained in paragraph (j), below.

For the seven prospective members, the work with three countries (Marshall Islands, Micronesia, and Switzerland) is expected to involve the

resources required for surveillance work. For country-specific work on these countries as well as on the three Baltic countries and the U.S.S.R., it is estimated that an annual 133 staff years are required.

c. Activity on policy development, evaluation, and research

Two thirds of the resources for the activities included in this category are provided by the Research, Exchange and Trade Relations, Fiscal Affairs, and area departments (Table 8), and used for work on the topics listed in Table 12 of the budget survey paper.

Table 8. Policy Development, Evaluation, and Research: Sources of Resources

	FY 1991			Pre-Baltic/USSR Special Association FY 1992		
	Staff years	US\$ million	Percent of total	Staff years	US\$ million	Percent of total
Research	54.8	6.5	24.1	53.5	7.5	23.4
Area departments	38.1	4.2	15.6	36.5	4.7	14.6
Exchange and Trade Relations	31.3	3.0	11.1	29.9	3.7	11.5
Fiscal Affairs	23.4	2.3	8.5	26.2	2.9	9.0
Treasurer's	17.4	2.2	8.1	21.5	2.9	9.0
Bureau of Computing Services	15.2	1.7	6.3	14.1	2.3	7.2
Secretary's	12.5	1.5	5.6	13.9	1.8	5.6
Statistics	8.0	1.0	3.7	8.6	1.3	4.0
Legal	7.9	0.8	3.0	8.8	1.0	3.1
Bureau of Language Services	5.3	0.5	1.9	5.4	0.6	1.9
Office of Managing Director	4.9	0.8	3.0	6.0	1.1	3.4
Central Banking	3.9	0.4	1.5	3.7	0.3	0.9
Paris Office	3.8	0.8	3.0	3.7	0.8	2.5
Geneva Office	3.3	0.5	1.9	3.3	0.6	1.9
External Relations	3.2	0.4	1.5	2.4	0.4	1.2
Other departments	<u>1.5</u>	<u>0.4</u>	<u>1.5</u>	<u>0.4</u>	<u>0.2</u>	<u>0.6</u>
Total	234.5	27.0	100.0	237.9	32.1	100.0

To recall, the key components of the work encompass the World Economic Outlook; policy and research work related to surveillance and conditionality for the use of Fund resources; policy work related to Fund facilities and reviews of specific Fund policies; research work and policy development on fiscal issues, monetary, exchange rate and exchange system and trade matters, on international capital market and external debt issues, work on the international monetary system, the SDR, Fund quotas, overdue obligations, the Fund's liquidity and income position, and the ongoing interaction among the Executive Board, management, and staff, and preparation of Interim Committee meetings. All policy-related activities respond closely to the agenda and priorities established by the Executive Board in its semiannual work program, which is coordinated by the Secretary's Department, and are principally carried out in the Exchange and Trade Relations, Research, Treasurer's, and Legal Departments.

On activities not immediately linked to the Board's work program, mainly in the Research and Fiscal Affairs Departments, issues and topics worthy of attention by Executive Directors, the staff, and others are selected because of the intrinsic, professional interest of the topics and their link to fundamental aims the Fund seeks to attain. Staff in other departments also initiate such work as and when issues of particular interest arise. In addition, the Exchange and Trade Relations and the Research Departments write papers on assessments of general experience in the application of certain economic adjustment policies.

In the projection for FY 1993, it is assumed that the temporary redeployment of 6 staff years from research and policy development activity to work with prospective members will continue, but be offset partly by consultant time. In addition, reflecting the need for greater prioritization, I propose to shift the six-monthly reviews of the debt strategy to an annual cycle; and, as noted above, to review the Fund's financial facilities and the staff's work on overdue obligations. The total permanent savings are estimated to amount to 4 staff years in the activity category 'policy development, evaluation, and research' in FY 1993 and beyond.

Any additional demands stemming from the work with prospective members and emerging issues are assumed to be absorbed within existing resources through appropriate prioritization. This implies that the work on the evaluation unit will be completed during 1992 rather than in late 1991.

d. Activity on statistics, information, and external liaison

Well over 80 percent of the resources for these activities are provided by four departments (Statistics, External Relations, and the Bureaus of Computing Services and of Language Services) (Table 9) for the uses described in Budget Survey Table 13. To recall, the principal components of this activity category comprise the development, collection, and maintenance of statistics; production of statistical and nonstatistical publications; provision of information services; and developing relations with other institutions.

Table 9. Statistics, Information and External Liaison

	FY 1991			Pre-Baltic/USSR Special Association FY 1992		
	Staff years	US\$ million	Percent of total	Staff years	US\$ million	Percent of total
Statistics	57.8	6.7	32.1	56.2	7.2	28.9
External Relations	38.7	6.1	29.1	39.7	6.8	27.3
Bureau of Computing Services	32.0	3.5	16.9	29.6	4.8	19.3
Bureau of Language Services	11.7	1.1	5.2	13.0	1.4	5.6
Research	6.0	0.6	2.9	5.4	0.8	3.2
Treasurer's	5.0	0.6	2.9	4.1	0.6	2.4
Area departments	6.2	0.8	3.8	6.6	1.2	4.8
Other departments	<u>7.9</u>	<u>1.5</u>	<u>7.2</u>	<u>8.7</u>	<u>2.1</u>	<u>8.4</u>
Total	165.3	21.0	100.0	163.3	24.9	100.0

In FY 1993, 2 staff years are being released by the completion of certain tasks. In addition, I intend to continue the downsizing of the work on data maintenance, development, and publication of the Statistics Department that has been under way for the past two years. The principal means of releasing resources will be some reduction in the functional content of the data base managed by staff as well as a shift to less frequent statistical publications; in particular, I am exploring the option of publishing IFS on a quarterly frequency, rather than monthly as at present. The resources released would be redeployed for an expanded technical assistance program by the Statistics Department, for which there is strong demand by members. In FY 1993, 6 staff years will be so redeployed.

I also place great emphasis in the period ahead on the need to explain the Fund's policies to officials of prospective members, with somewhat less emphasis than in the past year or so on explaining to the public. Accordingly, 4 of the staff years of additional resources proposed below to be allocated to external training could be released by a reduction in the external liaison activities of the Fund. I believe that the efficiency of the Fund's external relations activities will be improved over the medium term mainly through the continuing emphasis on automation, technological improvements, and outsourcing, rather than through cutbacks in staff resources, which have remained virtually stable for the past six years, despite a steady increase in activity. Moreover, new external relations activity will be required in the U.S.S.R., the Baltic states, and Eastern Europe to meet a part of the large appetite for information and explanation about Fund activity that exists among the media, the academic and

professional institutions, and the general public in those countries. Notwithstanding these pressures, it is expected that two of the four staff years to be redeployed to external training can be shifted in FY 1993 from the External Relations Department. For FY 1994-95, in line with the policy of previous years, the projection requires the larger work load for recent new and prospective members to be absorbed through prioritization and productivity improvements. This projection is tight and may not be achievable.

e. Activity on external training

This activity encompasses all programs of the IMF Institute as described in the Budget Survey paper, with some support from other departments.

If it is assumed that officials from prospective members participate in courses at the average rate of other members and in order not to reduce the Institute's capacity to service officials from present members, a resource increase of 3 staff years would be needed in FY 1993. However, I believe these resources would be insufficient to mount a program of intensive training of officials from Baltic countries and the U.S.S.R. Such a program will involve, inter alia, the addition of a nine-week course in Washington, the organization of a large number of regional and national courses in the Baltic countries and the Soviet republics, and assistance to local training institutions in developing their own programs. For this purpose, an additional 7 staff years, at least, are required, bringing the total increase in FY 1993 to 10. This figure does not include the additional resources required to offer courses in Vienna. When estimates are made of the staffing implications, this number will increase accordingly.

f. Activity on administrative services

Four fifths of the resources for administrative services activities are provided by four departments (Administration and Treasurer's Departments and the Bureaus of Computing Services and of Language Services) (Table 10) for the uses recorded in Budget Survey Table 15. The activities are spread over a wide variety of detailed and disparate tasks not readily amenable to general description beyond the summation used in Budget Survey Table 15. 1/

1/ All activities are, of course, described in detail in the department profiles included in the handbook "FY 1992 Activities and Organization."

Table 10. Administrative Services

	FY 1991				Pre-Baltic/USSR Special Association FY 1992			
	Staff	Percent	US\$	Percent	Staff	Percent	US\$	Percent
	years	of total	million	of total	years	of total	million	of total
Administration	160.8	47.1	13.0	41.8	162.0	46.5	15.7	41.2
Treasurer's	42.6	12.5	3.6	11.6	41.9	12.0	3.9	10.2
Bureau of Computing Services	36.3	10.6	4.3	13.8	37.3	10.7	6.5	17.1
Bureau of Language Services	32.8	9.6	3.0	9.6	33.8	9.7	3.7	9.7
Secretary's	18.9	5.5	1.6	5.1	18.9	5.4	1.8	4.7
Budget and Planning	10.1	3.0	0.9	2.9	10.4	3.0	1.1	2.9
Office of Internal Audit & Review	6.8	2.0	0.9	2.9	8.0	2.3	1.0	2.6
Legal	5.7	1.7	0.6	1.9	6.5	1.9	0.8	2.1
Investment Office	3.1	0.9	0.5	1.6	3.5	1.0	0.6	1.6
Area departments	5.0	1.5	0.6	1.9	5.0	1.4	0.6	1.6
Other departments	<u>19.1</u>	<u>5.6</u>	<u>2.1</u>	<u>6.8</u>	<u>21.2</u>	<u>6.1</u>	<u>2.4</u>	<u>6.3</u>
Total	341.2	100.0	31.1	100.0	348.5	100.0	38.1	100.0

The share of staff and other resources devoted to administrative services has remained basically level over a long period due to the policy of seeking efficiency gains through the application of new technology and other steps. For example, during the five-year period from FY 1987 to FY 1992, the combined effective staff resources of the Administration Department, Secretary's Department, and the Bureau of Language Services were unchanged, while the remainder of the Fund's staff increased by 12.2 percent. Also, the Bureau of Computing Services has reduced its use of resources by 28 staff years since 1989 while accommodating a significant increase in work load. In the period ahead, further benefits will accrue from ongoing projects seeking efficiency savings, together with resources released from management's continuing policy of streamlining administrative services activities. The streamlining policy results in the dropping of activities that have become of marginal importance, without affecting priorities.

For FY 1993, it is estimated that efficiency savings and streamlining changes will allow the freeing of resources on the order of 13 staff years. This is the result of some additions to staff more than offset by reductions elsewhere. Additions to staff in the Administration Department to permit the major needed recruitment effort to go forward and to help administer the increased technical assistance program are offset by expected savings of one staff year, each, in administrative services by the Secretary's and

Treasurer's Departments. Following the successful implementation of the Fund Message Gateway, the cable room operation in SEC is expected to realize a savings of 2 staff years, to be offset initially by a shift of resources to the courier and facsimile operations, the demands on which have been increasing rapidly. Further efficiency improvements in the communications area will release 2 staff years during FY 1993. In addition, the Bureau of Computing Services will release 7 staff years through a series of further streamlining steps and cuts in some services. The Administration Department will release 7 staff years through cuts in service activities, offset elsewhere by an increase of 3 staff years spent on Fund-wide budgeting and technical assistance activities; a saving of 3 staff years would result from a substantial simplification in the administration of staff benefits that I will propose to the Executive Board in FY 1993. The present system relies on a very labor-intensive administrative process that can be replaced with simpler procedures without altering either the incidence of benefits to staff or total expenditures on staff benefits.

For FY 1994-95, I do not now anticipate significant further opportunities to implement streamlining changes that do not affect priorities. Rather, it is hoped that the increase in demand for administrative services as the Fund's overall staffing rises to levels indicated in the scenario can be absorbed through those efficiency improvements that may still prove possible. Management and staff are already engaged in studying such possibilities. Accordingly, the FY 1994-95 projection anticipates no change in use of staff resources for administrative services relative to FY 1993. This projection is very tight and may not be achievable.

In addition to the staff costs in those departments that perform the major administrative services, there are important items of expenditure that are managed largely by the Administration Department (e.g., capital projects, building services), though the expenses relate to a much broader range of activity categories than administrative services alone. As a preliminary projection, nonstaff noncapital costs are assumed to grow by 2 percent in real terms in FY 1993 and FY 1994-95, implying a reduction in real expenses per capita. In addition, specific initiatives are envisaged in two areas. First, the administrative services staff of the Fund and the Bank are studying ways to realize savings from joint procurement in a variety of fields. A preliminary estimate of savings opportunities will be available in December 1991.

Second, ways are being studied of making savings in Fund expenditure on transportation. The flexibility and convenience of existing mission travel arrangements are important complements to the way in which the Fund's mission work is conducted. The importance of minimizing the stress of mission travel and ensuring that the staff concentrate their full attention on the work at hand are key considerations. I consider it inappropriate, as long as current circumstances of intense operational mission activity continue, to change present work practices. In any case, some of the saving that can be obtained by downgrading the class of mission travel, will be offset by a variety of compensating changes that add to travel costs (see

EBAP/87/259, 11/24/87). In addition, the Fund has opportunities to receive discounts from regular full fares in implementing its present policies. To achieve savings, management is looking at ways to exploit more fully the airline discounts now available to frequent first-class travelers--the saving can be significant. Another option would be to change to business class the present first-class travel by staff and by Executive Directors and their Assistants for appointment and resettlement. All other nonmission business travel is not in first class.

Another initiative, with a somewhat longer time horizon, is the study currently under way of the possible application of video teleconferencing technologies to the way the Fund does business. In some multinational corporations, video teleconferencing is beginning to be used as a substitute for international travel, with concomitant cost savings.

g. Activities of the Board of Governors, the Executive Board, and their committees

Table 11. Activities of the Board of Governors, the Executive Board, and their Committees

	FY 1991		FY 1992	
	Staff years	US\$ million	Staff years	US\$ million
Board of Governors and Executive Board Offices	196	28.1	197	31.8
Staff support services of which:	<u>80</u>	<u>7.5</u>	<u>75</u>	<u>8.1</u>
Secretary's Department	40	3.8	38	3.6
Bureau of Language Services	17	1.6	14	1.5
Bureau of Computing Services	10	1.0	9	1.5
Total	276	35.6	272	39.9

The activities of the category covering the Board of Governors include the services of World Bank staff, contractual employees and local temporary staff for 7 staff years in FY 1992. In addition, the Secretary's Department devotes 12 staff years to the support of the Board of Governors, its committees, and related bodies. No increase in activity is expected in FY 1993 and FY 1994-95.

The staffing of Executive Board offices ranges from a low of 5 persons to a high of 10 persons per office, with an average of 6.5 persons per office. Direct staff support services to the Executive Board are provided mainly by the Secretary's Department and the Bureaus of Computing Services and of Language Services. In the Secretary's Department, the work includes processing and distributing Board documents and providing meeting room and verbatim recording services. In addition, the department provides Executive Directors and their staff with assistance in administrative matters as well as guidance in connection with a wide range of official, personal, and social matters. The Bureau of Computing Services provides guidance and assistance in the selection, procurement, and installation of computer equipment/software/services as well as the development of office systems. Technical support and individual training in this area is also provided by a group dedicated to this purpose. The Bureau of Language Services provides translation services, as well as simultaneous interpretation services, as needed by the Executive Board; between 3 and 5 staff years are devoted each year to the translation of Recent Economic Developments (RED) reports, most at the standing request by Executive Directors.

In the projections for FY 1993 and FY 1994-95, the scope of direct staff support services to Executive Board offices is expected to remain broadly unchanged; an increase in translation requirements for new members of 2 staff years from FY 1993 is offset by a savings of 3 staff years that result from a proposed streamlining in the production and circulation of minutes. In addition, I would propose that the automatic translation of REDs cease, releasing a minimum of 3 staff years, and \$0.3 million.

The evolution of the activity of Executive Board offices over FY 1993 and FY 1994-95 will depend in part on the implications for the Executive Board of decisions on the specific modalities of the absorption of new members. It is not appropriate to anticipate such decisions and the present policies projection for the activity of Executive Board offices is at the level expected for FY 1992.

h. Activity on supervision and management

These activities comprise personnel oversight and management; the planning, direction, and supervision of work; and general administrative tasks. By their nature, these tasks are overwhelmingly performed by senior managers and absorb about 10 percent of senior staff time in the area and functional departments, and slightly more in the information, liaison, and support departments where the proportion of staff in grades A1-A8 tends to be higher. As Directors are aware from the responses by divisional managers to the budget questionnaire (see Section VI of the Budget Survey paper) and from their discussion on the Fund's personnel policies and objectives (Buff Document No. 91/145, 8/19/91), serious strains exist in this area. There is a widespread view among staff that the planning of work and personnel oversight and development are being given insufficient attention by senior staff owing to the press of other work; I strongly share this view. All departments have now designated senior managers responsible for overseeing all personnel matters and these managers comprise a special

advisory committee chaired by the Deputy Managing Director. The supervisory work of division chiefs is carried out under the guidance of the senior manager and of the department director. With the expansion in the volume and complexity of work, further demands are being added, not least in the close attention that needs to be given to supervising a rising proportion of new staff. In implementing the conclusions reached by Directors in Buff Document No. 91/145, I consider it important to remove the bottleneck in staff supervision and work management and, accordingly, the scenario for FY 1993 includes for this purpose an additional 12 staff years at senior levels in FY 1993, and a further increase by 5 staff years in FY 1994-95.

i. Activity on staff training and professional development

The FY 1992 Administrative Budget targeted an increase in staff training from an average of 3.6 days in FY 1991 to 6.0 days in FY 1992, with a medium-term goal of 7 to 9 days. This increase was based on the allocation of about 18 additional staff years to accommodate a 50 percent greater participation in training. A further increase of 20 staff years are added in the projection for FY 1993 to meet the medium-term target, with no further resources for FY 1994-95. The Executive Board strongly endorsed the proposals in the Personnel Policies and Objectives paper to expand staff training and development through increased participation in formal training and continuing education programs, supplemented by self-paced training (e.g., personal reading). The training areas specifically targeted include:

- Expanding management development to include a longer-term and more comprehensive program of courses and developmental activities geared specifically to the needs of Fund managers. This program would be designed to better assess, develop, and evaluate management skills of staff at all levels of supervisory responsibility. Training in specialized applications of management skills would also be developed, including mission leadership and managing technology.
- Expanding efforts in the EDP training area to improve productivity gains from technology. Specific emphasis will be placed on equipping senior staff to manage automation efforts in their units and evaluate and assess the EDP skills of their staff.
- Strengthening of the orientation courses to facilitate the induction of all new staff as quickly and smoothly as possible.
- Intensifying language training to allow for greater mobility of staff, and to supplement the recruitment requirements of technical expertise by providing greater access to English language training.
- Increasing access to continuing education programs to replenish the stock of the Fund's human capital through short

education courses, as well as the longer sabbatical leave programs.

j. Reduction of unpaid overtime

The expenditure survey collected data on the amount of unpaid overtime in FY 1991. As the summary Table 12 indicates, the estimated amount of unpaid overtime translated into 179 staff years.

Table 12. Estimate of Unpaid Overtime in FY 1991

(In staff years)

	Average Proportion of Staff Year		Total Staff Years
	B1-B5	A9-A15	
Area departments	0.22	0.17	66.6
Functional and special service departments	0.22	0.12	74.9
All other departments	<u>0.18</u>	<u>0.08</u>	<u>37.0</u>
Total	0.21	0.12	178.5

The early 1980s saw the growth of unpaid overtime. Conditions causing this overtime were thought to be temporary in nature, particularly during the mid-1980s, when the number of Fund arrangements declined for a while. The increased intensity of the Fund's work load in the 1980s was described in EBAP/91/25 (2/15/91)--major factors included the introduction of the ESAF, and the PFP process and collaboration with the IBRD that this entailed; the more complex debt issues; and greater involvement than before in structural areas of reform. However, with evidence that pressures of country work have not only persisted but are likely to intensify, action is required to reduce the level of unpaid overtime. The high levels of overtime are not conducive to the maintenance of efficiency: they have contributed to the deterioration in staff morale and have exacerbated the difficulty in recruiting new, highly qualified staff.

I consider it essential, from the viewpoint of the due care that is required by an employer, not to expect the staff to discharge a country-specific work load at a level that anticipates the continued use of excessive overtime. Accordingly, the scenario includes estimates of the

resources required over the next two years to reduce to more reasonable levels the unpaid overtime performed on country-specific work. I anticipate that in FY 1993, 35 staff years will be added to area departments and functional and special service departments to reverse the further deterioration envisaged this year and to reduce partially the difference between the unpaid overtime in these departments and the level which exists elsewhere in the Fund. It is envisaged that an additional 30 staff years will be added in FY 1994. It is important to recognize that we cannot continue work at the present intensity without significant long-term costs to the institution. Indeed, I would like to propose making faster progress in reducing unpaid overtime. My proposal is reasonable and will improve the well-being of the staff, and permit us to maintain work at a pace that will allow the quality of thought and advice to be adequate for the several challenging years ahead. It should be clear to the Executive Board that a significant portion of the extraordinary work load in FY 1993 will continue to be unremunerated. I view my proposal as very conservative, given the magnitude of unpaid overtime now performed.

k. Return to normal leave usage pattern and elimination of excessive travel burden

The work load in recent years has caused a higher proportion of annual leave not being taken in the year it is earned. In 1986, 90 percent of annual leave earned by staff was taken. This usage of annual leave declined in subsequent years until it reached 86 percent in 1990. For some departments, the percentage of annual leave usage fell as low as 71 percent and these low averages masked even lower individual usages in these departments. The position is expected to deteriorate further in FY 1992, as the amount of paid leave is projected to remain constant despite the increase in staff. Another indicator of the inability of staff to utilize earned leave is reflected in the amount of leave lost (which occurs when annual leave accumulates for an individual in excess of 60 days), which totaled 1,949 days, or nearly 9 staff years in 1990. Another indicator of excessive work load is the number of travel days in excess of 50 days per traveler. The number of staff experiencing an excessive number of travel days increased from 100 in 1987 to 171 in 1990, with the total excessive travel days equaling 10 staff years in 1990.

The projected increase in staff would automatically imply an increase in leave of some 50 staff years by FY 1994. The projections provide for these resources. However, they are only sufficient to permit a very small improvement in the leave utilization level, an outcome I regard as very conservative.

l. External funding and reimbursement

A growing portion of Fund technical assistance is externally financed and I attach a high priority to increasing this external funding. As Directors are aware, countries receiving technical assistance contribute to these expenses, and \$0.7 million is expected to be realized in FY 1992. In addition, the budget anticipates that the UNDP will commit funding for

technical assistance of approximately \$8 million in FY 1992. Moreover, Japan has made available additional financing for Fund technical assistance in an amount of \$2.3 million in FY 1992. The Japanese authorities have indicated their intention to continue their contribution to the Japan Administered Account for financing of technical assistance in FY 1993. I have requested the Japanese authorities to consider favorably an increase in their contribution to this account.

For external training conducted by the IMF Institute, and for technical assistance more generally, management is aggressively soliciting external funding and will welcome members' further contributions in this regard.

2. Zero-growth scenario

In the discussions preceding adoption of the budget for FY 1992, Executive Directors requested that a scenario of zero growth in staff years and real expenditure from the FY 1992 base be prepared, and the Acting Managing Director informed the Executive Board in EBAP/91/196 (7/29/91) ("The Fund's Administrative Budget Process,") that such a scenario would be included in the present budget outlook exercise. Since early 1991, however, the work load facing the Fund has increased significantly and it needs to be considered what zero-growth scenario is sensible to develop in the new circumstances. If zero growth in the new circumstances were to mean no growth in activity and resources relative to the approved FY 1992 budget, very difficult issues would be raised concerning uniformity of treatment of members, including prospective members. I do not consider that such a scenario would serve a useful or equitable purpose in the new circumstances.

For these reasons, the definition of "zero growth" should be adjusted for the prospective change in membership, and for the work activity resulting from that change, relative to the original estimates for FY 1992. To accomplish this adjustment, zero growth (adjusted for membership change) is defined as no change in staff years in FY 1993 devoted to work with the existing membership, plus the change in staff years in FY 1993 needed to discharge the work with prospective members; the latter amount is 131 staff years for FY 1993. The scenario for FY 1993 projects an increase in activity of 163 staff years over the original projection for FY 1992, and activity cuts of some 30 staff years are needed to comply with a zero-growth constraint (adjusted). For FY 1994 and 1995, zero growth (adjusted) would then necessitate an additional cut of 115 staff years from the projections contained in Table 1.

I consider that any reduction by 30 staff years in FY 1993 must be accomplished by cuts in activity. Further short-run efficiency improvements are not feasible and I regard as highly inadvisable forgoing the increases in resources that need to be devoted to improved staff supervision, staff training, and reduction of unpaid overtime. As discussed elsewhere in this paper, a reduction of resources devoted to these purposes would be counterproductive to the effectiveness of the institution, and very damaging to the morale of a staff discharging a heavy work load.

The following activity cuts could be among those necessary to respect a constraint of zero growth (adjusted) in staff years, over and above the cuts and redeployments already included in the scenario for FY 1993 presented in Tables 1 and 2. I do not favor any of these options:

(i) Further substantial cuts could be made in translation services, e.g., the amount of background material translated for technical assistance missions and for seminars and courses could be reduced. Also, a larger proportion of translation could be done on contract. Currently, some 15 percent of total translation is done by outside contractors and roughly the same percentage by temporary in-house contractors; increasing these percentages would reduce the staff ceiling and would achieve some net expenditure savings. However, there would be deterioration in the quality of translation, including a lower standard of accuracy, less consistency in style and terminology, and reduced capacity to meet tight deadlines and make last minute changes. In addition, there would be less assurance that the confidentiality of material for translation could be safeguarded.

(ii) A further substantial cut in the work of the Statistics Department on data maintenance, development, and publication. Such a cut would most likely require the abandonment of significant activities involving the development and maintenance of data series that are consistent across countries and that are published regularly.

(iii) A reduction in the scope of bilateral and multilateral surveillance could be considered. However, such a change would erode permanently the Fund's ability to discharge a core responsibility.

(iv) In the area of external liaison activities, cuts could be made involving elimination of some publications, of seminars for officials, and similar activities. The potential savings are relatively small.

In the above scenario variant of no growth (adjusted) in staff years, total real Fund-financed expenditures continue to exceed the limit assumed as a constraint.

In order to reduce real Fund-financed expenditures to the level required, the following steps are among those necessary in addition to all activity cuts discussed above:

(i) To raise the charges for Fund publications, for contributions by members to the expenses of Fund technical assistance, and for other items, including for attendance by certain non-officials at the Annual Meetings.

(ii) To continue to make aggressive efforts to attract external funding for technical assistance and for external training provided by the Fund, with these efforts requiring an even more forthcoming response from members to provide such financing.

(iii) A general reduction in expenditures on building services and maintenance could be considered. A not very large amount of expenditures

(some \$0.4 million) could be saved by a reduction in the standards of cleanliness and services. However, I consider this to be a generally poor measure of economy, quite aside from the views of several Directors that standards have already been reduced beyond their wishes in some areas.

For FY 1994-95, a zero-growth scenario (adjusted) would require an additional cut in activities amounting to some 115 staff years. Such activity cuts are not feasible without the abandonment of work on major areas of a core responsibility of the institution.

V. Capital Budget Prospects

Currently, a number of potential capital projects have been identified. These projects are categorized as expenses arising from (1) the acquisition of additional buildings and office space, and (2) maintenance and renovation costs for existing building facilities and systems.

1. Acquisition of space

Presently, the headquarters building is crowded with no room for expansion, and additional space is needed as staff increases. This will mean that additional space will have to be leased. This acquisition will entail fitting out the new space, moving costs, and the renovation of vacated space at headquarters. The cost of additional space will include the rental cost of the newly acquired space, which will impact the Administrative Budget, together with one time fit out costs and costs to renovate space vacated in the headquarters building which impact the capital budget. The lease costs will average approximately \$32.50 per square foot annually over the next 10 years. Generally, costs of fitting out newly leased space can be expected to be approximately \$90 per square foot, of which approximately \$20 per square foot is for required work in existing space to accommodate the new space; and approximately \$40 per square foot will be funded by the lessor (assuming 10 year lease) for a net cost of approximately \$50 per square foot. In addition, costs for fitting out vacated space at headquarters can be expected to be approximately \$28 per square foot. Actual estimates are prepared for each project based on the unique requirements of each project. Overall, each staff member requires 350-500 gross square feet of building space based on office standards of 150 net square feet for professional staff, 300 net square feet for division chiefs, and 400 net square feet for directors.

2. Maintenance and renovation

These projects fall into two categories; projects which are independent of any future decision on Phase III; and projects which may be proposed as part of Phase III, but which will need to be proposed separately in the event that Phase III is not approved.

a. Independent projects

- Replacement of six fuel oil tanks and retrofitting the chillers (\$0.3 million).
- Provide teleconferencing facilities (estimate not yet available).
- Wide-scale replacement of carpeting in headquarters building (\$0.8 million over a three-year period).
- Renovation of Graphics print shop ventilation systems (\$0.7 million).
- Roadway repairs at the Bretton Woods Recreation Center (\$0.3 million).
- Upgrades of the fire alarm system in the Concordia apartments (\$0.4 million).

The above cost estimates are based on a preliminary analysis of needs and costs. A detailed study of capital requirements (excluding EDP) over a five to ten year horizon is under way and will provide a more comprehensive view of capital requirements that can be anticipated for our facilities.

It is also expected that capital outlays of up to \$5 million per year for electronic data processing (EDP) equipment could be required to maintain adequate stock. This estimate is based on a five year replacement cycle for maintaining the Fund's EDP inventory, which is valued at approximately \$25 million. Included in this inventory are microcomputers, minicomputers, networks, and printers.

b. Projects for FY 1994-95 related to Phase III

- Skylight replacement (\$2 million). The present 20-year old skylight is nearing the end of its useful life, according to a professional consultant. Cost savings can result by timing its replacement with the early stage of Phase III construction.
- Cleaning and refinishing the headquarters buildings exterior surfaces (\$0.8 million).
- Cafeteria renovation (\$5 million).
- North stucco wall replacement (\$1 million).
- Waterproofing Phase I planter beds (\$5 million).
- Phase II roof replacement (\$0.4 million).

In summary, the FY 1993 capital budget outlook anticipates a request for projects totaling approximately \$13 million to \$15 million.

These figures do not take account of Phase III headquarters building construction costs. Approved funding for the Phase III building project is in two parts: \$30 million for the acquisition of the Western Presbyterian Church property and obtaining zoning for the possible construction of Phase III, and \$8.3 million to undertake necessary space planning and engineering studies, and to prepare construction drawings for Phase III. The formal zoning hearings began in September 1991 and a favorable decision is expected early in 1992. Upon receipt of that approval, construction of the new church building will commence and is expected to be completed within an 18-month period.

Work pertaining to the construction drawings for Phase III, and the other related studies, has begun. The architectural firm of Kling Lindquist--the firm designed Phases I and II of the current headquarters building--has been retained to complete the drawings. In addition, preparations are under way to let international bids for the construction management contract for the new building. While not committing the Fund to build, it is important to retain the services of a construction manager as early as possible to assist in the design process. The construction manager can provide valuable guidance to the Fund in estimating costs, developing schedules, and assuring that the new building is so designed as to take every advantage of cost-saving construction techniques. It is now anticipated that this work will be concluded at about the same time as the new church construction is completed, allowing for construction of Phase III to begin before the end of FY 1993, if approved by the Executive Board. A paper on capital expenditures is being prepared by the Treasurer's Department. Another paper, requesting funding for construction of Phase III, will be issued when construction drawings are well developed and cost estimates are completed, most probably in early 1993. It is anticipated that the costs of Phase III base building construction will be close to \$100 million, but only on the basis of construction drawings can this estimate be given real precision. This amount does not include the cost of equipping the building, which will be estimated separately.

VI. The Fund's Budget Process

Executive Directors received a memorandum from the Acting Managing Director on the Fund's Administrative Budget Process on July 29, 1991 (EBAP/91/196). That memorandum outlined the steps management was taking to further develop the Fund's budget process. Briefly, and referring to the issues mentioned in that memorandum, the following points may be noted: (i) a budget reporting system for the regular collection of information updating the budget expenditure survey is being introduced to be effective in early 1992; (ii) with the recent reporting of the Budget and Planning Division directly to the Office of the Deputy Managing Director, General Administrative Order No. 2, concerning the Fund's administrative and capital budgets, is being reviewed and updated; (iii) internal staff work on

departmental work plans is continuing and more use will be made of such plans in developing future budget projections; (iv) the use of such work plans will be increasingly helpful for the retrospective reviews of the work accomplished in the prior financial year that are planned for future papers on the budget outlook in December of each year; (v) management and staff are studying the opportunities for introducing nominal budgets for each department for certain types of expenditure. This work is proceeding very carefully, inter alia, not to occasion an increase in the very small resources now used for Fund-wide budget matters.

Separately, as noted in EBAP/91/196, work to maintain an effective organizational structure and efficient work practices is continuing. This is a critical element in maintaining cost growth in several parts of the Fund below the growth in activity. The work of the Office of Internal Audit and Review, which now places more emphasis than in the past on efficiency audit reviews of departmental activities, in addition to internal financial audits, is thus an increasingly important complement to the budgeting and planning process. It is expected that management will be able to inform the Executive Board of the steps taken as a result of the audits and reviews conducted during FY 1992 at the time of the FY 1993 budget request.

Table A1. Basic Determinants of Country-specific Work Activity

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994-95
	Actual	Actual	Est.	Proj.	(average) Proj.
	(Number of countries) <u>1/</u>				
1. <u>AFR</u>					
Non-members with Fund involvement	--	--	--	--	--
Membership pending, end of period	--	--	--	--	--
Members, end of period	47	48	48	48	48
Other Article IV consultations	--	--	--	--	--
Article IV consultations (cycle)	47	48	48	48	48
12 month	(44)	(44)	(43)	(43)	(43)
bicycle	(4)	(5)	(5)	(5)	(5)
18/24 month cycle	(--)	(--)	(--)	(--)	(--)
Program & near program countries	38	39	41	41	37
Cases with arrangement in period (SBA, EFF, SAF, ESAF, CCFF) <u>2/</u>	(32)	(31)	(30)	(...)	(...)
Intensive discussions cases (inc. protracted arrears) <u>3/</u>	(6)	(8)	(11)	(...)	(...)
	[2]	[5]	[5]	[...]	[...]
2. <u>ASD (CTA & SEA)</u>					
Non-members with Fund involvement	--	--	--	--	--
Membership pending, end of period	--	--	2	--	--
Members, end of period	25	26	28 <u>4/</u>	30	30
Other Article IV consultations <u>5/</u>	--	1	1	1	1
Article IV consultations (cycle)	25	27	27	31	31
12 month	(14)	(17)	(18)	(18)	(18)
bicycle	(11)	(10)	(9)	(13)	(13)
18/24 month cycle	(--)	(--)	(--)	(--)	(--)
Program & near program countries	7	8	8 <u>6/</u>	9	11
Cases with arrangement in period (SBA, EFF, SAF, ESAF, CCFF)	(6)	(7)	(7)	(...)	(...)
Intensive discussions cases (inc. protracted arrears) <u>3/</u>	(1)	(1)	(1)	(...)	(...)
	[1]	[1]	[1]	[...]	[...]

Table A1 (continued). Basic Determinants of Country-specific Work Activity

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994-95
	Actual	Actual	Est.	Proj.	(average) Proj.
	(Number of countries) <u>1/</u>				
3. <u>EUR</u>					
Non-members with Fund involvement	...	3	4	--	--
Membership pending, end of period	2	2	5	--	--
Members, end of period	28	30	29 <u>4/</u>	34	34
Other Article IV consultations <u>5/</u>	2	2	3	2	2
Article IV consultations (cycle)	30	32	34	36	36
12 month	(16)	(18)	(20)	(23)	(23)
bicycle	(10)	(10)	(10)	(9)	(9)
18/24 month cycle	(4)	(4)	(4)	(4)	(4)
Program & near program countries	3	7	8 <u>6/</u>	12	12
Cases with arrangement in period (SBA, EFF, SAF, ESAF, CCFF)	(3)	(6)	(6)	(...)	(...)
Intensive discussions cases (inc. protracted arrears)	(--)	(1)	(2)	(...)	(...)
	[--]	[--]	[--]	[...]	[...]
4. <u>MED</u>					
Non-members with Fund involvement	--	--	--	--	--
Membership pending, end of period	--	--	--	--	--
Members, end of period	18	17	17	17	17
Other Article IV consultations	--	--	--	--	--
Article IV consultations (cycle)	18	17	17	17	17
12 month	(9)	(9)	(9)	(9)	(9)
bicycle	(6)	(5)	(5)	(5)	(5)
18/24 month cycle	(3)	(3)	(3)	(3)	(3)
Program & near program countries	4	5	4 <u>6/</u>	5	5
Cases with arrangement in period (SBA, EFF, SAF, ESAF, CCFF)	(2)	(2)	(2)	(...)	(...)
Intensive discussions cases (inc. protracted arrears) <u>3/</u>	(2)	(3)	(2)	(...)	(...)
	[1]	[1]	[1]	[...]	[...]

Table A1 (concluded). Basic Determinants of Country-specific Work Activity

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994-95
	Actual	Actual	Est.	Proj.	(average) Proj.
	(Number of countries) ^{1/}				
5. <u>WHD</u>					
Non-members with Fund involvement	--	--	--	--	--
Membership pending, end of period	--	--	--	--	--
Members, end of period	34	34	34	34	34
Other Article IV consultations	--	--	--	--	--
Article IV consultations (cycle)	34	34	34	34	34
12 month	(28)	(28)	(28)	(28)	(28)
bicycle	(2)	(2)	(2)	(2)	(2)
18/24 month cycle	(4)	(4)	(4)	(4)	(4)
Program & near program countries	21	21	23	23	20
Cases with arrangement in period (SBA, EFF, SAF, ESAF, CCFE)	(13)	(14)	(12)	(...)	(...)
Intensive discussions cases	(8)	(7)	(11)	(...)	(...)
(inc. protracted arrears) ^{3/}	[4]	[2]	[2]	[...]	[...]
6. <u>TOTAL</u>					
Non-members with Fund involvement	2	3	4	--	--
Membership pending, end of period	2	2	7	--	--
Members, end of period	152	155	156	163	163
Other Article IV consultations	2	3	4	3	3
Article IV consultations (cycle)	154	158	160	166	166
12 month	(111)	(116)	(118)	(121)	(121)
bicycle	(32)	(31)	(31)	(34)	(34)
18/24 month cycle	(11)	(11)	(11)	(11)	(11)
Program & near program countries	73	80	84 ^{6/}	90	85
Cases with arrangement in period (SBA, EFF, SAF, ESAF, CCFE) ^{2/}	(56)	(60)	(57)	(...)	(...)
Intensive discussions cases	(17)	(20)	(27)	(...)	(...)
(inc. protracted arrears) ^{3/}	[8]	[9]	[9]	[...]	[...]

^{1/} It is to be noted that the term "country" used in this document does not, in all cases, refer to a territorial entity that is a state as understood by international law and practice.

^{2/} In FY 1991, excludes two countries (Somalia and Zaire) which had arrangements in place for a very short period.

^{3/} Excludes countries that had arrangements in place during the year (except Somalia and Zaire in FY 1991 which had arrangements in place for a very short period). Also excludes Cambodia.

^{4/} Australia and New Zealand are transferred from EUR to SEA in FY 1992, but after completion of the FY 1992 consultation.

^{5/} For this purpose Hong Kong is included with ASD countries for all years, Aruba and Netherlands Antilles with EUR.

^{6/} For FY 1992, indications in November 1991 are that the number of program and near program countries (in CTA, EUR, MED) may be higher than the projections incorporated in this table (which were made in August 1991).

