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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/202

3:00 p.m., December 17, 1986

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	P. E. Archibong, Temporary
	Wang X., Temporary
	M. K. Bush
J. de Groote	
A. Donoso	
	T. Alhaimus
	M. Sugita
G. Grosche	
	Khong K. N., Temporary
A. Kafka	
	M. Foot
	S. Simonsen, Temporary
	O. S.-M. Bethel, Temporary
Mawakani Samba	
Y. A. Nimatallah	I. Al-Assaf
G. Ortiz	C. Noriega, Temporary
H. Ploix	
	G. Schurr, Temporary
	I. Sliper, Temporary
	O. Kabbaj
A. K. Sengupta	A. Vasudevan, Temporary
S. Zecchini	

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present:
Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; T. J. Hill, W. B. Hobbs, N. S. Jackson, P. J. McClellan, M. Oka, H. Wiesner, L. A. Wolfe. African Department: E. L. Bornemann. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; M. R. Kelly. Fiscal Affairs Department: V. Tanzi, Director; A. A. Tait, Deputy Director. IMF Institute: U Tun Wai, Deputy Director; A. H. Whitfield. Legal Department: W. E. Holder. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer. Bureau of Language Services: A. Wright, Director. Bureau of Statistics: J. B. McLenaghan, Deputy Director. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: A. Bertuch-Samuels, L. P. Ebrill. Assistants to Executive Directors: J. R. N. Almeida, R. Fox, M. Hepp, A. R. Ismael, D. V. Nhien, S. Rebecchini, A. V. Romuáldez.

1. ADMINISTRATIVE EXPENSES IN FY 1987 - MIDYEAR REVIEW; AND BUDGETARY OUTLOOK FOR FY 1988

The Executive Directors continued from the previous meeting (EBM/86/201, 12/17/86) their consideration of a statement by the Managing Director on the midyear review of expenses in FY 1987 and the budgetary outlook for FY 1988 in the framework of a three-year projection of expenses (EBAP/86/308, 12/10/86).

Mr. Wang made the following statement:

I do not approve of the proposed cut in technical assistance. Some of the Executive Directors and senior staff members who participated in the recent colloquium in Beijing might recall that the Governor for China told participants that in her opinion the Fund could help its developing member countries more not only through its financial assistance, which is necessary in most cases, but from a longer-term perspective, also through its technical assistance, which played an important role in the past and will play an even more important role in the future. My authorities have benefited considerably from the staff's work on statistics, central banking, debt management and monetary policy, and I am certain that other countries, particularly developing countries, have also benefited. It is disappointing to consider abandoning, postponing, or reducing some technical assistance activities that would seriously impair the major functions of the Fund in the area of technical assistance at a time when the world is still haunted by the debt problem, the problem of arrears to the Fund is far from being solved, debtor member countries are in desperate need of advice, and the Fund is being called on to play a more central role.

Some of the measures in the technical assistance area that are under consideration would have adverse effects. For example, requiring members to pay all or part of the cost of the transportation of their participants in IMF Institute courses will serve only to keep the poorest members from benefiting from the most useful and needed training offered by the Fund. In addition, requiring member countries to reimburse the Fund for the cost of technical assistance will only discourage member countries from accepting needed assistance. The savings from the proposed cut in technical assistance would be considerably less than the potential loss to the Fund of the gains from such assistance. The technical assistance program should be maintained at least the present level, the activities of the IMF Institute should not be curtailed, and the Fund should consider increasing--not cutting--expenses on translations and publications in the languages of developing countries in order not only to benefit the members concerned but also to enhance the Fund's image and influence in the international community.

I understand the Chairman's wish to have specific proposals, but I am unable to be more specific at the present stage. However, it is clear that a cut in technical assistance would not solve the problem of the need to constrain administrative expenses.

Mr. Grosche made the following statement:

I am satisfied with the Managing Director's statement on the midyear review and I will concentrate my remarks on the program of activities and their budgetary consequences.

I have consistently favored budgetary restraint in support of a lean and efficient organization. Maintaining control over expenditures is not an easy task, and ambitious targets have to be set to contain requests for more outlays. Therefore, I welcome the intention to maintain a tight budget and to demonstrate to the membership our commitment to maintaining control over the growth of expenditures. However, the objective of maintaining recurrent expenditures in FY 1988 at current levels should not become the main goal of the Fund--it should not override other important objectives and be achieved at all costs. In the final analysis, I would not object to small increases in recurrent expenditures if the requests are well founded. At the same time, however, priorities have to be reviewed constantly, starting with the Executive Board. The Executive Directors should avoid requesting additional papers and studies, particularly if the Executive Directors could instead make an additional effort to reach a compromise on the basis of oral explanations by the staff.

The program of work on general policy development and research continues to be very demanding. There is no room in which to cut expenditures in this area, but the workload could be somewhat alleviated by stretching out projects that are not of the highest priority--for example, SDR-related projects.

While I support the proposed expanded scope for the world economic outlook exercise, I would not wish to see the amount of paper involved be increased. As to operations and relations with member countries, I am concerned about the steep increase in the number of staff visits. It is true that structural adjustment arrangements strain our resources, and we will have to try to make cuts on other fronts. Therefore, I agree that we should re-examine the periodicity, size, and scope of regular consultations. In addition, the number of resident representative positions should remain under constant review.

The most questionable aspect of the Managing Director's statement concerns special services to member countries. There has been a large increase in the previous five years up to the current budget in this area. At the same time, this area of activity has served member countries and the Fund well. I doubt whether further cuts in the man-years for experts is a good idea. To help us better understand the rationale for that proposal, the staff could provide a breakdown of the figures in Table 3 covering the areas in the Fund that provide these services, such as the Central Banking and Fiscal Affairs Departments and the Bureau of Statistics. The possibility of having extraordinary assistance be paid for by members that can afford to do so should be examined, but I am not strongly in favor of this idea.

Expenditures under the category of "general support" are higher than expenditures under the category of "special services." Additional information on expenditures and man-years involved in the provision of general support would be helpful. The Fund needs a well-equipped Administration Department, but I am worried that bureaucratic attitudes on procedures could hamper instead of foster the smooth functioning of the Fund. It is admittedly difficult to run an organization without an elaborate administrative structure after a certain critical mass of personnel has been reached, and the proposed cap on the number of regular staff positions is welcome. At the same time, the continued growth in the number of temporary staff positions is a cause for concern. The staff should comment on this development and suggest ways in which to halt the trend.

My approach to the issues at hand is based on my belief that the Fund should keep the size of the staff as small as possible. In order to stay effective, however, the Fund needs to continue to recruit the best possible people. In order to recruit and retain such persons, the Fund must offer reasonable salaries and alleviate the strain on the staff wherever possible, including through the use of appropriate travel policies and other methods.

Mr. Sugita made the following statement:

I am particularly encouraged by the Managing Director's renewed commitment to maintain firm control over the growth of budgetary expenditures and I broadly support the intention to hold recurring expenditures in FY 1988 to the level projected for FY 1987 in nominal terms. This will not be an easy task. The workload of the Fund is expected to remain heavy in the coming fiscal year. In addition to the ongoing work on issues that were raised in the G-10 and G-24 reports, the Fund must begin work on the Ninth General Review of Quotas, and the work on Fund operations and on member countries under the structural adjustment facility is expected to increase. These efforts will add to the already considerable workload that the staff has to carry.

Nevertheless, it is important to restrain the growth of the Fund in order to maintain the present level of efficiency and to meet possible future challenges effectively and flexibly. The deterioration in the Fund's underlying income position, which has imposed an additional burden on members under the burden-sharing scheme, also underscores the need to limit the increase in costs and the size of the staff.

At the same time, I am aware of the heavy strains on some staff members. During the previous budget discussions this chair stressed the need for active reallocations of staff positions and, if needed, for restructuring of the organization. The job grading exercise should have provided management with useful information on the content and workload of each job. Reorganization efforts should benefit from productivity gains resulting from the improvement in the data processing system, in which considerable investment has been made. Management should make further efforts in this direction.

The Executive Board has an important role to play in supporting management's efforts, and the Managing Director's suggestion that future work programs may have to contain references to relative priorities among issues to be taken up by the Executive Board and to the use of available resources is entirely appropriate. A re-examination of the appropriate cycle, size, and scope of consultations could reduce the extremely heavy workload of the staff concerned.

Several measures are proposed to contain the cost of the program of special services to member countries. I support the broad outline of the measures, but I have some reservations about the proposal to require IMF Institute participants to bear some of the transportation costs. The Institute provides a number of important training programs that benefit not only the participants but also the Fund itself by educating the participants on the role of the Fund and its way of thinking. Wide geographical representation is an important element of the training programs. I am particularly concerned about the discriminating effect of the proposal on possible participants from countries that are located far from the Fund and whose transportation costs would naturally be higher than the cost of participants from countries located closer to the Fund.

Mr. de Groote made the following statement:

I approve the marginal and well-justified addition to the appropriation for FY 1987. Management might wish to consider a further appropriation if one is needed in coming months--for example, to support the work of the Joint Committee on Staff Compensation. The Joint Committee is making a substantial effort, but its work might have to be enlarged, given the important decisions that were being taken in the United States with respect to the remuneration of the civil service and the reform of the tax system.

I favor a moderate and well-justified increase in expenditure in real terms in FY 1988 over and above the frugal budget that has been proposed. The Fund has to remain lean, because it has to continue to produce work of a superior quality. Such work can take place only if the staff is not excessively large. Nothing would be more inimical to a high-quality performance than an excessive number of staff members. A large number of second-class economists could not produce the work of a small number of high-quality economists. Accordingly, the Fund must continue to "demonstrate to the membership our commitment of maintaining firm control over the growth of budgetary expenditures, including the number of regular staff positions." However, the Fund should not maintain austerity merely to please the membership if that effort would run the risk of keeping the Fund from effectively performing the various tasks that members had asked the Fund to perform. Members have fully realized that the dramatic expansion in the work and responsibilities of the Fund in response to the debt crisis could be managed with a limited increase in manpower and expenditure in real terms, an unusual accomplishment in comparison with the performance of other international institutions. However, the Fund should not try to make savings that could be counterproductive by standing in the way of the Fund's continued effective performance. Hence, I am worried by the prospect that it might be "necessary to abandon, postpone, or reduce the scope of some desirable projects and activities." The Fund must complete the tasks that have been given to it by the membership, and it should consider whether that necessity might call for a moderate increase in the budget in real terms in FY 1988. The idea of a cap on the size of the staff is dogmatic; the size of the staff should be a function of the tasks that the Fund must perform.

One of the conclusions in the Managing Director's discussion of general policy development and research is that the continuation of budgetary restraint might limit the staff's ability to produce all the papers requested by the Executive Board. Continuing to provide the Executive Board with the needed papers might imply an increase in recruitment of high-quality persons. My authorities certainly wish to see the desired papers continue to be produced. Indeed, there might be additions to the papers that are mentioned in the Managing Director's already impressive list. For example, more work could be done on the reform of the international monetary system, the review of quotas, SDRs, and perhaps on a third amendment of the Articles. The production of the desired papers might not be possible with a cap on the size of the staff and in the absence of policies that enable the Fund to recruit high-quality personnel.

The requirements of operations and relations with member countries unavoidably leads me to the conclusion that the Fund requires additional resources in this area to enable the staff to continue performing its essential duty of assisting member countries. The members of my constituency have always appreciated having top staff missions that prepare first-class reports. Considerable problems could arise if only one or two members of the European Department were suddenly to become unavailable to deal with such difficult and important cases as Hungary and Turkey. In addition, the staff have played a significant role in Belgium's shadow program. At the same time, it is helpful to try to save work and time on consultations, since the staff has had to increase its workload as a result of the implementation of the structural adjustment facility. Mr. Lundstrom suggested on previous occasions that countries that are not implementing a Fund-supported program and do not belong to the group of large industrial countries could have consultations every other year and brief papers updating economic developments in the years between full consultations. That idea should be seriously considered; it merits a separate discussion in the Executive Board.

The Fund is expected to provide member countries with high-quality and sufficient ad hoc services. We should make a distinction between the appropriateness and size of that kind of assistance on the one hand, and the question of who should pay for the assistance on the other. I have great difficulty in accepting the suggestion to reduce the Fund's activities in the central banking, statistical, and fiscal fields and of requiring members to pay all or part of the cost of transportation of IMF Institute participants. One way in which to bring industrial countries into closer relations with the Fund is to show them that the Fund can give them relevant advice on fiscal issues and occasionally on monetary issues. It is most unfortunate that representatives of the Fiscal Affairs Department are never included in the consultation missions to industrial countries. I have repeatedly asked the European Department to consider the possibility of including Fiscal Affairs Department staff members in consultation missions to industrial countries. The Fiscal Affairs Department staff could usefully explain to industrial country governments how large government deficits could be reduced and the consequences of the deficits for economic growth.

I also have great difficulty in accepting the idea that the IMF Institute is excessively large. If there is one service that the Fund can render to all member countries, it is to explain to future leaders of government how the Fund works. All of the participants in Institute courses have said that they have had a worthwhile experience in the Institute, learning about subjects that they could not study in university courses, including the kinds of judgments that the Fund must make and the traditions of the institution. Such experience is invaluable; it could not be replaced through reports sent by the Fund to individual member countries.

Members expect to receive services--including training services--from the Central Banking and Fiscal Affairs Departments and from a resident representative as a membership privilege and without having to pay for the services directly on an ad hoc basis. The members using those services do in fact pay for the services in any event by using the Fund's resources. Fortunately, the particular members that use the Fund's resources tend to vary over time. It would be unacceptable to require individual members to pay the cost of their participants in Fund training courses; such a requirement might discourage participation by the very countries that most require the training, although even some industrial countries might decide to cease their participation in training programs if they were required to bear the costs.

I agree with Mr. Massé that there is a need for more press seminars in order to explain the Fund's policies and activities. As to the suggested pilot office information system, one is not needed in my office.

In the security field, I agree with Mr. Salehkhou's suggestion to provide Executive Directors' offices with document shredders. In addition, I appreciate the improvements that have been made in the physical security of the headquarters building. It is important to provide adequate compensation for security officers in order to encourage continuity among the security force. The security of the building would be enhanced if the security officers learned to recognize by sight the various staff and Board members.

I doubt whether the suggestion to take on more contractual employees and other forms of temporary assistance is fully appropriate. Temporary employees might be appropriate to perform technical functions, but economists who take part in missions, assess countries' situations, and participate in discussions with member country authorities should be permanent members of the staff who are therefore familiar with the Fund's operations and traditions. I doubt whether the Fund could recruit persons even from large central banks to immediately step in and perform the functions of an economist on a temporary basis, particularly if the negotiation of a difficult program is involved.

I suspect that the cost of the Annual Meetings is excessive. A World Bank staff member recently calculated that the cost of each year's Annual Meetings to the Fund, the World Bank, and the various members was equivalent to the cost of building and organizing a medium-size university in a developing country. The cost of the Annual Meeting should be given careful thought in the coming period; members could be asked to make a somewhat greater contribution to covering that cost.

Members could be asked to make a number of grants to the Fund that would cover the cost of certain participants in the IMF Institute. The grants would not entitle the donor to send a certain number of persons to participate in Institute courses. The suggestion to require members benefiting from enhanced surveillance to pay part of the costs involved deserves consideration. My initial response is that the Fund provides an important service to members by establishing enhanced surveillance arrangements involving banks--thereby acting as a buffer between individual members and the banks--and by bringing together the critical financing mass. However, that service should not be paid for by a member twice; it should be a part of the general services that the Fund gives to members. I understand why Mr. Salehkhou feels that this service is actually given to the banking community and that banks should be asked to compensate the Fund for that service.

We should be careful in considering the possibility of having a budget for each Executive Director's office. The analysis involved in providing a budget might be very complicated. For example, the analysis would have to take into account the number of countries in a constituency, the number of languages used by a particular office, and the distance between headquarters and the various capitals of the members in a constituency, which would affect the costs of telephone communication and travel. One way in which to save money is to have dual Executive Directors.

The issue of providing satisfactory remuneration to recruit and maintain top-quality staff continues to be very serious. The Executive Board expects work of the highest quality, but it cannot expect it from staff members who are not of the highest quality. At the same time, I am worried by what appears to be the excessive burden of work on the staff. In his farewell address to the Executive Board, one Executive Director recently noted that he had been astonished by the large number of staff members who worked late hours and over the weekend. We should not discourage young persons who wish to join the Fund staff, and I am confident that the importance of the remuneration issue will be communicated to the new Managing Director; in brief, nothing would be more dangerous for the Fund than to have a second-class staff. That danger faces all the international institutions. Unlike many of those institutions, the Fund has avoided low-quality negotiations with member countries and excessive numbers of participants in missions to countries. The Fund should continue that record, but it must pay a price for that achievement.

Mr. Kafka made the following statement:

I am concerned about some references in the memorandum that seem to suggest that FY 1988 and subsequent years, like FY 1987, will require special budgetary constraint. On page 2 it is said that "for FY 1988...we will again need to demonstrate to the membership our commitment of maintaining firmer control over the growth of budgetary expenditures." On page 5 it is said that "given the continuation of budgetary restraint next financial year...." I would prefer to think--and I am confident that the Chairman agrees--that budgetary restraint is always necessary, but also that it must be a relative rather than an absolute standard. The restraint must be measured against the actual need for expenditure. In this sense, I am concerned about the objective of maintaining recurrent budgetary expenditure in FY 1988 at the nominal overall level projected for FY 1987--in other words, to continue to reduce it in real terms. As Mr. Massé and I warned in FY 1986--a warning that appears to be fully justified--the staff is already dangerously overburdened. Despite the staff's dedication, there are signs of deterioration in certain aspects of our work compared with previous years. I agree that some economies may be possible, but where they are not, it is better to face up to the need for increased expenditure, even if that means raising total nominal recurrent expenditure. Contrary to what is suggested in the memorandum, it is certainly not obvious that possible economies include a reduction in the number of resident representatives and advisors. Similarly, it is by no means obvious that possible economies include technical assistance expenditures, which are one of the most useful aspects of the Fund's activities. As to larger reimbursements by member countries for technical assistance services, they would be unjustified if they interfered with the volume of desirable technical assistance that can be offered to member countries. I would be favorably inclined to consider major economies in the seminar program for nonofficials and press seminars.

With respect to presentational changes, I look forward to receiving greater detail and more informative breakdowns on the existing number and the rising proportion of nonregular employees. Management should proceed with its plans on the capital budget, but I wish to be certain that when approving the annual recurrent budget, the Executive Board will pay attention to the volume of previously approved capital expenditure for the same fiscal year. In addition, management should build an appropriate degree of flexibility into the capital budget.

I have two questions concerning the midyear review of administrative expenditures for FY 1987. First, are there no dangers in postponing major facility upgrading, which seems to be contemplated in the memorandum? The maintenance of the Fund's facilities is by no means all that one would hope that it would be. Second, I do not understand why the increased investment management and custody fees for the Staff Retirement Plan cannot be charged to the Plan itself. In this connection, I fully agree with Mr. Salehkhou's position.

As to the preliminary estimates for FY 1988 in the context of a three-year projection of expenditures, we should look more carefully at the number of regular positions in the coming three years not only to prevent an excessive number of such positions, but also to keep the number from being too small to carry the necessary workload and to prevent an excessive proportion of contractual employees. Like Mr. Massé, I would like to know the impact of the increase in nonregular employees on the nationality distribution of the staff.

As I have already indicated, I do not agree with the intention to reduce technical assistance experts' programs or with the other proposals in the third item in Paragraph 43. I fully endorse Mr. Finaish and other Directors' comments on this point. I am not convinced that the cut in support services has been, or can be, justified. I am certainly opposed to the proliferation of support services, but cutting those services could easily become a very short-sighted economy.

I greatly appreciate the very successful improvements thus far in security procedures. As to travel policy, I object to any piecemeal changes. I would be pleased to reconsider the Fund's travel policy as a whole.

In sum, I am greatly worried that the budget for FY 1988 will not provide the Fund with adequate resources to perform its tasks. The objective of fixed nominal recurrent expenditure must be abandoned, unless it can be shown to be fully justified, which it has not been thus far.

Mr. Mawakani made the following statement:

I appreciate the efficient way in which management and staff have coped with the heavy workload. The memorandum indicates that, on the whole, expenditures are within the approved limits.

The program of activities described in the memorandum is consistent with the work program that was discussed earlier by the Executive Board and shows that the current year and FY 1988 will again be demanding ones for both the staff and the Executive Board. However, certain departments apparently will have to carry a heavier burden than others. I have in mind especially the additional workload that the introduction of arrangements under the structural adjustment facility has entailed. However, as management is not recommending an increase in the number of permanent staff members,greater use of the system of lending and borrowing of staff members among departments needs to be considered. Given the increase in activity, I wonder whether additional resources will not be needed in coming years if the Fund is to continue to perform all its functions efficiently.

I will comment on some of the suggestions that have been made in the memorandum with respect to reducing expenditures or keeping them constant. The workload connected with operations and relations with member countries has been heavy and will continue to be so for the reasons that are mentioned in Paragraph 13 of the memorandum. I agree that additional resources will be needed if the high standard and quality of staff analysis to which we are accustomed are to be maintained. The suggestion to increase the length of the Article IV consultation cycle needs to be considered very carefully. Most of the countries in my constituency would prefer to have no change in the one-year cycle. My authorities attach a high value to the staff's advice and to Executive Directors' comments on economic and financial policies; these are an important input in the authorities' decision-making process, and any lengthening of the consultation cycle will affect this process.

I agree with the reasons that have been given by Mr. Finaish and Mr. Sengupta for not cutting expenditures on special services to member countries. The countries in my constituency appreciate those services. The technical assistance program and the IMF Institute courses have been and continue to be of invaluable help to these countries. In many instances, the services have contributed to a significant improvement in the relationship between the Fund and members. The services should actually be increased or at the least maintained at their present level. Any savings from reducing special services can only be temporary. I do not agree with the suggestion that member countries should shoulder a larger proportion of the costs of these services. At a time of severe budgetary constraints in these countries, they will find it difficult to afford the extra costs.

The seminars held by the External Relations Department have been very useful in presenting the views of the Fund. I agree that the Fund's publications program should be reviewed in order to reduce costs. In addition, I can go along with the phased implementation of the statistical services program.

As to translations services, I agree that guidelines should be developed for the materials that are to be translated, but I would have serious difficulty in accepting the proposed reduction in the volume of translations. The ideal for the countries in my constituency is to receive timely translations of all the Fund's documents. Short of this, the Fund should aim at a continued improvement in the translations services. The Bureau of Language Services should be strengthened in order to be able to perform its duties more effectively.

I generally agree with other Executive Directors on the need to keep costs at a minimum, but this should not be our only objective. We need to ensure that the Fund will have sufficient resources to function efficiently. On the whole, the Fund has a lean budget, and its financial management is good.

Mr. Archibong made the following statement:

I am pleased that future budgets are to be separated into administrative and capital expenditures in accordance with the views expressed by Executive Directors during the recent discussion on capital accounting and budgeting. I welcome the planned improvement in FY 1988 aimed at providing detailed cost information on specific activities in the program section of the administrative budget document. Expansion of such coverage to include the Fund's operations and relations with member countries, general support, and special services to member countries should be encouraged, as it facilitates the assessment of the cost of special activities.

Compared with the approved budget, the midyear revised estimates for FY 1987 reflects prudence in the Fund's expenditure behavior. Indeed, a close examination of the specific estimates for each of the ten objects of expense categories shown in Table 1 and the reasons given for the respective overexpenditure or underexpenditure tend to support the position that the Fund is committed to maintaining firm control over the growth of budgetary expenditures. While this is commendable, I doubt whether such rigid adherence to expenditure control is consistent with the need for an enhanced role of the Fund, given the existing global economic circumstances and the growing financial and economic difficulties in the majority of member countries.

The preliminary estimates for FY 1988 are based on the assumption that recurring expenses in that year will be held at the same level as those estimated for FY 1987, and that any increase in total expenditure must be accounted for by higher net costs of nonrecurring items. Most of the assumptions underlying the projections of administrative expenses for FY 1988-90 appear to be concerned exclusively with the achievement of cost reduction objectives. For example, notwithstanding the proposal to increase the use of temporary and/or contractual assistance, the growing work program outlined for FY 1987 and the even greater workload pressure expected in coming years do not appear to provide justification for freezing the total number of regular employment positions in the Fund in the coming three years. It is perhaps unlikely that the required additional manpower resources associated with the structural adjustment facility could be met by additional temporary or contractual assistance. However, the number of countries with programs under the structural adjustment facility is expected to increase from 20 countries in FY 1987 to 30 in FY 1988. Unless the Fund has adequate resources that could be efficiently redeployed, what appear to be savings on employment costs might be lost through reduced effectiveness of the performance of certain functions.

I do not support a reduction in the technical assistance program either directly or through a requirement of greater contributions by participants. Several member countries in this constituency have benefited from such assistance, particularly in the central banking, fiscal affairs, and statistical areas. Many more, including those that do not have a program supported by the Fund, have come to rely upon Fund technical assistance as a crucial contribution to their effort to streamline, reorganize, and rehabilitate their economies. Therefore, it is important to weigh the desire to demonstrate to the Fund membership firm control over growth of budgetary expenditure against an even greater desire of the majority of members to benefit from the Fund's technical assistance.

Considerable savings could be achieved either by reducing the number of staff consultations or, where possible, by combining Article IV consultations and discussions on the use of Fund resources, or both. More effective use of resident representatives, where possible, could minimize the costs of consultations. Notwithstanding the need to reduce costs, it is necessary to stress that the Fund should endeavor to adequately face up to the challenges posed by the present international monetary and financial situation; therefore, unduly tight budgetary restraint, which apparently would be inconsistent with the Fund's income position, could undermine the institution's effectiveness. Finally, the further study of Islamic banking suggested by Mr. Salehkhou is relevant and worthy of support.

Mr. Foot made the following statement:

I will concentrate my remarks on the outlook for FY 1988, as budgetary developments in FY 1987 raise few questions other than those that Mr. Kafka has already posed. While I support the aim of budgetary restraint in FY 1988, I agree with other Executive Directors that there is no need to adhere rigidly to a particular arbitrary budgetary target if a good case can be made for exceeding it. It is difficult to assess the suggestion to maintain the same nominal level of recurrent spending in FY 1988 as in FY 1987 because it is not always possible to distinguish recurrent from other kinds of Fund expenditure. For example, it was difficult to conclude with confidence that the decline in Executive Directors' settlement and repatriation allowances in FY 1988, which would occur because an election would not be held in that year, was a recurrent expenditure or some other category of expenditure.

For some time, the Executive Board has accounted for roughly 10 percent of all Fund expenditure. I share Mr. Fugmann's hope that over time a greater degree of transparency and control can be introduced in appropriate areas of expenditure on the Executive Board. At the same time, I agree with Mr. de Groote that there might well be sizable difficulties in introducing a budget for individual Executive Directors' offices. However, individual office budgeting could increase the transparency of expenditures and permit additional flexibility within each office--for example, by enabling individual Executive Directors to make decisions on the various kinds of equipment that should be included in each office. At the same time, placing an overall cash constraint on expenditures by individual Executive Directors' offices would show the staff that the Executive Board, like the staff, was subject to careful budgetary constraint.

In the area of policy development and research, I welcome the statements containing detailed information about financial and staff costs of particular projects. Such information is often revealing for Executive Directors. In addition, it would be helpful to have from the new Director of the Research Department a kind of policy direction paper to explain the way in which he foresees the disposal of the staff resources in the Research Department in the coming period. Previous speakers have appropriately underscored the heavy burden of many staff members involved in operations and relations with member countries. This clearly cannot be allowed to continue much longer without seriously undermining the efficiency of the Fund. The discussion on the workload burden on the staff apparently did not take into account the growing burden of medium-term projections for the G-10 and other member countries. Apparently it is not unusual for a minimum of 200 manhours to be spent in preparing a medium-term projection, and for such projections to be prepared outside of regular working hours on the basis of the goodwill of the staff concerned. I agree that we should rigorously examine ways in which to reduce the cost of consultations, as is suggested in the memorandum. At present, I see more room in which to cut the size and scope of consultations--for example, by having consultations with some members every other year together with a shorter interim report--than through other means, but this matter obviously warrants a separate discussion on another occasion.

I, too, have great reservations about any proposals to cut technical assistance. In general, such assistance is highly valuable; much of it is connected with work on individual country programs. The increase in the number of short-term missions by the Fiscal Affairs Department in FY 1987 is fully appropriate, given the Fund's concern about fiscal policy for members' demand-management and structural adjustment performance. It might be useful to have a separate paper and discussion on the aims and operation of technical assistance. No cuts in such assistance should be made until that topic is fully discussed.

I welcome the new Working Group on Technical Assistance, which should help Executive Directors to understand some of the issues involved in the proposal to charge members for the provision of technical assistance. I hope that the Working Group will take into account the relevant practices of the World Bank, which apparently are significantly different from those of the Fund. I have no firm views on the matter. Apparently advice is often more valued when it is paid for than when it is gratuitous. At the same time, the idea of charging members for technical assistance raises a number of difficult questions about means testing and discriminatory practices. Of course, I am anxious to avoid wasting technical assistance resources and I am aware of cases in which members have made little if any effort to respond to the recommendations of technical assistance missions. A member's record in using the Fund's assistance might be a relevant factor in judging the extent to which it should be provided in the future.

The establishment of the Visitors Center is welcome. It should have a major role to play in improving the Fund's image in Washington, just as the IMF Institute and the various services provided by the Fund have a major role to play in improving the institution's image abroad.

I welcome the proposal concerning travel for appointment and separation of staff. No other changes in the travel policy seem to be necessary. However, the travel entitlement for appointment and separation is not being used in the way in which it was intended--the first-class tickets given to persons making travel for appointment and separation are often exchanged for economy class tickets for travel over longer distances.

Mrs. Ploix made the following statement:

At this stage, the execution of the administrative budget for FY 1987 seems to be under control; there has been only a slight slippage, amounting to just 0.2 percent of total expenditure. It is important to underscore the fact that this performance represents a significant retrenchment from FY 1986, although Fund activities are still expanding rapidly: the number of staff missions on the use of Fund resources and Article IV consultations are likely to be 12 percent higher in FY 1987 than in FY 1986, owing mainly to the introduction of the structural adjustment facility. Once a new facility has been established, the Fund should have the appropriate administrative means with which to manage it. In the current context of budgetary stringency, most of the necessary staffing resources for the structural adjustment facility have to come from savings in other areas or from a redeployment of personnel. This does not mean that the functioning of the structural adjustment facility must be offset by a reduction in the use of other facilities, which are not substitutes for the structural adjustment facility. The necessary adjustment should be made through some relaxation in the Article IV consultation process for some members.

The continuously growing workload makes it difficult to stabilize the overall level of manpower in the Fund. Moreover, as a result of the freeze on the number of permanent staff positions, the proportion of temporary staff has been increasing and now exceeds 10 percent. This is a significant level, and it will be useful to consider this development further. As Mr. de Groote said, this trend would be understandable if it were a means of employing expertise that was not needed on a permanent basis or that could not be developed rapidly within the Fund staff.

As to the outlook for FY 1988, it is essential for the Fund to create and maintain good channels of communication with members. To this end, technical assistance in the short run and IMF Institute training programs in the long run are vital. Therefore, it is important to sustain the level of support of these programs. The search for alternative sources of financing for those programs is useful, but we must be careful that this effort does not prevent countries from requesting technical assistance.

In sum, a rigorous budget should not be pursued at the expense of individual programs, especially the structural adjustment facility and technical assistance. We would like to be better able to evaluate the budgetary trade-offs to avoid arbitrary reductions. I strongly favor the EDP program. On balance, I strongly agree with the spirit in which Mr. Grosche addressed the budgetary issues in stating that the maintenance of recurrent expenditure in FY 1988 at the nominal FY 1987 level should not be an objective in itself.

Mr. Ortiz made the following statement:

I endorse the general principle that the Fund needs to continue showing its members a firm commitment to control the growth of budgetary expenditure. As a part of this commitment, every effort should be made to ease the excessive burden on the staff in some areas and to raise overall morale, while maintaining the quality of the staff and its work. It is clear that the quality of work can deteriorate if the staff is overburdened. The Executive Board should not impose upon itself the constraint of maintaining nonrecurrent expenditure constant in nominal terms.

Instead, expenditure growth should be the result of thorough analysis of needs and priorities and careful consideration of possible areas where costs might be cut.

The workload with respect to general policy development and research will continue to be heavy, and there may be a need for the Managing Director to suggest priorities in the proposed work program. The programs of the Research Department and the research-related activities of other departments must be of direct relevance to the functions of the Fund; the production of papers and research work of purely academic interest should be avoided.

I am concerned most about the discussion in the memorandum on operations and relations with member countries and special services to member countries. The increase in the workload connected with operations and relations with member countries is related to the design and monitoring of Fund programs. During the recent discussions of these issues, I expressed concern about the proliferation of performance criteria, including the proliferation of reviews. On page 5 of his memorandum, the Managing Director stated that "given the continuation of budgetary restraint next financial year, it may be necessary to examine ways of reducing the costs of consultations by reducing their periodicity, size and scope." I agree with this view, which can be extended to include program reviews.

However, I am very worried about the reduction of the programs under the category of special services to member countries, especially the proposals covering the coming several years. Technical assistance and training of member country officials in the IMF Institute make significant contributions to member countries, especially those with the greatest disadvantages in terms of human resources and technical skills. These services constitute the amiable face of the Fund.

Using resources available for technical assistance to meet the increased need for resources under the category of operations and relations with member countries is not the most appropriate course of action. The budgetary allocation for general support programs--including budget personnel, housekeeping, graphics, transportation, and other items--exceeds the allocation for special services to member countries. Some of these projects--such as the job grading exercise--have absorbed substantial resources and will continue to do so but should be given less priority than technical assistance missions. We should not expect member countries to cover all or part of the cost of technical assistance. A long-standing request by one of the countries in my constituency for technical assistance has apparently been delayed because of insufficient staff.

I noted with concern the reduction in the total number of experts and consultants who are expected to be hired in FY 1987 and FY 1988 as shown in Table 3 and that the number of temporary staff--who are hired presumably for support purposes--has increased dramatically over the previous several years.

As to the proposed three-year projection expenses, until 1990, apart from the reservations that have already been expressed about the Managing Director's third assumption, dealing with the containment of special services to member countries, I would emphasize that cost-cutting efforts should be directed at rationalizing the different categories of support services and at postponing some expenditures that are not deemed to be as urgent as others.

Mr. Zecchini made the following statement:

I generally agree with the broad outlines in the Managing Director's memorandum. These guidelines follow the pattern that has been established over the previous several Executive Board meetings on this subject and still seems to represent a valid way in which to enable the Fund to carry out its tasks completely and effectively. My comments will be aimed at stressing the importance of some choices and at suggesting some finetuning in expenditure orientation.

The midyear revised budget estimates indicate that FY 1987 expenses are basically in line with the figures that the Executive Board approved in April 1986. As is indicated in Table 1, actual expenditures are projected to exceed budgeted expenditures by only 0.2 percent at the end of the year. This is a significant achievement, given the ambitious objective of maintaining recurrent expenditure constant in nominal terms. The efforts to stabilize some expenditure flows in this year as well as in coming ones are commendable, but we should not fall prey to the obsession of cutting expenditures at any cost. This is a cooperative institution that is entrusted with such fundamental tasks as to defy any attempt to look at them solely in money-cost terms. We should also consider the much larger costs of not fully achieving our institutional objectives because of reductions in activities stemming from a lack of budgetary appropriations. Therefore, any drive to slash costs must be seen in the context of the feasibility of achieving productivity gains, since the maintenance of a high qualitative standard in the Fund's performance is imperative.

As to the specific programs of the Fund, the activity requirements for general policy development and research, as well as for operations and relations with member countries, have been demanding over the previous six months and in some cases have been heavier than was originally anticipated. I agree that for FY 1988 priority should be given to the two programs that I mentioned in terms of resource allocation within the general constraint of stabilizing expenditure. I accept the proposals set out on page 4 concerning the determination of the workload for general policy development and research. Future statements to the Executive Board will enumerate the papers that are to be undertaken, will suggest priorities, and will provide an indication of the extent to which resources for these purposes are lacking. This should not be seen as a means to abandon projects that are at the core of the Fund's strategy and rethinking, but rather only as a means of assessing their urgency and of planning for their implementation through careful budgeting of the relevant expenses over time.

As to operations involving member countries, the time has come to examine ways in which to reduce the costs of consultations. Given the Executive Board's wish to reduce the workload involving country items, such reductions could be realized by reconsidering the periodicity of some countries' consultations rather than the size or scope of the consultations. We must bear in mind the increasing importance of surveillance for the improvement of the international monetary and economic system. Therefore, reductions should not be made at the expense of fully achieving the most important objectives of the Fund.

I look forward to examining the results of the Working Group that was established to make recommendations in the area of special services to member countries. There is some limited room for maneuver in which to reduce the amount of the Fund's net expenditure in this area without reducing the Fund's support for countries' requests for assistance. I favor in particular a solution based on larger reimbursements to the Fund by recipient countries with higher per capita incomes and that would maintain constant the volume of technical assistance at least in the current year. Moreover, recipient institutions in higher per capita income countries could pay all or part of the cost of transportation of participants in IMF Institute courses on a voluntary basis. I wish it to be clearly understood that my authorities and I fully support the role and activities of the IMF Institute provided that they are carried out like all the other activities of the Fund--namely, on a cost-effective basis.

Cuts can be made in the information and statistical services program. I can go along with proposals in the memorandum if they are not in conflict with the overriding need to improve the external image of the Fund through the provision of more extensive information on the fundamental role played by the Fund in supporting member countries.

In the area of general support services, I attach great importance to the special demands stemming from the implementation of the plan for job regrading, as the staff's morale needs to be boosted at this stage.

There is room for achieving greater cost effectiveness in the area of general services. For example, staff requests for translations from foreign languages need to be carefully screened before they are met. In addition, more stringent criteria have to be applied in assessing staff's demand for foreign language training periods; such training is appropriate only when it is strictly a function of the execution of a current job assignment and when the gains from such training are significant and testable.

I would also like to stress the importance of having a cleaner work place. It is unacceptable for the staff to have to work in an unclean environment.

I agree with Mr. Salehkhou that each Executive Director's office should be supplied with a paper shredder. Such equipment is absolutely necessary to meet the need for increased confidentiality in the work of our offices. I also support the proposal to increase the automation of Executive Directors' offices and to provide access to the data base of the Fund to improve the analytical capability of Executive Directors' offices.

Turning to the preliminary estimates for FY 1988 and the three-year projection of expenses, I consider that it is appropriate to pursue in the coming year the objective of stabilizing the real level of recurrent expenditure or of maintaining the nominal level, whenever the latter is both advisable and feasible in terms of benefit/cost analysis. Such efforts should not detract from the need to ensure the effectiveness of the Fund in a rapidly changing environment. Therefore, we need to provide enough flexibility in budgeting expenditures to face priorities that might emerge--for example, in the area of international debt crisis management.

I agree that additional manpower resources should be allocated to operations and relations with member countries, particularly to deal with the increased workload deriving from the implementation of the structural adjustment facility. Such additional manpower could be provided first through the redeployment of staff positions and second through the addition of temporary and contractual assistance, if such assistance is more appropriate than the addition of regular staff positions.

I also agree with the assumption that for FY 1988 there will be little, if any, growth in programs that are not directly related to the Fund's core program of operations and relations with member countries, and that some measures could be taken to contain the costs of special services to member countries.

I would like to reiterate my request for a more explicit treatment of the implications of the job grading exercise and for a more substantive presentation of quantitative indicators of the workload of individual departments. A more extensive treatment of these two areas in the discussion of the administrative budget would greatly assist the Fund in its effort to achieve its objective of optimizing the allocation of resources under the current budgetary constraints.

Mr. Sliper made the following statement:

The projected overrun for FY 1987 is likely to be 0.2 percent of the approved revised budget. This is a commendable performance. However, a significant portion of this overrun is accounted for by a 16 percent rise in "miscellaneous" expenses. Virtually all of this increase relates to a significant rise in investment management and custody fees for the Staff Retirement Plan. A further comment on this increase would be helpful. I agree with other Executive Directors who recommended that the investment fees for the Staff Retirement Plan should be covered by the Plan rather than the Fund's administrative budget.

I agree with the Managing Director that the objective of the FY 1988 budget should be to maintain recurrent expenditure at the FY 1987 level in nominal terms. This represents a desirable starting point. However, it should not be adhered to rigidly or dogmatically. Promoting an image of leanness is a vital part of any institution's public information program. Maintaining activity in nominal terms is a good indication that an organization is rigorously reviewing its priorities.

I agree with other Executive Directors who have cautioned against a decline in technical assistance. The smaller island member countries in this constituency give very high priority to the Fund's technical assistance program. They have noted that such assistance is their main contact with the Fund. I would add that there is substantial scope for members to contribute--perhaps on a sliding scale--to the cost of technical assistance provided to them. A country's commitment to a technical assistance project naturally increases when the member shares in the expenses concerned. I also agree with Mr. Foot that there is a need for a general review of the technical assistance program. For example, it is not clear to me when technical assistance begins and ends; considerable technical assistance may be given as a part of an Article IV consultation.

In the area of administrative expenses in general, I agree with Mr. Fugmann that there should not be a distinction between the policy applied to Executive Directors and the policy applied to the staff; equal stringency should be applied in both cases. Mr. Fugmann mentioned this particularly in relation to travel policy, and I agree that there is little justification for granting first-class travel for staff members and Executive Directors' staff for settlement or relocation.

Mr. Donoso made the following statement:

My impression from reading the memorandum is that the Fund is having difficulty in performing all the tasks that the Executive Board has defined in the various work programs owing to limitations in resources that the Executive Board itself has imposed on the staff. We should provide for additional resources under the next budget or agree on cuts in programs to ensure the adequate performance of high-priority tasks. However, there is not enough information to establish clear priorities. It would be helpful to have a more complete description of the activities contemplated under each broad budget category, together with cost estimates. Until this additional information can be made available and the Executive Board can take a more careful look at its priorities, I would favor a cautious approach to the budget, which, however, would not involve maintaining recurrent expenses constant in real terms in FY 1988 compared with FY 1987.

Ms. Bush made the following statement:

I welcome the emphasis that has been given to cost control and the success that has been achieved in that area, particularly in the face of the demands that have been placed on the Fund.

I also welcome the development of the automated information and expenditure control system. This can be important at a time when the Fund is trying to hold down the increase in costs and as a means of understanding more fully the costs of various operations.

I look forward to the planned paper on travel policy. Lowering the class of travel for appointments and separations is certainly appropriate, and further cost savings in the travel area could be made. One suggestion in the memorandum for controlling travel costs is to cut the size of missions. It is difficult for me to have a view on that proposal. However, in considering possible cuts in the size of missions, it is important to keep in mind the need for an increase in the emphasis on certain aspects of members' economic and and financial policies, such as tax systems, banking systems, financial markets, and structural measures in general. In addition or as a complement to possible cuts in the size of missions, the Fund could explore the possibility of improved accounting for travel; Mr. Foot's comments on the switching of tickets clearly suggests an area where attention could be focused. There is perhaps some additional room in which to consider changes in the general travel policy as well.

The potential decline in technical assistance expenditure is a cause for concern for several reasons. It is important to make determinations about various aspects of a member's economy at an early stage in the development of a program for the country, and in that connection the technical assistance missions have been useful. For example, it is important to make an early determination about which aspects of a country's fiscal policy are most significant. Tax reform--as in the recent case of the Philippines--can be as useful in improving fiscal performance as the more customary fiscal tools. The Fiscal Affairs Department normally provides considerable assistance in the tax area. It is important to the effort of reviewing and making recommendations about tax structures and systems to provide adequate resources for that task. Technical assistance also makes an important contribution to the effort to incorporate tax reform into Fund-supported programs. Banking and financial market developments are also crucial to enhancing members' capability of developing financial systems that can better support growth-oriented economic reforms; the technical assistance that is provided in these areas can significantly help to shift the focus of the development of the Fund programs. The emphasis that is placed on technical assistance and its role in the formulation of Fund programs should be reconsidered.

I understand that the manpower resources of some departments are severely strained. Some departments have a large number of countries with programs or a heavy concentration of countries with structural adjustment arrangements. There is significant room in which to reallocate staff to these strained areas and possibly room in which to reallocate budgetary resources from departments with relatively light or normal work loads to departments with heavy work loads.

On previous occasions we have raised the possibility of combining the administrative budget discussion and the salary review by the Executive Board. This proposal continues to be appropriate. I am not certain what the best timing of the discussions would be. Mr. Nimatallah suggested that the entire budget process might be shifted to a calendar year basis. I hope that in conjunction with the consideration of that suggestion we could examine the possibility of approving salary increases together with the administrative budget.

I would like to know which positions are included under the category of "temporary staff." Does the category include contractual staff positions? Is the bulk of the Fund's hiring now done on a contractual basis? Are there particular benefits from such hiring?

We should certainly consider the possibility of lengthening the period between Article IV consultations. This possibility could be considered on a case-by-case basis. In addition, it seems possible to shorten some of the staff papers, especially reports on recent economic developments that are prepared along with staff reports for Article IV consultations; an updating of recent economic developments might be sufficient every other year instead of a full report.

I greatly welcome the office automation project for Executive Directors' offices. Our office would be pleased to participate in the project.

Individual budgets for each Executive Director's office would be appropriate. I do not have any particular suggestions regarding the detailed content of the budgets, but the matter warrants further consideration.

I agree that it would be useful to set priorities for the Fund's work. That approach could be very useful in focusing on the financial and manpower costs of the demands that the Executive Board places on the staff. The Fund must set priorities based on changing conditions and the priorities of member countries. Establishing priorities could help in the effort to shift personnel to areas in the Fund with the largest work load.

Mr. Schurr made the following statement:

It is good policy to exercise firm control over the Fund's administrative expenditure. We supported the budget for FY 1987 and stressed the need for consolidation after earlier rapid increases in expenditure. The revised estimates for FY 1987 indicate an overall increase in expenses of only 0.4 percent, which implies a decline in real terms.

It is now proposed to keep nonrecurring expenses level in nominal terms and to allow some increase in certain essential nonrecurring items, resulting in a projected overall nominal increase of 2.8 percent, or approximately a zero increase in real terms. The number of regular staff positions is to remain unchanged, despite the expected further increase in the work load in some areas.

While I can support the overall thrust of this approach, I wonder whether a little more flexibility could be permitted in the area of recurring expenses. I have in mind particularly the area of technical assistance, where the proposed cut appears to be somewhat sudden in view of the considerable needs for such assistance. The Fund's technical assistance is one of the most effective contributions that the institution can make to its developing member countries. At the same time, there is merit in the suggestion to request larger reimbursements to the Fund by members for technical assistance provided to them. I hope that in this way it could be possible to maintain a level of technical assistance that is sufficiently responsive to members' needs. I look forward to concrete and realistic proposals in this area.

The need for additional resources for operations and relations with member countries is self-evident. We can help to reduce this need somewhat by being a little less ambitious about the periodicity of consultations and by not requiring all reviews under stand-by arrangements to be discussed by the Executive Board. I look forward to considering proposals to alleviate the work of the staff and the Executive Board in these areas.

I welcome the somewhat slower pace that is foreseen in the area of automation in general and the fact that prudent solutions have been worked out with respect to the automation system for Executive Directors' offices. However, I regret that it has been necessary to incur substantial additional costs in connection with the work of the Joint Committee on Compensation.

I wonder how long the Fund should continue to maintain a freeze on its regular staff positions together with relatively strong increases in temporary staff positions. I understand that this approach is attractive for cosmetic reasons, but the staff should comment on whether it feels that this is an organizationally sound approach.

Mr. Salehkhou noted that although premium payments under the Fund's medical plan were based on income, no differentiation in premium costs was made with respect to family size and the number of dependents in each family. The staff should comment on the rationale for that arrangement and on possible ways in which the burden of the plan could be shared more fairly among staff members.

The Director of the Administration Department noted that Executive Directors had concentrated their remarks on the budgetary outlook for FY 1988. The discussion in the memorandum on the outlook for FY 1988 was meant to be broad and preliminary, and it was difficult for the staff to make additional specific comments at the present stage. Executive Directors had provided useful preliminary views on such issues as the appropriate overall stance for the FY 1988 budget, the broad priorities that should be kept in mind in proposing allocations of resources under the budget, and specific proposals that had been mentioned in the memorandum. The staff proposed to maintain the traditional balance in the budgeting process through its fairly general presentation at the present stage and the provision of detailed information on specific items in the full budget document at a later stage.

Executive Directors clearly shared the staff's concern about the severe constraint on manpower in certain areas of the Fund, the Director continued. Although the Fund had some flexibility with respect to staff reallocations, the amount of flexibility was not great, as staff members with expertise in one area could not easily be shifted to work in another area requiring different kinds of expertise. The staff would examine the room for flexibility in preparing the budget for FY 1988. Given comments by Executive Directors during the present discussion, the staff would need to look again at the general issue of the ceiling of staff positions for the coming year; it might be desirable to raise that ceiling somewhat.

The category of "temporary staff positions" included mainly staff members who were recruited on a contractual basis, the Director said. The persons involved were added to the Fund's work force but on a temporary basis rather than as a part of the regular staff. Even among the regular staff, recruitment in recent years had relied increasingly upon initial fixed-term appointments. Accordingly, most staff members were given an initial contract covering two or three years. Those contracts served primarily as a mechanism for judging whether an individual staff member was fully qualified for work in the Fund before a decision was made to add that person to the permanent staff. That device, however, was different from the concept of temporary positions. Nearly all the 228 temporary positions in the budget were accounted for by individuals who were employed on contract. However, some of the temporary positions, expressed for budgetary purposes in terms of aggregate man-years, reflected the fact that some staff members were in a floating position at any given point in time--for example, staff members who had just returned from an overseas assignment and who had not yet been allocated to a department because a current vacancy did not exist. The floating positions accounted in the aggregate for some 10-12 percent of the 228 "temporary" positions.

A large proportion of the temporary positions were contractual positions in the Bureau of Computing Services (BCS), the Director noted. Those persons were engaged in ongoing data processing and automation projects. It was appropriate to employ them on a contractual basis because they were working on particular projects that would come to an end after a finite period. When the projects were completed, the persons involved could be employed on other projects or their services could be terminated and other persons could be hired for the additional projects. The skills required for the BCS projects tended to change rapidly, and the jobs performed tended to be relatively short term. Hence, for the purpose of completing those projects it seemed appropriate to hire persons on a contractual basis rather than to add to the permanent staff. It was of course important to maintain an appropriate relationship between the basic regular staff in the Bureau of Computing Services and the contract staff, and the present relationship admittedly might not be ideal.

Another large proportion of the 228 temporary positions consisted of temporary secretarial assistants who were hired to deal with peak work-load situations, the Director went on. That group had grown substantially in recent years as a result of the increased pressure on the regular staff. In earlier years, when there had been some reserve within each department's pool of secretaries, it had not been very difficult to cope with peak work-load situations and personnel shortages created by sick leave and maternity leave by absorbing the extra demand through the permanent secretarial staff within a department or through the secretarial pool. Over time, however, that reserve had disappeared, and it had become important to develop another reserve pool of persons who were brought into the Fund temporarily to cope with peak work-load needs throughout the Fund. In the present budget, about 95 man-years were allocated for those temporary secretarial positions.

Maintaining a reasonable number of positions on a contractual or temporary basis for appropriate functions was beneficial to the Fund in several respects, the Director explained. That arrangement was relatively economical, as it was cheaper to employ a contractual person than a permanent staff member. On the whole, contract employees were paid less than a regular staff member when all benefits were taken into account. The contract system gave the Fund greater flexibility in increasing or reducing the number of persons in different types of assignments. Moreover, the contract approach enabled the Fund to ensure that persons employed on projects had the most up-to-date expertise required, especially in areas such as automation where job requirements were changing rapidly.

The increase in the number of temporary or contractual positions in recent years reflected a change in the Fund's thinking; in the past, it had traditionally been assumed that, in principle, all the manpower employed by the Fund should form part of the regular staff, the Director said. That approach had obviously been too inflexible. He recognized, however, that there were also potential dangers in the new approach unless careful control was maintained over the precise use of contract persons; there was a grey area where contract persons might be performing tasks that should properly be carried out by the permanent staff. Moreover, contract persons conceivably might not be as committed to the Fund and might not contribute sufficiently to the staff's international character, although about 30 percent of the present contract personnel were non-Americans, which indicated that the Fund was maintaining a reasonable degree of international character even with this group of employees. The Administration Department was fully aware of the need to ensure that contract persons were employed appropriately and that the proportion of contract persons in the Fund's total manpower positions should not become disproportionately large. A small committee in the Department had recently been established to analyze all the types of temporary or contractual jobs and to define the principles on the basis of which jobs should be allocated to contract persons or regular staff members. Finally, contract persons were employed to fulfill economist functions only in the rarest cases and on a short-term basis.

With regard to the comments made about the importance of maintaining the Fund's technical assistance activities, the Director noted that the Fund was operating within a budget ceiling on total resources that did not permit growth simultaneously in all areas of activities. There must be growth in some areas, particularly where the responsibilities of the Fund were clearly established in the Articles. Given the limited supply of available resources, it necessarily followed that other areas that were not central to the Fund's role and that were discretionary and supportive in nature must experience some loss of resources.

The staff was exploring ways in which to make the technical assistance program more cost effective, and it was in that context that the new Working Group was considering possibilities for increased contributions from some users of the Fund's technical assistance, the Director went on. The staff had not assumed that the increased contribution need be substantial. As had been noted in the memorandum, collecting $1,000 for every man-year that was made available in technical assistance would be sufficient to finance one additional expert position for a full man-year. The staff believed that the ability of recipients to pay for technical assistance should be taken into account by the Fund. That factor was normally taken into account by other institutions that provided technical assistance on a grant basis. There was substantial experience in other organizations that provided technical assistance concerning the modalities of providing and the mix of grants and nongrant assistance, and the Fund could learn from that experience. The savings that the Fund could make in FY 1988 even if a more rigorous program of user payments were instituted in the coming months would be somewhat limited because technical assistance arrangements had already been made covering much of FY 1988. The staff was also considering possible savings in salaries and emoluments paid to experts. In addition, consideration was being given to the possibility of adopting a dollar ceiling on technical assistance rather than the present ceiling in terms of man-years. The dollar ceiling might encourage the departments that were involved in administering technical assistance to actively seek cost savings which would enable them to provide increased man-years of expert services within the given dollar allocation.

The staff would review again the timing of the presentation of the budget, as Mr. Nimatallah requested, the Director said, in particular, by considering whether it was feasible to bring forward the presentation of the budget by two or three weeks. However, bringing the presentation forward even by that brief period would be very difficult. One reason was the need to deter the preparation of the new budget until as late as possible in the financial year. Another was that the schedule for the preparation of the budget was already very tight; at present, the staff could not begin the midyear review process until after the Interim Committee meeting in October, when the work program for the second six months of the year was outlined.

The possibility of changing the Fund's financial year to the calendar year had been mentioned on previous occasions, the Director recalled. The staff would have no difficulty in principle in beginning the Fund's financial year on April 1 rather than May 1, or in making a more dramatic change to, say, the calendar year. However, there were difficulties with respect to the timing of the Annual Meetings. Mr. Nimatallah had made the interesting suggestion that the Governors need not have the audited financial statement at the Annual Meetings, but could approve that document by a mail vote before the Annual Meetings. One factor that would tend to influence the staff's thinking on that matter was the timing of the annual compensation surveys and adjustments, which were an important element in total budgetary expenditure. The Joint Compensation Committee was still in the process of preparing a report that was likely to contain a proposal to alter the timing of the annual review of compensation; that proposal would be another important input into the debate on what adjustments, if any, should be made in the Fund's financial year.

The staff had been asked to comment on its statement on page 10 concerning approval of capital budget items, the Director recalled. The staff envisaged that in approving a capital budget item, the Executive Board would approve the total expenditure required for a particular project, thereby giving a multiyear spending authority. The staff would indicate the expected spread of capital expenditures over the construction period of the project, and the expenditures for each year would then be included in the annual capital budgets, although the approval for those expenditures would have already been given. The Executive Board would thus be presented with a consolidated budget for all current capital expenditures in a particular year. The Board's approval would be required for any changes in amounts previously authorized for a given year and for the inclusion of any new project in the budget. The objective was to receive multiyear approval of the expenses for a project at the outset rather than to seek approval in each year for the annual expenses involved.

The introduction of a separate capital budget would not in itself result in any increase in overall expenditures, the Director said. The staff continued to consider possible improvements in the budget process on the basis of suggestions made by a consultant who had reviewed the Fund's budget process earlier in 1986.

The small overrun in the budget for FY 1987 was due entirely to the unexpectedly high investment fees for the Staff Retirement Plan, the Director explained. Those costs in turn were traceable to the unexpectedly favorable performance of the Plan's investments, as a result of which the Plan's assets had grown much more rapidly over the previous 12 months than had been anticipated. The fees of the investment managers had also risen substantially, and they were paid directly out of the administrative budget. The staff fully agreed with Executive Directors who had suggested that the investment fees would more appropriately be paid directly from the investment income of the Staff Retirement Plan. The External Audit Committee had recommended that the Fund change its arrangements so that in future the investment management fees would be paid directly from the Plan and would be deducted from the Plan's investment income. A tentative proposal to that effect had been put forward to the Pension Committee. Nevertheless, even if that change were made, it would not be likely to save the Fund money. The Fund stood behind the Staff Retirement Plan, which was a "defined benefit plan" under which the benefits were defined but the costs were not, and the Fund had to make up all the difference between the investment income and the employees' contributions on the one hand, and the total costs of the Plan on the other hand. Nevertheless, as a presentational matter, the staff believed that it was more appropriate for investment fees to be paid by the Plan; that arrangement should also help to smooth out the rate of contributions to the Plan by the Fund.

Responding to a further question, the Director of the Administration Department explained that, while the Fund had to make additional payments into the Plan to cover the experienced losses of the Plan, it did not have a right to withdraw funds when the Plan experienced an increase in its assets substantially greater than had been anticipated on the basis of actuarial assumptions. The Pension Committee had decided in principle to recommend to the Executive Board that a new method of funding recommended by the actuary be adopted. Under that method, which was called the aggregate method of funding, all the anticipated costs, losses, and surpluses would be reflected in a single formula for determining the Fund's annual contribution, and the Fund would make only one contribution each year that would cover a number of expenditure items that in the past had been handled separately. Losses and gains would be spread over a certain number of years, so that the Plan would enjoy a much more stable rate of contributions than in the past. The staff hoped that, after a certain complicated accounting issue had been resolved, but before the beginning of the coming fiscal year, it could present a proposal to the Executive Board to change the method of funding.

Responding to a question by Mr. de Groote, the Director of the Administration Department said that an Executive Board decision would be required to introduce a system of user charges for technical assistance. Other organizations had developed systems for sharing the cost of technical assistance with recipient countries, and the Fund might usefully study the practices of those organizations. There were a number of ways in which charges for technical assistance could be arranged. Much of the technical assistance provided by the World Bank was incorporated into its loans, but the Fund should explore other mechanisms, if it seemed appropriate to move in that direction.

The Deputy Director of the Administration Department explained that about a third of the temporary staff positions were filled by persons working on the automation projects that were being implemented throughout the Fund. Those persons ran computers, maintained software, and designed new programs. They were in addition to the regular staff members in the Bureau of Computing Services.

Mr. Ortiz remarked that most Executive Directors apparently had an open mind on the question of requiring members to contribute to the cost of technical assistance provided to them by the Fund. Apparently they wished to wait to examine the results of the Working Group. However, the staff seemed to imply that it was prepared to implement a system of charges for technical assistance.

As he understood it, approximately 100 persons were employed by the Fund in various automation projects throughout the institution, Mr. Ortiz said. That number was only slightly smaller than the total number of consultants and experts hired by the Fund. In the light of the complaints by many staff missions that they did not have adequate data with which to design and monitor programs, the Fund should perhaps use more of its manpower to help members develop adequate data bases. Once individual member countries had adequate data bases, the Fund would then be in a good position to automate its operations in order to increase its efficiency.

The Deputy Managing Director noted that the temporary positions in the computer area were filled by persons who were helping to design the new systems that were being developed in the Fund. For example, extensive software had to be developed for the new Economic Information System in the Bureau of Statistics, the new computer system in the Treasurer's Department, and the new automation system in the Administration Department. It was relatively inexpensive to hire temporary help to design the systems. The use of temporary help gave the Fund additional flexibility to hire the specific kinds of personnel that fitted the needs of the Fund at any given moment, depending on the system that was being developed. An assumption that was used by the Fund for the computation of budgetary expenditures on computer items was that an outside contract consultant hired by the Bureau of Computing Services cost $1,100 per week, compared with the average weekly cost of about $2,200 for a permanent member of the staff of the Bureau of Computing Services. Outside consultants from major consulting firms could be expensive, with costs averaging some $3,500 per week. The Fund had reduced its use of such consulting firms and had been using instead individual contractual employees who were managed by the regular staff in the Bureau of Computing Services. Hence, management and staff had in mind the most efficient and least-cost ways in which to develop the Fund's computer systems.

The provisions of services to member countries that were required to develop their data base was accomplished through a number of means, the Deputy Managing Director continued. In many cases, staff members from the area departments helped individual countries to develop the data base during consultation missions. In other cases, technical assistance missions from the area departments provided the necessary help. In recent years there had been an increase in the number of Bureau of Statistics missions to help countries design data bases. Improvements in the quality of the data base of an individual country enhanced the quality of the Fund's Economic Information System and IFS.

The Fund had been receiving an increasing number of requests by members for technical assistance in the computer area, the Deputy Managing Director said. Members wished to receive assistance in developing their own computer bases, including software for the collection and reporting of data, areas where the Fund as well as the member would welcome improvements. The Fund had conducted a small study of the extent to which it should provide technical assistance in the computer area to individual member countries.

Mr. Salehkhou remarked that it was not clear to him what priority the staff gave to the provision of technical assistance to individual member countries. He was worried that technical assistance was considered to be of secondary importance in the functioning of the Fund. The World Bank was increasing the work of its missions in the fiscal field. He wondered what arrangements the World Bank had for charging members for technical assistance that they received.

The Deputy Managing Director replied that the World Bank had a variety of procedures. Under one approach, a central bank received money that was lent to the country by the World Bank to develop a certain function in the central bank; and that arrangement could be considered a form of technical assistance. The World Bank's Senior Vice President for Operations had recently mentioned to him that possibly the World Bank should not be deeply involved in providing technical assistance to central banks, on the ground that the Fund should be the main source of technical assistance to central banks, a position that he himself supported. At present, there were various means by which the World Bank provided technical assistance to central banks either directly, or indirectly by hiring persons to fill certain functions. The Fund needed to work with the World Bank in identifying cases in which each institution should provide technical assistance in the fiscal policy area. In some recent cases, both institutions had provided technical assistance in the fiscal policy area to the same country at about the same time.

Executive Directors saw the Fund's general technical assistance program in different ways, which was not surprising, given the diverse means by which the institution provided technical assistance through the Central Banking Department, Fiscal Affairs Department, the IMF Institute, and the Bureau of Statistics, the Deputy Managing Director continued. In addition, the Exchange and Trade Relations Department provided technical assistance by sending individual staff members to help countries to develop their exchange auction systems. Moreover, the area departments had found that mission work increasingly involved the provision of technical assistance, as staff members often spent two or three weeks helping authorities develop one aspect or another of a country's data base or policy stance. While there was general support for the broad program of technical assistance, there was an issue concerning the allocation of resources among the various technical assistance efforts and how best to deliver the technical assistance services provided by the specialized functional departments. For example, should the area departments take a greater responsibility for the provision of technical assistance? To what extent should the Fund rely on permanent staff members in the Central Banking Department and Fiscal Affairs Department, as opposed to outside experts, in the provision of technical assistance? Most of the experts who were sent by the Fund to individual member countries to provide technical assistance were hired from the staffs of central banks, finance ministries, or universities. Hence, while the Fund did not use temporary help in conducting its basic activities, it did rely upon outside help to provide technical assistance to individual member countries. Changing that practice would have implications for the relationship between temporary technical assistance arranged by the Fund and the provision of technical assistance by the Fund's permanent staff. For example, a reduction in the number of experts might have to be offset by an increase in the size of the Central Banking and Fiscal Affairs Departments.

As some Executive Directors had suggested, the time seemed to be ripe to take a look at the overall technical assistance program, including the areas in which such assistance was provided and the objectives of the assistance, the Deputy Managing Director said. Executive Directors had expressed a variety of views on the appropriate emphasis that should be maintained in the technical assistance effort. For example, Ms. Bush had emphasized the importance of providing technical assistance in support of Fund mission work. A number of ministers had informed him during the Annual Meetings that, in the area of technical assistance by the Fund, they valued most the institution's ability to act quickly to provide a technical expert to solve particular problems. Some of the ministers had said that they were prepared to pay the costs of placing such an expert in their central bank or finance ministry but had emphasized that they did not have the contacts needed to find a reliable expert quickly.

Management and staff considered that it might be useful to provide in a separate paper an overview of the technical assistance program, the Deputy Managing Director went on. A working group could be established to look at the broader issues relating to the evolution of technical assistance by the Fund, including the objectives of such assistance and the means by which the assistance was provided. Collaboration with the World Bank to avoid overlapping in some areas of technical assistance, and the provision of technical assistance in the computer area could also be explored. In addition, the Legal Department had recently received requests for legal advice, including advice on some fiscal matters, and the legal staff believed that the budget should be expanded to permit it to provide such services.

Those questions were among the more detailed matters that would have to be examined in the course of setting the more detailed budget targets for the coming year, the Deputy Managing Director said. The Executive Board had given some very strong indications about the importance that it attached to technical assistance as a general activity of the Fund, and that indication would of course be taken into account in formulating the budget.

Mr. de Groote remarked that it was clear that a member country that borrowed from the World Bank could use part of the proceeds to finance technical assistance provided by the World Bank. That fact was not relevant in considering whether or not a country that benefited from, say, participation in the IMF Institute's programs or from a Fiscal Affairs or Central Banking Department mission should be obliged to cover some of the costs of that technical assistance even though members that used such assistance were already financing it as a result of the charges they paid for their use of the Fund's resources. It was incorrect to conclude that the World Bank asked member countries to finance the technical assistance that it gave to its members, as the bulk of the technical assistance provided by that institution was in the form of assessments of the feasibility of projects financed by the World Bank and assessments of the quality of individual member countries' development programs. The World Bank's individual member countries did not help to cover the costs of those substantial technical assistance efforts. Some individual countries borrowed money from the World Bank to finance technical assistance in the same way in which they borrowed money to finance a development project, but that matter was not relevant to the proposition that countries should be obliged to cover the immediate costs of services that were provided to them as a part of their membership in the Fund.

Mr. Vasudevan commented that the terms of reference of the Working Group had not been announced. He wondered whether the Working Group was expected to make recommendations to the Executive Board, which would then fully discuss all the issues concerned. He hoped that any required contribution to cover the costs of technical assistance would not be seen by some countries as a requirement for the maintenance of their relations with the Fund.

The Chairman remarked that one of the assumptions in his memorandum was that the technical assistance experts program could be reduced by five man-years as a part of the overall effort to maintain the nominal value of total expenditure in FY 1988 at the FY 1987 level. Members receiving technical assistance already helped to cover some of the local costs of the assistance, and it had been suggested that members could conceivably make a larger contribution and could pay part or all of the transportation costs of participants in IMF Institute courses. Management and staff would take Executive Directors' comments on those suggestions and assumptions into account in making the detailed budget proposals at a later stage. The proposals concerning technical assistance had been made in response to the rapid growth in the cost of that assistance in recent years.

Management and staff had assumed that, as a part of the effort to curb overall expenditure, the Executive Directors might wish to consider possible restraints on expenditure on technical assistance, the Chairman continued. It seemed wise to consider possible ways in which members could help to cover the cost of technical assistance and also to explore the policies on which such assistance was based with a view to examining the contribution that technical assistance could make to the major functions of the Fund. For example, it would be helpful to consider how technical assistance could be better fitted to members' adjustment efforts and the design of Fund-supported programs. Technical assistance should not only be a separate program for improving the quality of certain technical aspects of economic policymaking; it should also be an element in the effort to improve the quality of the Fund's adjustment function. In that connection, technical assistance could make a contribution to the improved functioning of the system, thereby supporting the major objectives of the Fund. At the same time, possible further coordination between the Fund and the World Bank in the area of technical assistance was clearly required. Those institutions and some others apparently were providing similar technical assistance at the same time to the same countries. An effort to coordinate the assistance more closely would help to ensure that the technical assistance efforts were consistent. For example, the World Bank apparently was providing considerable technical assistance on public finance and banking systems. The World Bank had access to greater resources--especially through consultants--than the Fund in the area of technical assistance.

The Deputy Director of the Administration Department said that the use of contractual employees and the increase in the number of such positions reflected the peak workloads facing various departments. The workload of each department was characterized by strong seasonality, and meeting occasional peak workload demands with temporary help rather than maintaining a larger permanent staff was good management. For example, the Bureau of Language Services met its peak workload demands by using contractual help. Such help was also appropriate for the Bureau of Computing Services because many of the skills needed by the Bureau were only required for a relatively short period. It would be impossible for the Fund to provide its permanent staff with all the training that was needed to keep the staff current in all the computer skills required by the Fund. Contractual arrangements enabled the Fund to quickly obtain needed skills for particular projects. The contracts of temporary employees engaged in projects typically expired at about the time that a project was completed. In addition, contractual positions were considerably cheaper than permanent positions and, therefore, they were consistent with the general austerity effort in the Fund. While the direct salaries paid to permanent and contractual staff were roughly similar, contractual staff did not receive nearly as many benefits, such as pension plan contributions, spouse allowances, dependency allowances, training entitlements, loan entitlements, installation allowances, and termination grants. Hence, the difference between the total remuneration paid to permanent and contractual employees was often as high as one third.

One of the significant issues in the present budgetary situation was the cost of mission travel, the Deputy Director noted. In many cases, the length of a mission--and, hence, the costs involved--depended to an important extent on how prepared the authorities were to receive the mission. Executive Directors could contribute to the cost-saving effort by encouraging their authorities to make every effort to be adequately prepared to assist missions in using their time most efficiently.

The Fund had well-established procedures for appropriate accounting for travel, the Deputy Director continued. Downgrading of first-class business tickets in order to obtain personal benefits was not permitted. All tickets issued to staff members were stamped to show that any refund from those tickets must not accrue to the staff member but rather to the Fund. The present procedures were designed to ensure that the class of travel that was authorized was the same class that was actually used by staff members. Restrictions on appointment travel were in the form of a ceiling on an entitlement; individuals could schedule their travel within the limits of the entitlement.

Introducing budgets for individual Executive Directors' offices would be possible, the Deputy Director commented. Hitherto, the Executive Board had policed itself through its various committees. The staff would explore the possibility of individual budgets based on a formula and understandings on the criteria that would determine the size of the budget for each office--a task that clearly would not be easy. Some lead time would be required before any agreed system of individual budgets for Executive Directors' offices could be introduced. The new system would require an additional mechanism in the Budget and Planning Division, and the Administration Department considerably lagged other departments in automation. As a start, the staff could begin providing information on expenditures by various categories to each Executive Director about his office.

Compared with other institutions, the Fund had started late in the effort to automatize its operations, the Deputy Director said. As a result, there had recently been substantial start-up costs for the EDP project. Those costs had fallen over time, from $31 million in FY 1985 to $30 million in FY 1986 and an estimated $29 million in FY 1987. At the same time, the flexibility to reduce EDP expenditure was diminishing somewhat as development projects were completed and became production systems with work related to usage and that required continued maintenance. The automation efforts in some areas of the Fund still had not been completed. For example, the Treasurer's Department had experienced a substantial increase in transactions that were being carried out with an antiquated automation system. Hence, there was considerable automation work still to be done. Similarly, the Administration Department had only recently begun its automation effort.

The Medical Benefits Plan was based on three categories of participants, namely, single persons, families, and dependents, the Deputy Director explained. The staff had examined the claims experience of those groups and had occasionally altered the rates applicable to them. For example, in the past, the premium costs of dependents had been heavily subsidized by single persons and to some extent by family plan participants; a change in the rate structure had addressed this problem. The plan did not discriminate by size of family as was the standard for the industry. The staff intended to conduct a review of the Medical Benefits Plan; at present, the intended review was not a high priority, and the Administration Department did not have sufficient resources to conduct the review soon.

As a number of Executive Directors had noted, expenditure under the category of "support services" had increased considerably in recent years, the Deputy Director of the Administration Department commented. The category included services provided by both the Treasurer's and Administration Departments as well as translation and computing services. It was useful to note that, if the EDP costs were excluded, support services grew by no more than 33 percent in 1983-87, compared with 35 percent for the total budget. There might be a temptation to consider support services to be of lesser importance than technical assistance services, for instance; however, the latter could not be rendered efficiently without the former. A number of support services had been favorably mentioned by Executive Directors--for example, the increased security measures. In any event, many support services staff were clearly heavily burdened; for instance, only two staff members administered the entire technical assistance and resident representative programs, which involved the needs of some 150 persons for housing, travel, medical, and other services. The support services staff was also feeling the strain of the morale problem among the staff at large: the staff felt under attack and was therefore prone to raise many more questions with the Administration Department that might not be posed in normal circumstances. The job grading exercise and the work of the Joint Compensation Committee had added to that problem.

Mr. Salehkhou said that it was his understanding that all Fund travel was on the basis of first-class tickets, but that complications, such as poor weather conditions or overbooking by the airlines, had sometimes forced staff members to travel business class or economy class. He wondered whether the refunds involved were made to the Fund.

Budgets for individual Executive Directors' offices were admittedly a controversial issue, Mr. Salehkhou continued. Before the staff attempted to provide any relevant information, the Executive Directors should decide whether they really wished to have separate budgets. The matter should be referred first to the appropriate Executive Board Committee.

The staff's answer to his question concerning the role of family size in the determination of medical benefit premia was disappointing, Mr. Salehkhou said. The Fund's plan was managed by an outside company that presumably should not have great difficulty in determining the family size of participants and the appropriate cost for the participation of each family on the basis of its size.

The Deputy Director of the Administration Department commented that a staff member who had to exchange a first-class ticket for a lower-grade ticket was required to obtain a certificate from the airline. The ticket and the certificate were then surrendered to the Fund upon the staff member's return to headquarters, and the Fund submitted the certificate to the airline for a refund.

If individual Executive Directors wished to have budgetary information concerning their individual offices, the staff stood ready to provide it, the Deputy Director of the Administration Department continued. As to the Medical Benefits Plan, the present practice of not taking family size into account had been the standard practice in the medical benefit industry when the present plan had been established. The staff was not certain whether that practice continued to be the industry standard. The staff would provide Mr. Salehkhou with additional information on a bilateral basis.

Mr. Salehkhou said that he would welcome additional information on a bilateral basis. He hoped that the Fund required staff members to submit to it their boarding passes as a means of checking whether first-class tickets might have been downgraded and the Fund was therefore due a refund. Given the time constraint prior to departures, crowded situations at airline check-in counters, and the reluctance of airline attendants at airports to take the trouble to provide individual passengers with required written statements, the Fund should be in a position to claim reimbursements on the basis of boarding passes and/or marked ticket stubs in lieu of written certificates.

The staff representative from the Administration Department noted that a full explanation of the category of "miscellaneous expenditures" would of course be provided in the main budget document that would be considered at a later stage. The staff would continue to monitor the development of the size of that item; if it became particularly large, the staff might wish to consider a further breakdown of the various categories of expenditure. The main reason for the increase in miscellaneous expenditures was the rise in investment fees, and it was possible that those fees would eventually be taken out of the category of miscellaneous expenditures to be included in the benefits under the Pension Plan.

The question had been raised whether all the various revenues under the budget should be collected in a single place in the budget, the staff representative recalled. The present practice was to group particular categories of revenues and expenditures together in order to paint a picture of the net cost of particular items, such as food service and publications. That approach helped in monitoring particular expenditures. However, the staff would include in the next budget document a table showing total revenues and their sources.

Tax payments to staff cost the Fund about $10 million per year, the staff representative explained. Those costs came directly out of the budget. The bulk of the taxes were paid to U.S. nationals. A small number of French nationals also were required to pay taxes and were reimbursed by the Fund. Basically the tax payments were meant to maintain equity in pay between U.S. and non-U.S. staff members. Individual tax payments to U.S. nationals were based on a system of average deductions that were derived from information obtained from the U.S. Internal Revenue Service.

Consulting companies provided a means of rapidly obtaining expertise in particular areas for projects in the Fund, the staff representative said. Finding individuals outside consulting companies with the knowledge and expertise that the Fund usually required was typically difficult and time consuming. The required help usually could be quickly obtained through a consulting firm. Moreover, if an individual provided by a firm proved to be unsatisfactory, that person could be quickly replaced through the firm, something that could not happen quickly when the Fund did not have the services of the firm.

The Fund had established guidelines for itineraries for travel to various member countries, the staff representative commented. The guidelines had been in operation for about one year, had proved to be very successful, and were about to be implemented on a formal basis. A staff memorandum covering the subject was to be circulated in the near future.

The Fund was not given discounts by airlines and hotels, the staff representative explained. The staff was talking to the airlines about obtaining discounts in exchange for a high volume of travel by the Fund. Normally an entity had to be prepared to take a certain number of seats on particular flights in order to be given a discount. Some of the airlines used by the Fund flew in and out of New York and did not fly directly to Washington, and the Fund often had to route staff members through New York in order to change planes. That arrangement was sometimes inefficient and difficult, and the staff was reviewing it.

Airlines typically paid for an overnight stopover for a passenger with a first-class ticket, provided the traveler made the first available connection the next day, the staff representative remarked. Wherever possible staff members were encouraged to use stopovers that were paid by the airlines.

Approximately 88 of the total man-years of technical expertise in FY 1987 were accounted for by the Central Banking Department and 30 man-years by the Fiscal Affairs Department, the staff representative said. Approximately 322 man-years of technical assistance were provided through the Fund's own technical assistance missions, including those of the Bureau of Statistics, Fiscal Affairs Department, Central Banking Department, and the Legal Department. That figure also incorporated training in the IMF Institute.

The planned improvements in the building were not crucial to the basic functioning of the present facilities, the staff representative from the Administration Department remarked. The reason for the delay in making the improvements was that considerable new technology had recently been developed, and the staff was awaiting the consultants' report on how to use the technology in making the desired improvements, which were likely to be completed in FY 1988.

The Deputy Managing Director recalled that a question had been raised about efforts to review Fund activities in order to identify ways to cut costs. A special study on the budget process had been undertaken in 1985 by a consultant from Canada. The consultant had concluded that the budget was working well as a control device but that there could be a separate unit in the Fund to evaluate ongoing activities. In that connection, it was useful to note that the External Audit Committee had suggested that the Internal Auditor's office should spend more of its time on administrative audits that were designed to identify ways in which to increase efficiency and cut costs. Subsequently, the Internal Auditor's office increased its effort to identify potentially more efficient means of carrying out particular operations. In addition, the staff intended to conduct special reviews of activities. For example, management planned to arrange soon an outside review of the evolution of the Fund's computer and office automation expenditures. The outsider's view on that evolution would be a helpful check for management.

The consultant had also focused on the role of the budget as a planning and allocation tool, the Deputy Managing Director continued. In that connection, the consultant had concluded that improvements clearly could be made. For example, he had stressed the usefulness of making a further effort to develop work indicators. In addition, he had stressed the importance of providing early guidance by management to departments in the preparation of a new budget. In response to that recommendation, the present mid-term budget review statement contained more concrete pieces of information than hitherto in order to elicit from the Executive Board its guidance on the appropriate approach to the FY 1988 budget. In that context, the discussion had been very helpful. It had established a better basis than hitherto for planning a new budget. The guidance given by the Executive Board on the occasion of earlier mid-term reviews had been less specific than the guidance provided during the present discussion.

The Chairman made the following summing up:

> I think that this has been a very useful discussion that will guide us in the design of the FY 1988 budget; and that was the purpose of the discussion and of the sometimes rather provocative assumptions on which my midyear statement was based.
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> The Board has been emphatic in approving the tight control of costs that has been exercised by management and the Administration Department in FY 1987, and the Board has approved the outcome thus far for the year, which is very close to the original estimates. Such control was seen as being an integral part of the management of the Fund, and Directors stressed that it should be continued in the future.
>
> Now having said that, it is also fair to say that the majority of the Executive Directors have indicated that in the administration of the budget we should be sufficiently open or flexible to make sure that the major functions that are contained in the work program can be properly fulfilled. In particular, a large number of Executive Directors believed that the proposed stance suggested for FY 1988 was too tight in that it posed as a guiding principle the maintenance of recurring costs in nominal terms, which entailed a reduction in real terms. They felt that this approach would

impose an arbitrary constraint on the fulfillment by the Fund of its main functions. More specifically, a clear majority of Directors advised us today against cuts in the technical assistance programs, stressing the primary importance of that type of activity for member countries, as well as for the institution. Thus, they could not approve systematic cuts in the technical assistance programs merely to remain within a predetermined nominal spending ceiling. Several Directors supported the idea that we should further examine the question of whether and how we could resort to the sharing of costs of technical assistance programs; but there is not a majority in the Board as of today in favor of going that route, and we will take that into account in considering the matter.

As far as the periodicity and scope of Article IV consultations is concerned, there was a clear trend in the discussion in favor of examining this question during the coming review of surveillance procedures with a view to alleviating the burden and the costs of regular consultations, taking into account, of course, the wishes and needs of member countries. Many of you said that this lightening of the burden through changes in the consultation cycle could also reduce the workload problem facing the staff, which, as many of you also remarked, is substantial.

Some Directors sounded a note of caution about the rapid increase in contractual and temporary staff in relation to the regular staff. I hope that the staff's comments on that matter during the meeting have allayed Directors' concerns. The staff's answers show clearly that there is no desire to substitute temporary recruits for the basic economist function in the Fund. Rather, contractual persons tend to hold temporary technical jobs in peak workload periods.

A number of you agreed on the basic idea--which actually you have been discussing and implementing today--that before formulating a specific budget, which is, of course, extremely detailed and difficult to unravel once it is presented, it was important to look at our priorities. We could then shape the work program according to these priorities and optimize the use of our resources within the budgetary and manpower constraints and in the light of the functions that are stipulated in the Articles of Agreement.

I do not interpret this discussion as meaning that the lid is off our expenditures. The slowing of the expansion of expenditure in recent years has been very appropriate after the earlier upward trend in expenditure. We would like to see the policy of tight cost control continued, but we will not necessarily ask you to approve a budget for recurrent expenditure in FY 1988 that is absolutely fixed in nominal terms if that were to involve a sacrifice of some of the very important functions that you have identified today, including the Fund's operations and the core of the research effort, plus the technical assistance that, as you have said, in its different forms is perhaps one of the most lasting and important inputs that we can provide for member countries and the system as a whole. In sum, there will be no major softening in our future budgetary stance, but there will be, because of what you said today, a little more buoyancy on the technical assistance side, which I think should alleviate some of the concerns that you have expressed today while still keeping the whole budget exercise on a very reasonable basis.

I very much support what Mr. de Groote in particular said about the need to keep a high-quality staff in this organization. I know that this is the view of all Directors, but he eloquently and wisely stressed that if we want to keep a lean institution, with a small staff and low growth rates for the size of the staff, we need to have people of outstanding quality; cutting back on the quality of the staff while increasing the number of staff members would be a false economy, as it would eventually yield a costly and low-quality staff. We are going to resist that, and I would of course count on you to help us keep a high-quality staff.

A few specific questions have not been addressed by the staff or the Deputy Managing Director. Mr. Salehkhou asked about the inquiry that we had made with the services of the former Ombudsman and some additional external assistance into the unfortunate information leak that occurred last year. As I mentioned during an informal luncheon with the Executive Directors, an exhaustive inquiry was made but unfortunately it yielded no basis on which to act in any way. I must say that this inquiry, which I followed very closely, was disappointing.

On the Islamic banking system, my understanding is that we had an interesting paper--which is in the process of being published--and a stimulating seminar discussion, and that a number of follow-up matters have been identified and should be taken up. The division that looks after these matters, the Developing Country Studies Division in the Research Department, is under considerable strain, as it has been asked to perform additional tasks that have to do with the design of and experience with Fund programs. This does not mean that they are going to put off the follow-up studies on the Islamic banking system. I wish to reassure Executive Directors that, within the contraints facing the staff, further work on the Islamic banking system will be undertaken in the coming year. I hope that we will be able to devote the same amount of manpower and energy to the new studies that we devoted to the earlier study.

Mr. Salehkhou said that he continued to hope that each Executive Director's office could be provided with a shredding machine.

Mr. Zecchini remarked that, because of the highly confidential material that was being dealt with in his office, he had requested a shredding machine. However, he had been given a negative answer.

The Director of Administration said that the staff would look again into the matter of shredding machines for Executive Directors' offices.

Mr. Zecchini remarked that he hoped that a greater effort would be made to maintain the cleanliness of the Fund.

The Chairman, responding to a question by Mr. de Groote, said that the notes that he had taken over the years while attending Executive Board and other meetings were filed in the Fund's archives.

Mr. Vasudevan said that he hoped that in the future the social impact of the pressure of work on the staff and family members would be carefully considered. Looking at the staff's ratio of work to leisure might be helpful.

The Executive Directors concluded their discussion.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/86/201 (12/17/86) and EBM/86/202 (12/17/86).

2. INCOME POSITION - PRINCIPLES OF "BURDEN SHARING," INCOME TARGET FOR FY 1987 AND FY 1988, RATE OF CHARGE, AND RATE OF REMUNERATION

a. Modification of Adjustment Periods

Decision No. 8348-(86/122), adopted July 25, 1986, is amended by replacing paragraph 2(d) of Section V with the following paragraph 2(d):

"(d) Subject to the provisions of Section III.1(a), the adjustments under this paragraph shall be made as of May 1, as of August 1, as of November 1, and as of February 1 of each year:

shortly after July 31 for the period from May 1 to July 31;

shortly after October 31 for the period from August 1 to October 31;

shortly after January 31 for the period from November 1 to January 31;

shortly after April 30 for the period from February 1 to April 30."

Decision No. 8481-(86/202), adopted
December 17, 1986

b. Timing of Distribution of Proceeds of Settlement of Deferred Charges

In Decision No. 8348-(86/122), adopted July 25, 1986, the word "semiannually" in the last sentence of paragraph 4(b) of Section V is replaced by the word "quarterly."

Decision No. 8482-(86/202), adopted
December 17, 1986

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LEO VAN HOUTVEN
Secretary