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January 26, 1990

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 has been tentatively scheduled for Executive Board discussion on Monday, February 5, 1990.

Mr. L. Wolfe (ext. 7502) or Mrs. Jackson (ext. 8986) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

TO: Members of the Executive Board
FROM: The Managing Director
SUBJECT: Budgetary Outlook in the Medium Term

DATE: January 26, 1990

I. Introduction

Last year, as part of the continuing effort to introduce a medium-term focus to the budgetary process, the Midyear Review of the Administrative and Capital Budgets was presented for the first time in two papers. The current status of FY 1990 administrative expenses and capital projects is separately reviewed in a paper that already has been circulated to Executive Directors on a lapse-of-time basis (EBAP/90/2; 1/3/90). The purpose of this paper is to provide the Executive Board with a forward looking view of the issues and activities that need to be addressed by the institution in the medium term, and to provide a basis of the budgetary framework for FY 1991 for discussion at a meeting tentatively scheduled for February 5, 1990. The paper draws on the current work program, the preliminary departmental assessments of the likely work load over the next three to five years, and on a number of institutional objectives that were established last year. It identifies a number of areas of activity that will require increased efforts by the staff; notes the possibility of partially alleviating these pressure points through the setting of priorities, the streamlining of work and through the redeployment of staff; and provides a preliminary indication of those areas where additional budgetary resources are likely to be needed. The exchange of views at the forthcoming meeting will assist management in developing the work program in the medium term. Firm budgetary proposals for FY 1991 will then be formulated, taking into account the requests of departments as presented in their budget submissions. The formal budget document will be issued at the end of March for review and approval by the Executive Board at a meeting tentatively scheduled for the latter half of April 1990.

You will recall that in last year's budget I offered a number of key management objectives that provide a framework on which manpower and expenditure decisions can be based; these were well received by Executive Directors and were instrumental in guiding the formulation of the current year's budgets. These objectives, which are enumerated below, continue to be relevant to the work of the institution and will form the basis for setting budgets in the medium term.

First, the institution must respond effectively to evolving member country needs, through the continued improvement of the intellectual foundations of our policy analysis and advice, and the maintenance of our working relations with member countries.

Second, the work load of the institution must be kept at manageable levels. This requires that the various activities of the institution be kept under continuous review in order to identify the relative priorities of competing activities and to elicit sound decisions on resource allocations.

Third, as required in the Articles of Agreement, the Fund's capacity to attract, retain, and motivate highly qualified personnel must be maintained and indeed strengthened. The issues of work load, environment, job satisfaction, monetary and other benefit rewards, and appropriate tools and facilities with which to carry out the staff's work, are central to this effort, as is the need to implement sound policies affecting career development and prospects.

Fourth, the streamlined, efficient, and flexible nature of the institution must be maintained in order to be able to respond quickly and effectively to members' needs. A fundamental strength of the Fund is its ability to forge a close working relationship among staff, management, the Executive Board, and national authorities, and this strength, which has been developed over decades, must be protected if the institution is to be effective in the 1990s.

Fifth, to cope with a heavy work load in the context of firm and continuing budgetary restraint, management must ensure that the Fund's human and financial resources are deployed as efficiently and effectively as possible. This requires a clear understanding of the priorities of the Fund and the expectations of the Board in that regard. It will also require making a number of difficult choices as the level of demand placed on the institution by the membership exceeds the resources available to meet these demands.

These objectives need to be viewed as a package rather than as a set of mutually exclusive goals. They are interrelated and, as such, any effort to achieve one will have an impact on the others. For example, the need to meet additional demands from members for macroeconomic policy and structural advice may, in the context of the need to maintain a streamlined institution, require the possible reduction in other Fund work. These interrelationships need to be considered carefully when making decisions, not only when setting priorities for a particular financial year, but also from year to year. In this respect, I look forward to the continuation of recent Executive Board efforts to balance any requests for additional work with an offsetting postponement or elimination of other requests. The tight control of the Fund's work program is essential given the fact that the overall level of work throughout the Fund has remained close to capacity and that, in some activities, the work pressures have become excessive.

II. Budget Priorities for FY 1990

The broad objectives outlined in the previous section were instrumental in identifying the FY 1990 budget priorities. Our work with member countries was identified as posing additional demands, particularly in regard to activities associated with Fund programs under the Structural Adjustment Facility (SAF), the Enhanced Structural Adjustment Facility (ESAF), and other facilities. In addition, the need to support and widen the structural work in countries through the provision of short- and long-term technical assistance in the areas of fiscal, central banking, statistics, and other structural areas that have a material effect on macroeconomic policy formulation and implementation was given a high priority. Attention has also been directed this year towards improving the analytical and empirical framework underlying the strengthened surveillance effort, the activities associated with the enhanced debt strategy, the efforts to improve the focus and coordination of the Fund's statistical work, and the continuing need to work closely with member countries in arrears. In all these activities, a central focus of our effort has been to maximize the effectiveness of Fund resources through closer coordination of assistance provided by the special service and functional departments with the ongoing work of the area departments.

I believe that we have made a more than useful start in meeting this goal. During the first six months of the financial year, the volume of business travel has increased markedly over the corresponding period of FY 1989, due in large part to a sharp increase in short-term technical assistance and in assistance offered to countries that have requested Fund policy analysis and advice. A record number of programs (51 as of January 19, 1990) are currently in place, while the work load associated with the centrally planned economies of Eastern Europe has increased substantially. At the same time, progress has been made in redressing the problem of overdue financial obligations to the Fund, including, in particular, the adoption of needed corrective policies and a resumption or increase in payments by a number of countries in arrears; these positive developments are encouraging, but work in this area must remain intensive given the need to reduce and eliminate overdue obligations as rapidly as possible. There has also been an intensive effort associated with the work on the Ninth General Review of Quotas.

A number of initiatives were taken at the beginning of FY 1990 to assist in handling the anticipated increase in the work load of the institution. As part of the effort to ensure that sufficient manpower resources were available, a total of nine positions were added to the overall staff ceiling. Through the continuing policy of redeployment, however, a number of support department positions were eliminated; this allowed 18.5 new positions (including 5 Resident Representative posts) to be added to the area, functional, and special service departments. In addition, a number of supporting organizational changes were implemented, including the creation of new divisions in the African and Central Banking Departments. The substantial investment over the last few years in the area of automation has also provided productivity increases for both the staff and the Executive Board. At the same time, efforts intensified to

coordinate more fully the statistical technical assistance work of the Bureau of Statistics with the day-to-day area department country work in order to improve the data available for analysis and policy setting, and to avoid duplication of data collection. An agreement was signed with the United Nations Development Program (UNDP) under which UNDP funds will be used to provide mainly long-term technical assistance to member countries. This arrangement will provide additional resources to satisfy our members' growing need for technical assistance.

There has been a determined effort to use the flexibility incorporated in the consultation process to better control the work load of the Executive Board and of the staff. A number of Article IV reports have been streamlined and further use has been made of the simplified interim consultation cycle. These initiatives have provided some relief, although the need to continue improving the framework underlying surveillance has resulted in a widening of the scope of the work of consultation missions. For example, more attention has been focused on structural issues which have an important bearing on macroeconomic policies, and efforts have continued to strengthen medium-term balance of payments and debt analysis. In the area of technical assistance, aide-memoires prepared in the field have replaced some of the formal technical assistance reports.

These initiatives will need to be continued in the medium term because I am determined that the work pressure on the staff must remain at levels that are compatible with efficiency and allow the staff to maintain normal personal lives. At the same time, it is also essential that the quality of the Fund's policy and analytical advice be strengthened further, as it is in this area that the institution is uniquely endowed to serve the international economic community. We will continue to meet increasing work pressures by carefully reviewing the need for new and current activities, redeploying staff within the institution to meet areas of increased work and, where necessary, adding additional resources in those areas where the pressure is judged to be of a long-term nature. As part of this effort, increased attention will also be paid to the way the work in the Fund is organized and managed, including the structure of our departments.

III. The Outlook for the Medium Term

The present prospect is that the demands placed on the institution by our members will continue to be intense, and, if anything, grow not only in number but also in complexity. The work with member countries will remain of central importance and a major challenge will be to ensure that all departmental activities are effectively planned and coordinated. The World Economic Outlook (WEO) has proven to be a useful way of bridging country surveillance and the concerns of our members about the evolution of the world economy. In addition, I expect that the demands for general policy work, including systemic issues, will continue to be intensive. On the systemic work, particular attention will need to be focused on the workings of the international monetary system including

the role of the SDR. The increased complexity and diversity of our country work will also require that we continue to address general policy issues that arise as part of this work.

With respect to country work, surveillance will continue to absorb the largest proportion of the Fund's resources invested in country operational work, but the work load connected with the design, implementation, and evaluation of programs under the various financial facilities seem likely to increase beyond the current high level and may soon come to use more staff resources than our traditional surveillance work. This shift of emphasis has important consequences to which I shall return later. Attention will also need to be paid to the diversity and changing character of structural issues (including those of a social character such as demographic trends, poverty, and the environment) that increasingly affect the design and implementation of the broader macroeconomic policies of our members. At the same time, we must continue to accommodate the complex work associated with the current stage of the debt strategy and the reduction and elimination of arrears.

Countries not using Fund resources are expected to continue to seek analysis and policy advice, and we will also be called upon to continue our policy dialogue with the industrial countries. It is also likely that more countries may join the institution during the next two or three years which would further add to the work load. Finally, there is our work with centrally planned economies which has accelerated rapidly to an intense level and is likely to increase further over the next few years. I should note that I view these many varying requests for assistance as a positive signal that the membership continues to support the central role of the Fund and values the perception, the analytical skills, and the policy advice that are uniquely provided by this institution.

In order to meet these demands, it is essential that we continue to operate as a decision-oriented institution, able to assist members to make appropriate and timely policy decisions when needed and to provide financial support where this is called for and is appropriate. We are an institution that prides itself on being able to react quickly to members' needs. We have made progress in our effort over the last few years to use the surveillance process to anticipate better the problems of our members before they actually occur, but more needs to be done. This will require that we remain current on the macroeconomic development and policies of all of our members. It also requires that we maintain a streamlined institution with a short chain of command between those staff who work on countries, management, the Board, and our member governments.

As I noted last year, the effectiveness of our country work depends on our having a solid understanding of the workings and interaction of members' economies, the strengths and limitations of the data and of economic interrelationships as well as the institutional structure of the economy and knowledge of those involved in the management of the economy. This requires that our mission members be given the opportunity to work on a country on a more sustained and continuous basis.

This effort must draw on all involved in country work including not only area department staff but also staff from the functional and special service departments. I believe it is also necessary to plan our work on individual countries on a longer time frame than is currently the practice, possibly through the preparation of annual and medium-term work plans for each country. This could enable us to better anticipate the full spectrum of staff time and skills required to assist a country for a period ahead and thus permit a more efficient planning of staff requirements.

One possible way of adapting the present organization so as to best meet this work load would be to increase the number of divisions in some of the area departments (and possibly selected functional and special service departments) in order to reduce the number of countries each division currently has to handle. Increasing the number of divisions would of course require extra resources and would also require that we review the impact that this increase would have on the existing institutional structure. Furthermore, if we could delegate more responsibility to the divisions, we might be better able to ensure continuity and to better foresee broad developments. An alternative to adding more divisions would be to supplement the existing divisions with extra staff at the senior economist or assistant chief level. In this context, the impact of either alternative must be balanced against the need to ensure that our streamlined decision-making structure is preserved. We also need to explore ways of drawing more regularly upon the World Bank and perhaps other institutions for specialized staff resources.

With these general observations in mind, I would like to comment more specifically on the potential demands on the institution and the possible resource implications in the medium term.

Country Operational Activities

This area of activity includes regular Article IV consultations and other country missions including use of Fund resources and Fund-monitored programs, as well as the provision of long- and short-term technical assistance by experts and the staff in the central banking, fiscal, and statistical fields. In addition, assistance is provided through the training program of the IMF Institute and through other information activities.

1. Surveillance. Surveillance is central to the Fund's activities and is the process by which the institution influences members to adopt sound, timely, and comprehensive policies. It is a continuing process which requires regular contacts with the member and the collection and review of relevant information as well as an analysis of the various policy issues. Surveillance is an activity that covers all of our members and needs to be tailored to meet the diverse needs and circumstances of the membership. The Interim Committee has requested that the analytical and empirical framework underlying surveillance be enhanced and further

has noted that the measurements, determinants, and systemic consequences of international capital flows need to be improved.

Given the substantial weight of industrial countries in the world economy, particularly their capability to influence the international economic environment, it is essential that our surveillance efforts focus on common policy issues as well as the systemic effects of their domestic policies. In this regard, we must continue to be actively engaged in the analysis of macroeconomic developments and policies in these countries, as well as to work closely with them to encourage the development of policies that can have positive effects on the world economy at large. We have made important advancements in this area through, inter alia, the WEO and meetings of the G-7, but a substantial amount of work lies ahead.

Effective surveillance in the developing countries will require a continued commitment of staff resources if we are to improve our understanding of our members' economies. The Fund must remain able to make a useful contribution to the analysis and resolution of important policy issues. In this regard, we need to examine the attention given to regional issues in our surveillance and other country work particularly in regard to countries that belong to regional economic associations. This is an area where the Executive Board has requested that additional work be undertaken, but to date it has only been possible to take a marginal step forward. I intend to expand our regional work over the medium term. There has also been an increase in the number of requests from a wide range of developing countries and also from some industrial countries for special missions to engage in general policy discussions or to review specific developments, and it is anticipated that these requests will continue. In particular, increasing attention will be focused on the regional and global effects of the domestic policies of the newly industrialized economies (particularly in Asia). A substantial increase in requests for policy analysis and assistance is also likely from a number of countries in Eastern Europe.

In a similar vein, the G-7 policy coordination exercise has become an important supplement to the Fund's own surveillance activities. As this exercise has evolved, the range and depth of the assistance requested from the Fund in its role as an informal secretariat to the group has increased. This work will likely intensify further.

2. Use of Fund Resources. As noted earlier, a record number of programs are currently in place (51 as of January 19, 1990), and more are expected to be presented to the Executive Board in the coming months. But this statistic is only one measure of the institution's work load in this area. Indeed, the distinction between surveillance and program work is and should be blurred. If surveillance is truly effective, it should greatly diminish the involvement of the Fund in programs. This is more than a trite observation for in a number of cases, the Fund's surveillance work has contributed to changes in policies that have averted a need for a member to make use of the Fund's resources. Over the last year, for example, more than 20 countries were involved in "near program"

discussions with the Fund, and these discussions are time consuming and intensive. In the next year or two, it is anticipated that the number of countries with programs will increase, and more countries will continue to explore the prospects of a program. In particular, the nature of the problems confronted by the countries in Eastern Europe is likely to lead to an increase in the Fund's involvement in this area in coming years. We will also continue to be heavily involved in the Western Hemisphere and African regions, with the latter area continuing to require the investment of substantial resources. At the same time, the cessation of regional and domestic conflicts will likely lead to an increase in our involvement with countries in the Middle East. Although most countries in Asia are not faced with the same severity of problems found in other regions, the number of program countries is likely to increase and we will continue to work on countries with structural imbalances.

I would note also that the negotiation of programs and of financing packages has become increasingly complex and time consuming. This is the result of the need to provide policy analysis and advice on an ever widening number of issues, including, for example, contingency analysis, structural problems, debt issues, and social concerns. These matters require increased cooperation among departments in the Fund and is one of the reasons why we have strengthened the level of collaboration between the area, functional, and special service departments in recent years. However, it also requires that we continue to strive to improve our coordination efforts with the World Bank and other interested parties including aid agencies, the Paris Club, regional organizations such as BCEAO and BEAC, and a growing number of international organizations including FAO, UNDP, and UNICEF. This is an area of our work that is increasing in demand and in complexity.

The Fund's resident representative program has made a valuable contribution to our program work and it is important that we continue to ensure that this program is fully effective. In addition to providing members with policy analysis and advice, Resident Representatives also act as a channel for communication and information between headquarters and the authorities, and can thus play a crucial role in the surveillance and other country-related activities. In many countries there are delicate dimensions to the Fund's relations with the country and/or complex political circumstances affecting economic policy implementation, and the Resident Representative is strategically placed to provide valuable input into these issues. In the current financial year, 32 posts (an increase of 5 over FY 1989) were approved and, with the demand of late, it will probably be necessary to expand the number of Resident Representative posts in the coming years.

3. Policy Design and Structural Reform. The scope and depth of the institution's work on structural issues will directly affect the allocation of staff resources. The institution has broadened its approach to this work by addressing structural issues when they have an important impact on macroeconomic developments and policies; in this context, the Central Banking and Fiscal Affairs Departments have increasingly focused on substituting shorter-term technical assistance for the more traditional

longer-term assistance provided by experts resident abroad. As the work on structural issues could, in principle, absorb virtually limitless resources, strenuous efforts have been made to focus only on those structural issues where the Fund has a comparative advantage and where the issues are directly relevant to macroeconomic performance.

International trade is another area of structural significance where there has been a greater staff effort in recent years. The staff closely follows developments in the Uruguay Round and uses the opportunity of Article IV consultation discussions to focus increasingly on trade issues. The Geneva Office and a division in the Exchange and Trade Relations Department provide background and support to the trade analysis that is carried out by the area departments in the context of their country work. This work has increased in connection with the Uruguay Round. Although resources will continue to be devoted to analyzing the policy consequences of unification of the European Community markets in 1992 and the realignment of regional trading relationships in Eastern Europe, it is not anticipated at this time that there will be any increase in the current level of activity. However, this judgment will need to be reassessed after the full implications of the Uruguay Round become clear.

There is little doubt that poverty, demographic trends, and environmental issues have captured the interest of the public and of parliaments, and the Fund has been pressed to explain the impact of its activities in these areas. The effectiveness of our work in individual countries requires that, at a minimum, we be sensitive to and understand the consequences of our advice on these issues. The institution has already devoted considerable resources to consideration of the effects of Fund-supported programs on poverty and this emphasis is likely to continue into 1990 and beyond. With respect to the environment, I note the increasing interest shown by concerned and vocal groups regarding the impact of the Fund's work on the environment. I believe that these questions can neither be evaded nor deflected and our task ahead is to formulate an appropriate view of what the Fund can, and should, do in this area and how to improve the general public's understanding of our views on this issue. There is a need to consider how these issues are best addressed, including improving our collaboration with the World Bank. At the same time, management will be reviewing the need for in-house expertise in these areas and the most effective means of ensuring access to the relevant expertise, including the possibility of using the resources of the World Bank as well as those of outside experts. We shall also need to consider the most appropriate allocation of this expertise within our existing departmental structure.

4. Debt and Arrears. Countries with severe debt problems as well as those countries in arrears to the Fund continue to absorb large amounts of manpower. These countries generally face difficult adjustment issues which require frequent contact with the World Bank, the Paris Club, other donor and aid institutions and also non-governmental organizations; this demands a high level of coordination with these organizations. There is a need to continue the progress made so far in implementing the strengthened debt strategy in support of strong growth-oriented adjustment

programs and to support them with appropriate financing packages. The work load in this area has been particularly pressing for senior staff and has placed strains on limited resources. As was noted earlier, progress has been made in redressing the problem of overdue financial obligations to the Fund. The number of arrears cases has declined and the adoption of corrective policies in several of the countries concerned provides an indication that we are making gains in this area.

5. Short- and long-term technical assistance. The Fund's program of technical assistance has been well received by the membership over the years and the demand for a wide range of technical assistance has now reached record levels. With the demand for technical assistance exceeding the level that the Fund can provide, it has been necessary to focus our efforts over the last few years to establish priorities and to ensure that the technical assistance provided by the Fund is coordinated with that provided by other institutions so that unnecessary duplication is avoided. As a result, there has been an increasing emphasis on short-term assistance provided by the staff (and particularly experts based at headquarters) in countries that are undergoing structural reform in the context of Fund programs and also in some countries that are undertaking reforms of this nature outside of Fund-supported programs. This work is done in close collaboration with the area department work and I expect this emphasis to continue in the medium term. With respect to longer term assistance, we meet requests by placing experts in member countries; however, the availability of experts for long-term assignments is declining. We shall take steps to alleviate this situation and ensure that the needs of our membership are better met.

One means of meeting the increasing demand is to mobilize and use resources from other institutions. As I mentioned earlier, we entered into an arrangement with the United Nations Development Program (UNDP) earlier this year under which the Fund will use UNDP financial resources to provide assistance in monetary and fiscal matters, statistical compilation, and macroeconomic training. Our initial involvement in this activity shows that considerable staff resources will be required to manage these arrangements and thus care will need to be exercised to set priorities. This arrangement will need to be kept under review to ensure that the benefits to our members and our work is cost justified. At the same time, management will continue to explore with other agencies and countries whether additional funding can be obtained to supplement the Fund's own expenditures used to provide assistance to member countries.

6. Training Officials of Member Countries. The work of the Institute over the next several years will be influenced by the continued demand of government officials for background information and training on the economic and financial analyses practiced by the Fund, and also on the compilation of reliable data. This demand is evidenced by the rising trend in applications for Institute courses, increasing pressure from sponsoring organizations for acceptance of their staff, a growing interest in our seminars and workshops abroad, and more frequent requests for lecturing assistance from regional organizations. The increasing

complexity of Fund programs and facilities, and issues related to structural reform will inevitably affect the level of resources in this area. Given the expense associated with training at headquarters, the cost and overall effectiveness of recent initiatives to hold more training courses abroad will be reviewed. At the same time, the use of new technology (video and computer training, etc.) to improve training techniques will continue to be explored.

7. Statistics. Efforts to improve the collection, compilation, maintenance, and dissemination of statistical data were continued during the current financial year. Given the various overlapping data bases in the Fund (including, inter alia, the Economic Information System, the WEO, and the country data bases used by the area departments), it is important that efforts to minimize this duplication be intensified. The degree of data duplication within the Fund and also between the Fund, other international organizations, and our member countries, will continue to be reviewed by the Data Management Policy Committee (DMPC), particularly as the data collection process is both costly and time consuming for our members as well as for the Fund. One of the purposes of the DMPC is to provide a forum for discussing the issues that are common to these data bases and to implement policies that ensure that the collection, consistency, and use of data are coordinated. An important objective has also been to keep the burden on member countries of duplicative reporting to a minimum, while at the same time seeking to enhance the quality of the underlying data. Some progress has been made in this endeavor including efforts to establish a more coordinated approach to data work, and the beginning of a more focused program of statistical technical assistance centering on countries where data problems are particularly pronounced. In such cases, priority is given to developing data necessary for policy analysis and implementation which could mean delaying the compilation of data for Fund publications. A central focus of the work of the Bureau, area departments, and other functional departments will be to intensify efforts to collaborate on data collection and maintenance. Short-term assistance will be directed towards solving country data problems in the context of surveillance and program negotiations, and will be supplemented by long-term assistance using UNDP funds. Increased efforts will also be directed to the receipt and distribution of data in electronic and other formats.

Policy Development and Research

This program covers the preparation and review of substantive policy and related papers, the WEO, and other periodic reports as well as research studies directed toward improving knowledge in particular areas of Fund interest.

1. Policy Papers. With the expected completion of a number of major policy discussions in FY 1990, some reduction in the demand for new policy papers in FY 1991 is likely. However, the final outcome will depend on the conclusions of the Interim Committee meetings in 1990, and also on the careful selection and monitoring of requests for additional policy papers in the coming year. Although a two-year review cycle of a

number of policy issues has now been implemented, there seems room to extend this initiative to other reports and also to consider a three-year cycle for some issues. However, we must recognize that there still remains considerable work to be done on some major issues. I would therefore suggest that management and the Board continue to scrutinize carefully suggestions for additional policy papers. In the coming year, I would place priority on the following policy issues: (i) completion of the biennial review of the implementation of surveillance and of its principles and procedures; (ii) a review of capital flows, including a study of the determinants and systemic consequences and an examination of developments and prospects in international capital markets; (iii) the continued review on the prolonged use of Fund resources and an examination of actions that could be considered to safeguard the revolving character of Fund resources; (iv) completion of the review of the operation of the SAF/ESAF, access limits, conditionality and monitoring, and issues relating to cooperation among the Fund, the Bank, and the donor community; and (v) *an examination of the impact that social issues have on Fund programs*. Regarding the medium term, I view program design and structural reform as the major issues.

2. Research. During the past few years, there has been a steady increase in the level of research activities within the institution. This trend has provided the Fund with a number of advantages including adding to the intellectual capital of the institution, providing useful feedback and support for our operational and country work and helping to strengthen the image of the Fund. This growing trend includes not only the work of the Research Department (RES), but also the work of the other functional departments and the area departments although the increase in country operational work has limited the research efforts of the area departments. Over the past year, an effort has been made to strengthen operational country research with particular emphasis on the design of policy analysis and advice. A special interdepartmental working group was established to facilitate the identification of country-related, analytical policy issues and to coordinate the research, writing, and publication of these issues so as to enhance the effectiveness of Fund policy advice.

3. Evaluation Unit. A number of Directors have indicated or reiterated their interest in the establishment of an independent evaluation unit as a means of improving program design and clarifying the linkages between policies and outcomes. As you know, the post-evaluation of our programs and policy advice is mainly centered on the Exchange and Trade Relations Department (ETR). Given the broad and global issues confronting the institution and the need to ensure that our program design is suitable for the 1990s, establishing a unit would likely involve some redeployment of resources from ETR and possibly RES although such a unit would probably require additional resources. While I maintain an open mind on this issue, it is important that we proceed in a prudent and deliberate manner.

Other Work Load Activities

There are two remaining groups of activities I would like to address: (i) information and external relations and (ii) general support services.

1. Information and External Relations. This program includes the Fund's non-statistical publications; various information services, such as press conferences, press releases, speeches, lectures, and seminars; and representation at meetings of international and regional organizations, reporting on the work of these organizations and providing assistance when requested.

During the past several years, a determined effort has been made to address the disturbing lack of understanding in the community at large about the role and activities of the Fund. This problem has been exacerbated by the debt crisis and the deteriorating economic conditions in many countries. While some progress has been made in reversing the overall opinion of the general public, we are continuing to provide information about the validity and objectives of the Fund's work to the media and selected nongovernmental organizations and community groups. I believe that as we continue these efforts, we shall see some change over the medium term. However, I also believe that in the final analysis the reputation of the institution depends fundamentally on the quality of the analysis and policy advice given to our members and on the financial and catalytic support the Fund provides.

2. General Support. This program covers those services which are required to assist the institution in running its day-to-day activities. Included in this program are budget, personnel, building maintenance, graphics, transportation, data processing, documents, archives, communications, payroll and other administrative payments, accounting, auditing, the Joint Library, and translation and interpretation services.

Though the Executive Board periodically reviews and discusses major personnel initiatives and compensation policies, we often tend to take for granted the many other internal activities needed to support the work of the Fund, and perhaps we may underestimate the substantial efforts which are dedicated to keeping the institution running smoothly, providing all necessary services and facilities, and presenting a safe and attractive environment for our work. Several initiatives were undertaken during this financial year in the support area, including the implementation of the new compensation system, a further simplification of the home leave travel regulations, the continuation of work on revising the Staff Retirement Plan, providing additional training and mobility opportunities, and enhancing translation and communication services. Over the past two years, reductions have been made in the staff of most support departments, partly because some positions were judged to be no longer required and partly because reviews demonstrated that outside vendor arrangements were more cost effective. Nearly all of these positions were redeployed in the area and functional departments. The

reappraisal of support and related activities will continue in the medium term, with the objective of redistributing any manpower savings from these activities to pressure points in other areas of the institution.

One aspect of the Fund's support operations that has been under careful review in the last few years is the area of automation. Over the last few years, a number of multiyear efforts to replace outdated production systems were completed with a resulting reduction in the level of resources devoted to automation. A recent user requirements study has confirmed that staff priorities are concentrated in three areas: (i) improved facilities for document production, handling, and exchange; (ii) improved information access, collection, maintenance, and dissemination; and (iii) increased user support. The first area addresses the need for a standardized, networked word processing environment throughout the institution to facilitate the production and exchange of documents within the institution and also with member countries. This need will require a decision on the timing of the replacement of the existing NBI systems. The second area is concerned with the provision of capabilities for the electronic storage, retrieval, and exchange of information; improved electronic access to internal and external data; and the ability to communicate more efficiently within the institution and with member countries and other external organizations and entities. The third area reflects the needs of the staff for additional training and assistance in the effective use of EDP technologies. Automated systems have become increasingly sophisticated in recent years, and staff recognize that proficiency in the use of these tools can contribute markedly to their productivity. A stronger base of training and support is required to maximize the benefits of these automated tools.

IV. Preliminary Estimates for FY 1991-FY 1993

On the basis of the analysis in Section III, the Fund is already operating at a high level of intensity and it seems clear that the work load of the Fund may, if anything, increase over the medium term, as the demands placed on the institution by the growing membership continue to rise. Most of these demands will be associated with our operational country work, including the need to strengthen our surveillance and related WEO activities, the expected increase in the number of countries seeking financial programs, and our efforts to assist countries seeking policy and technical advice and appraisal, as well as those undertaking fiscal and monetary structural reforms as part of their growth-oriented adjustment programs. At the same time, the stabilization and transformation of centrally-planned economies into market-oriented economies will add to our responsibilities, as will the continuing work associated with the debt problem and arrears to the Fund. This increase in country work, deeply involving the area and other departments, will generate or be accompanied by an increase in other Fund activities, including essential support activities (translation, training, travel, Executive Board support, etc.).

As I mentioned earlier, two key medium-term objectives of the Fund must be to respond effectively to the evolving needs of our member countries, while at the same time keeping our work load at a manageable level. It is also essential that the quality of our policy analysis and advice should not deteriorate--indeed, it should be strengthened. The challenge for the coming years, then, will be to achieve these goals without compromising the present responsive and decision-oriented character of the institution. This will require managers throughout the Fund to maintain their efforts to streamline and simplify internal procedures, and to use the human and financial resources at their disposal as efficiently as possible. To the extent practicable, we will continue to redeploy selected staff positions from support functions to operational functions, though the scope for doing this without adversely affecting the quality of support services is becoming more limited. The Executive Board and management must also continue to ensure that the work plan of the institution reflects appropriate priorities, and that demands for additional work are carefully reviewed. These measures will help to alleviate pressures, and should allow some internal transfer of manpower towards the areas most in demand. However, it would not seem realistic to expect that these measures alone will be sufficient to enable the Fund to ease existing pressures on the staff and to cope with the demands that are being made on the institution and that can be expected to be made over the medium term.

At this stage in our review, it is premature to reach a firm conclusion on the budgetary and manpower needs for the FY 1991 budget. In this connection, we should be aware that there is a lag between the time a decision to increase manpower is taken, and the time the authorized manpower can be recruited and gain sufficient experience to make a significant contribution to the Fund's work. It is therefore our desire to provide, to the extent possible, more precise medium-term budget and manpower estimates in the context of our evolving effort to put annual budget decisions in a longer-term context. It is currently our expectation that it will be necessary to make provision for an increase in budgetary resources including manpower; specific requests and estimates will be included in the FY 1991 budget document. The areas that will require additional resources in FY 1991 include our work in Eastern Europe, the requirements for technical assistance and training in support of country operational work, the need for additional resident representative offices in Asia, Eastern Europe, and Africa, and our efforts to become more sensitive to poverty and environmental issues.

Attachment

As in previous years, a projection of the likely Administrative and Capital Budgets for the period FY 1991-FY 1993 is contained in this Appendix. These estimates, which are designed to provide Executive Directors with a broad overview of the likely magnitude of expenses over the next three years, are based on a number of assumptions which will be subject to review as we proceed through the budget preparation cycle.

1. Administrative Budget. Preliminary information received from the departments, bureaus, and offices indicates that an increase of administrative expenses will be needed in FY 1991 to carry out the proposed program of work. A more precise estimate will be available when the departmental budget submissions are reviewed and aggregated in February and March.

In addition to the need for additional manpower outlined in the paper, there are two other manpower issues that need to be addressed. During the past few years, the Executive Board has encouraged the conversion of a number of contractual and vendor positions to regular positions. A paper (EBAP/89/101; 4/13/89) identified a total of 59 contractual and vendor positions which could be converted to regular staff status; of these, 19 positions were approved immediately for conversion to regular positions and it was suggested that the remaining 40 positions could be considered for reclassification in the context of the administrative budget reviews for FY 1991 and FY 1992. It should be noted that the reclassification of these positions would not have any impact on total manpower as the increase in staff positions would be offset by a commensurate decline in contractual positions. However, additional costs of approximately \$150,000 would be incurred each year as a result of providing increased benefits to these employees.

The second issue concerns the Support Group Secretarial Services (SGSS) which was established in 1980 to provide individual Executive Directors' offices and departments with a source of versatile secretarial support when regular staff are absent on vacation or on mission, or when short-term peaks in work load require temporary assistance. In recent years, however, an increase in demand for SGSS assistance, particularly bilingual staff familiar with the Fund's activities, has resulted in a number of requests from the Executive Board to increase the size of the Group. A review of the current activities of the Group has suggested that, with safeguards to protect the quality of the support group, some additional positions could alleviate the current situation. I expect to address this in the FY 1991 budget document.

Using a number of tentative assumptions enumerated below, a projection has been made of administrative expenses for the period FY 1991-FY 1993. A more precise estimate will be included in the budget document next March after an analysis has been made of the formal departmental budget submissions. Table 1 presents (i) actual expenses for FY 1988 and FY 1989, (ii) revised estimates for FY 1990, and (iii) a tentative projection for the period FY 1991-FY 1993.

Table 1: Three-Year Projection of Administrative Expenses
FY 1991-FY 1993

(In millions of U.S. dollars)

	<u>Actual</u>		Revised	<u>Projection</u>		
	FY 1988	FY 1989	Estimate FY 1990	FY 1991	FY 1992	FY 1993
Administrative Expenses:						
I. Personnel	164.6	166.2	176.8	182.2	190.9	200.7
II. Travel	26.9	32.3	33.5	35.8	39.5	40.0
III. Other	<u>50.5</u>	<u>44.7</u>	<u>45.5</u>	<u>48.2</u>	<u>50.6</u>	<u>53.2</u>
Total	<u>242.0</u>	<u>243.2</u>	<u>255.8</u>	<u>266.2</u>	<u>281.0</u>	<u>293.9</u>
Percent increase						
over previous year	-2.1	0.5	5.2	4.1	5.6	4.6

This projection of budgetary expenses for the period FY 1991-FY 1993 is based on the following assumptions:

First, as a working assumption at this time, the estimates do not provide for any increase in overall manpower each year, and assume that average benefits and salary levels of Fund staff will, overall, remain approximately constant in real terms over the three-year period after taking into account compensation adjustments and staff turnover. In reviewing these estimates, Executive Directors should be aware that the cost of 10 man-years of additional manpower will increase overall expenses (salary, benefits, and overhead) by \$650,000 to \$900,000, depending on the type of manpower involved.

Second, it is assumed that the rate of inflation affecting budgetary items will remain in the range of 4-5 percent over the three-year period. Within this overall range, prices for individual goods and services will vary substantially (e.g., medical benefits and travel services are expected to experience higher than average price increases).

Third, pending a firm decision on my proposed amendment of the Staff Retirement Plan, no change in the financing of the Plan has been assumed.

Fourth, it is anticipated that no major changes will occur in personnel or travel policies although some increase is expected in the cost of the Medical Benefits Plan. There will be also be increases in

costs in FY 1991 and FY 1992 for the leasing of additional space at International Square that was approved in the FY 1990 Administrative Budget.

Fifth, although it is not possible to predict with any certainty, it is assumed that there may be a number of new member countries joining the Fund over the next three years.

Sixth, in view of the growing dependency of departments on data and word processing systems, there is a need to ensure that these systems are fully supported, and that aging and obsolete systems are replaced on a regular basis. Through careful resource management, however, it is assumed that expenditure in real terms on data processing activities will remain at about this year's level.

Finally, in addition to these general assumptions affecting all three years, the projections take into account special factors affecting each individual year such as the impact of holding the Annual Meetings overseas or in Washington, D.C., and the two-year cycle for the election of Executive Directors.

2. Capital Budget

Several capital project proposals are currently under review, of which a number are likely to be proposed in FY 1991. These include repairs to the roof of the headquarters building, the replacement of aging electrical switchgear, renovations to bathrooms, improvements to the Phase II elevators, and repairs to the Concordia/Bond apartments. In addition, the Executive Board authorized the leasing of 59,000 square feet of space at International Square on April 24, 1989 (EBM/89/44). Funds for renovating 18,000 square feet were approved in FY 1990. Renovations of the remaining 41,000 square feet will cost an estimated \$3,500,000. A request for these funds may be proposed to the Executive Board before April 1990 if this space becomes available to relieve overcrowding at headquarters. Otherwise, this request will be included in the FY 1991 budget document. Including this request, the preliminary cost estimate for capital projects beginning in FY 1991 is \$5,900,000 as shown in Table 2.

Table 2. Capital Projects For FY 1991
Compared With FY 1988, FY 1989, and FY 1990

(In millions of U.S. dollars)

	<u>Revised Estimates</u>			Proposed FY 1991 Projects
	FY 1988 Projects	FY 1989 Projects	FY 1990 Projects	
I. Building Space Facilities:				
Headquarters	4.2	33.5	3.8	2.7
Other Locations	3.0	0.4	2.0	3.2
II. EDP Equipment	<u>0.9</u>	<u>0.1</u>	<u>-</u>	<u>-</u>
Total Budget	<u>8.1</u>	<u>34.0</u>	<u>5.8</u>	<u>5.9</u>

Several other proposals are also being evaluated and may be proposed in FY 1991 or in later years depending upon the results of cost/benefit studies. These proposals include improvements to the loading dock to accommodate recycling of paper and other materials, telecommunications improvements, enhancements to the physical security of the headquarters building, improvements to the power supply for the computer center, renovations of the Board and Committee rooms, and other capital projects.

