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President's Council files 05
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Sept. 21 MEETING

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 24, 1987

TO: Mr. Willi Wapenhans

FROM: Barber B. Conable BBC

SUBJECT: Information Management and Technology Policy Committee (IMT-PC)

Based on our discussion during the Policy Committee Meeting of September 21, I am requesting you and Mr. Kohli to revise the Terms of Reference and the Information Management and Technology Policy Committee (IMT-PC) along the following lines:

(a) The Committee's focus is to be first, on addressing institutional information management issues, and establishing an appropriate Bank-wide framework, and second, resolving information technology issues and making related technology selection decisions. The latter should clearly result from a Bank-wide information management strategy. The Committee should have access to advice, as necessary, from Bank and outside experts with first-hand knowledge of relevant information technologies.

(b) Each complex is to retain management responsibility and accountability for information management and technology within the Bank-wide policy and strategic framework established by the IMT-PC. We should avoid an overly bureaucratic and prescriptive committee structure below IMT-PC.

I believe it would be useful to expand the permanent membership to include the Director, Programming and Budgeting.

I would appreciate your preparing and circulating to Policy Committee members revised terms of reference. Subsequently, please circulate the specific agenda for the coming year as soon as feasible after IMT-PC has considered the matter. In light of the importance of its work, I would like you to take the steps necessary to initiate the work of the Committee at the earliest. Please do keep me informed about any major or controversial decisions even if they do not involve additional budgetary resources.

cc: Members of the Policy Committee
Messrs. Dubey
Kohli
Picciotto
Shakow

P-1867

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 23, 1987

TO: Files

FROM: Marianne Haug, EXC

EXTENSION: 73585

SUBJECT: Minutes of the Policy Committee of September 21, 1987

Members Present

Messrs. Conable, Hopper, Qureshi, Ryrie, Shihata, Stern, Thahane, Wapenhans

Other Staff Members

Messrs. Kohli, Lamb, Shakow, Tanaka
Mrs. Haug

Annual Meetings Speech

Mr. Qureshi made several suggestions including: (i) a rewritten section on Asia; (ii) acknowledging the debt issue from the start of the speech; (iii) emphasizing the tough current environment confronted by developing countries; (iv) mentioning the tough financial environment of the Bank. Mr. Conable stated that the need for shareholder support be stressed in this context, and Mr. Qureshi specified the need for borrowers and capital markets support. Mr. Stern advised that the issue of non payment should not be mentioned in the speech. Mr. Shihata felt the reference to a menu echoed Mr. Baker's April speech too closely, and considered that either a strategy should be formulated, or no mention of specific instruments should be made. Mr. Ryrie disagreed arguing that the Bank Group should be perceived as supporting market based approaches. Mr. Shihata provided additional editorial comments. Mr. Thahane felt that the beginning of the speech was not grabbing, and that the speech contained too many details. He felt the resource transfer issue should be mentioned from the beginning, together with the role of the commercial banks. Mr. Wapenhans felt that the speech raised expectations in terms of the debt problem resolution which would be difficult to follow up. He also considered that the aggregate target for Africa was very ambitious, and wondered what could be done for groups with no assets in the context of the poverty alleviation thrust. Mr. Ryrie felt a stronger message on debt relief and concessional aid should be included, particularly for Africa, and that IFC should be covered more extensively in the main body of the text.

Information Technology Policy Committee

Mr. Stern considered the Terms of Reference to be quite unclear concerning the attributions of the Committee. He stressed the difference between information technology and information management, and wondered what the specific agenda of the Committee would be. Mr. Stern also mentioned that the proposed membership did not allow adequate treatment of technological issues. Mr. Wapenhans noted that the Terms of Reference followed the Steering Committee's recommendations, and that the role of the Committee would be Bankwide. Mr. Hopper agreed with Mr. Stern, and felt the distinction between information management and technology was insufficient. Mr. Hopper recommended that the committee focus on information management, and that technology be dealt with at a more technical level. Mr. Qureshi agreed with the need for an institution-wide body to ensure a coherent environment within which managers operate according to their specific needs. Mr. Stern concurred with the need for an apex function, but felt that the terms of reference had to be revised to reflect an emphasis on information management vs. information technology. Mr. Shihata noted the lack of representation of the Legal Department, OED and Secretary's.

JT

JTanaka

POLICY COMMITTEE MEETING

MONDAY, SEPTEMBER 21, 1987

9:30 a.m.

AGENDA

1. Information Technology Policy Committee (ITPC) Terms of Reference*

2. Draft Annual Meetings Speech

* Additional copy attached

Willi ~ Ext Relations

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 17, 1987

TO: Members of the Policy Committee

FROM: W.A. Wapenhans, SVPAD

SUBJ: Proposed Information Technology Policy Committee (ITPC)

1. One of the major recommendations of the Reorganization Steering Committee was to restructure the information management and technology function in the Bank. In addition to restructuring of ITF, the Steering Committee recommended a Bank-wide network of Committees to ensure proper oversight of the function by Senior line managers and to ensure coordination among different parts of the Bank. In this context, it recommended creation of a high level Information Technology Policy Committee.

2. The attached draft terms of reference for the Information Technology Policy Committee (ITPC) follow closely the Steering Committee's recommendations, except with respect to membership; I propose to add IFC to it. As anticipated by the Task Force, views and concerns of other parts of the Bank not represented on the Committee will be sought by the Secretariate and conveyed to the Committee, as necessary. For ease of reference, the relevant extracts from the Task Force report are also attached.

3. A critical requirement for the successful operation of the Committee and, indeed, its ability to help overcome the past weaknesses in the information technology functions throughout the Bank, will be that the Committee functions as a senior executive decision-making forum bringing to bear on its discussions and decisions institutional viewpoints as determined by senior line managers. For this reason, the members should be at the level of Vice President or equivalent. I would greatly appreciate it if you could send me your nomination by August 31. I propose to call the first meeting of the Committee by late September.

4. Since the proposed terms of reference of the ITPC and the Committee structure follow very closely the Steering Committee's recommendations, I do not propose inclusion of this item in the agenda of the Policy Committee, unless otherwise advised by you.

Attachment

cc; Mrs. Haug
Messrs: Cosgrove, Kohli

TERMS OF REFERENCE
for
INFORMATION TECHNOLOGY POLICY COMMITTEE (ITPC)

Membership

1. The membership of the ITPC will be as below:

Chair: SVP Administration
Members: Vice President Representatives from Finance, Operations, PPR and IFC.

The Vice President level representatives will be nominated by the SVP concerned and would be subject to periodic rotation. Normal term of appointment will be 2-3 years. The nominee will also chair a high level Information Technology Committee of his own Complex. Director, PBD will be invited to join in the deliberations likely to result in additional resource needs at the institutional level.

Secretariate

2. Director, Information, Technology and Facilities Department will be the Secretary of ITPC. He will be responsible for the agenda, documentation and staff attendance, as necessary. He will ensure that the deliberations and decisions of the Committee take place on the basis of completed staff work. The Secretariate will also be responsible for the recording, safe keeping, communication and follow up, as necessary, of decisions made, and for such measures as are necessary to protect the confidentiality of the proceedings.

Responsibilities

3. The ITPC will be the highest institution-wide body charged with the responsibility to oversee the information management and technology activities throughout the Bank. It will review, decide on, or as appropriate, make recommendations to the Chairman on institutional strategies, policies, investments and plans for the management of information and information technology in the Bank.

4. To perform the above role, the specific responsibilities of the Committee will include the following:

(a) maintain an institutional oversight of information management and information technology (IMT) activities, strategies, policies, plans, investments and programs on a Bank-wide basis;

(b) review, consider and approve the structure, role and responsibilities of different committees and bodies related to IMT functions, including creation of new bodies;

(c) review and approve strategies, policies, investments and plans that may have a significant impact on the institution's business processes and budgets;

(d) monitor the overall information management and information technology activities in the Bank, review actual performance against agreed strategies and plans, and approve remedial actions, including changes in policy and plans;

(e) review and approve an annual report on information management and technology strategy to the Policy Committee;

(f) review and approve investments in major systems and hardware throughout the Bank;

(g) review and recommend for consideration by the President, the institutional component of the information and technology related budget of ITF;

(h) approve the size and priorities of the proposed Information Technology Innovation Fund, and oversee, through the Secretary, the work of the Information Technology Innovation Fund Committee.

<u>Decision Making</u>

5. As the senior-most institutional body on information management and technology activities, the Committee is expected to operate on a consensus basis. In case of opposing views, the Chairman will give the final ruling as the Bank's Senior Executive responsible for the Information Management and Technology function in the Bank group. However, in the case of decisions concerning additional budgetary resources, the Chairman will seek approval from the President.

<u>Bankwide Committee Structure and Relationships</u>

6. ITPC will be at the top of a pyramid of a network of four types of committees (see attached extract from Task Force report). Within the policy and strategic framework established by ITPC, each of the four main complexes and IFC will be responsible for formulating, implementing and evaluating information management and technology strategies, plans and activities. To help ensure a coordinated approach and necessary oversight by line managers, each complex (Administration, Finance, Operations, PPR and IFC) will maintain an Information Technology Policy Committee to deal with policy level matters under the jurisdiction of the Complex. The complex-specific committee will be chaired by the complex's representative on ITPC. Other members will be senior line managers at the level of Director or above. Director, ITF will be a member of each committee. The Secretariate service may be provided by the management/system/statistical Advisor to the SVP, or others.

7. The remaining two tiers of the network of committees will consist of:

(a) Specific purpose committees, as needed, at the Bank-wide or complex-wide level (e.g., Bank Information Management Systems, Information Technology Innovation Fund); and

(b) Information Exchange Committees along the lines of the existing Users Groups (e.g., IBM Advisory Group). Each of these committees will also be chaired by a line manager at an appropriately senior level.

Attachment

August 17, 1987

PRINCIPAL RECOMMENDATIONS

A. POLICY FRAMEWORK FOR INFORMATION/TECHNOLOGY

- Information and information technology should be assigned high priority and should be systematically managed from an institutional perspective.

- Within the strategic planning framework established by PPR, overall responsibility for establishing institutional policy on information and technology should rest with the SVP Administration, and the responsibility should be executed by means of a network of committees.

<u>First tier: Information Technology Policy Committee</u>

- The SVP Administration should chair an Information Technology Policy Committee which should comprise representatives (line-managers) of each of the four complexes. Membership in the committee should rotate periodically. ITF should act as the secretariat to this committee.

  - the Information Technology Policy Committee should be the senior executive organ for establishing institutional policy in information and technology.

  - The Information Technology Policy Committee should be responsible for:

    - o maintaining an overview of information/technology activities, policies, plans and programs.

    - o reviewing and approving broad policies, standards and strategies in information and technology that may have a significant impact on the organization's way of doing business or investments.

    - o reviewing and approving major systems and investments.

    - o reviewing and approving the institutional component of the information- and technology-related budget of ITF.

    - o approving the size of the proposed Information Technology Innovation Fund.

<u>Second tier: committees led by individual complexes</u>

- Within the policy framework established by the Information Technology Policy Committee, each complex should be responsible for formulating, implementing and evaluating information and related technology strategies.

- To assist in ensuring a coordinated approach to fulfilling these responsibilities, each of the main complexes should maintain an information technology policy committee to deal with information and related technology policy matters in areas under its jurisdiction.

PPR:	Social and Economic Statistics Committee
Operations:	Operations Information Technology Committee
Finance:	Finance Information Technology Committee
Administration:	Administration Information Technology Committee

- ITF should have a representative on each of the complex committees.

Third tier: specific purpose committees

- The Information Technology Policy Committee should also be responsible for designating committees to manage specific tasks that require greater time and technical expertise than the policy committee or complex committees can muster, yet necessitate mechanisms to ensure a combination of institutional viewpoints and user inputs into project design. Examples should include:

  - a committee to oversee a major system developments projects, such as the enhancements to the OpsMIS.

  - a committee to oversee an Information Technology Innovative Projects Fund to encourage and fund innovative activities, initiated by line managers, to be implemented in partnership with ITF. Such a committee might be staffed by managers at the director level, and chaired by a senior manager in a complex other than Administration.

  - the Information Security Committee.

Fourth tier: information exchange committees

- The fourth tier is the user committee structure, which mainly serve the purpose of exchanging information. These groups -- the Burroughs Advisory Group, IBM Advisory Group, DEC Advisory Group, OSAG Group, Communications User Group -- should be left to continue under their current mandate to foster close working relationships between ITF service providers and the relevant user communities.

Abolition of IRAC

- IRAC -- currently a high-level information exchange committee -- should be abolished, as it currently serves no institutional decision making purpose, and other new committees would serve its information exchange purpose.

Role of Data Administrators

- The responsibilities of the Data Administrators should be clarified, so as to make more explicit that the Data Administrator is a essentially a staff function of assisting line managers exercise their responsibilities for managing information and technology.

  - The representatives of the complexes on the main information/technology committees should be line managers, not Data Administrators.

  - The Data Administrators should only exercise line functions where there is a specific task for which they are given responsibility e.g. administering a specific data base.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 17, 1987

TO Mrs. Marianne Haug

FROM Alexander Shakow

EXTENSION 34697

SUBJECT Draft Annual Meeting Speech

Attached is the latest draft of the long version of the Annual Meeting speech. We have attempted to incorporate the changes agreed upon with Mr. Conable at our meeting earlier this week. A shorter reading version is also being worked on.

Attachment

cc: Mr. Hopper

AShakow/eb

P 1866

MR. CONABLE'S ADDRESS TO ANNUAL MEETINGS

Introduction

Mr. Chairman, Governors, ladies and gentlemen. It is an honor to join my distinguished colleague and partner, Michel Camdessus, in welcoming you to these annual meetings. In the short time we have worked together, I have learned to respect his judgment, candor and commitment to the great tasks our institutions jointly face. The Fund and Bank have a long history of collaboration on which to build. I am confident that we will deepen and intensify our productive relationship in the years ahead.

The development agenda is full of promise, but also of difficult problems. To address these issues effectively will require great imagination, spirit and effort. It must be a joint venture in which all of us play a significant part. Above all it depends on maintaining and strengthening the close -- indeed unique -- relationship of co-operation and trust between the Bank and its borrowers, to which we attach the highest importance.

And so today I want to share with you the Bank's priorities for the future. Our strategy draws on the lessons and capitalizes on the successes of the past. It offers neither instant nor easy remedies for today's problems, but rather commitment to steady advance in restoration of global economic growth and the fight against poverty.

My vision for the Bank is based on a strengthened institution, reorganized to permit us to provide sensitive, effective and timely support to each of our borrowers and to provide intellectual leadership to advance our understanding of development. This change in structure was long overdue.

The reorganization process is now completed. No undertaking of this magnitude could be accomplished without some pain, but we are confident it has greatly improved our ability to assist the countries that depend upon us for help in this uncertain future. It is the Bank's role in that future I wish to discuss with you today.

First let me place our work in the proper context.

I am fundamentally an optimist and I will remain so. But we must recognize that we meet in a period of considerable difficulty. I need not catalogue all the ups and downs of the world economy for this group; a few illustrations will suffice.

There is uncertainty about the prospects for continued stable growth of the leading industrial nations and hence of the world economy. Despite some signs of progress on debt, for many countries the problem has worsened; several major debtors have faltered in their efforts to resume non-inflationary growth and consequently to deal with their indebtedness. Much of sub-Saharan Africa continues to suffer from acute economic crisis, despite encouraging efforts at adjustment in many countries, as well as from major long-term development problems. Severe environmental problems exacerbate the difficulties of the region. Even in Asia, where most countries have continued to manage their economies to minimize the impact of the world's economic troubles in recent years, poverty remains widespread, some countries are suffering from severe drought and others from a difficult period of political and economic transition.

As the world's principal development agency, the Bank must confront this harsh reality in its many ramifications. We must ask how we can better help countries protect development from the adverse international climate. We must ask where we can do more. We need to learn from the sobering experiences of the recent past so that we can design and implement better programs that will contribute more strongly to the resumption of growth and development throughout the developing world. And we must look beyond the immediate crises to our long-term, long-standing development mission and to our potential as a catalyst of global recovery.

To wait for better times is to delay their coming. To default on the obligations of leadership is to raise the cost -- in social upheaval as well as economic loss -- of remedial action. Thus, the World Bank, its members and the leaders of the international financial community must act. We must begin to act resolutely, together and now.

This is my commitment to you today -- that the World Bank is ready to play a reinvigorated role in the fundamental tasks of development: to promote economic growth and to combat poverty.

The Bank will put its influence, assets and expertise to work by expanding, not contracting, its commitment to growth in developing countries and in the world economy. To do so, we will give strong and reliable support to the adjustment efforts of our member countries. We will work to preserve and extend an open global financial and trading system, which is fundamental to growth. And we will vigorously promote the market-oriented policies and reforms which will best mobilize vital private capital flows and harness the creative energies of millions of people for efficient growth.

Restoring and strengthening growth is essential for achieving our other great goal -- to reduce the poverty, misery and destitution which blights our world. But is not enough. The Bank will increase lending for programs aimed directly at improving the access of the poor to better food, shelter, health care and schooling. We shall strive to protect the poor during the period of adjustment. We will support policy and institutional changes to ensure that public programs direct their benefits to poor people more efficiently. In these vital social investments we intend to work more closely with the private sector and with the experienced and energetic non-governmental organizations whose grassroots impact our support can multiply.

And in all our efforts for growth and poverty alleviation, we will devote more of our human and financial strength to helping our borrowers safeguard and improve the environment -- by supporting better environmental policies and standards and by specific environmental investments.

This morning I wish to outline how we will work to translate these objectives into practical programs in major groups of our member countries. By focussing on these several groups, I do not wish to suggest that this is the universe of Bank borrowers; it surely is not. But I believe it will indicate how the Bank will work towards our common goals by demonstrating both imagination and responsiveness to our borrowers' individual circumstances. For the heavily indebted middle-income countries, our objectives are a return to steady, non-inflationary growth, and for many of them a return to full creditworthiness in the international capital markets within the next five to seven years. In sub-Saharan Africa, our goals are to help meet the current crisis by organizing major programs in the debt-distressed countries, to see the productive capacity of African economies rebuilt, and to help ensure that the welfare and food security of Africa's millions of poor people are protected in the process of adjustment and recovery. In Asia, we will aim to combat poverty directly in countries which as a group contain the world's largest numbers of very poor people, and to assist the efficient integration of this rapidly growing region into the world economy.

I will spell out the commitments we will make -- with your support and guidance -- to help ensure that these objectives are met. But I cannot stress enough the simple fact that all members of the international community -- industrialized and developing members alike -- must undertake major responsibilities if growth and development are to be assured. That is the only way we shall find viable and lasting solutions.

Developing countries need to sustain demanding reforms in order to make their development strategies effective. There is no alternative to adjustment and the correction of past policy mistakes, despite the many difficulties imposed by the global environment and by domestic social and political conditions. If adjustment efforts are half-hearted, too slowly implemented, or allowed to unravel, this will postpone -- perhaps indefinitely -- the resumption of growth and improvement of living standards.

But structural adjustment is not just a prescription for developing countries. The major industrial countries must get a better grip on their own trade, monetary and fiscal problems so that they can resume a more adequate rate of growth. The present relative stagnation severely constrains the capacity of developing countries to recover and grow. This in turn harms all nations in this interdependent global economy. Continued large trade and fiscal imbalances, and the exchange rate gyrations and protectionist pressures to which they give rise, continue to hold the growth of the world economy well below desirable levels.

Commercial lenders, too, need to match the realism they have shown in provisioning against the impact of developing-country debt on their balance sheets with realism about their longer-term stake in world trade, investment and economic growth. The role of the now enormous private capital markets and of major commercial lenders and investors in resolving the debt crisis is essential; the debt strategy cannot succeed without their active participation, and success in overcoming the debt crisis is also central to their own future strength and growth.

Increases are needed in resource flows to support developing countries' adjustment and growth. There is a serious gap between what we have often agreed is an essential ingredient of development strategy and what most donors and creditors are doing. The Bank in particular needs a stronger resource base if we are to play an enhanced role. Only our shareholders can make this a reality -- by making good the IDA-8 replenishment for the low-income countries, by empowering the Multilateral Investment Guarantee Agency to become fully operational and hence provide further stimulation to private sector investment in the developing world, and above all by responding positively and swiftly to the need for a substantial general capital increase for the World Bank.

These are heavy demands, and I know these are not the only demands placed upon you. But I believe that Governors gathered here will agree that the alternative to this collective effort -- stultified growth, intractable debt burdens, and growing poverty for millions of additional people -- is simply unacceptable. It is unacceptable from a moral and ethical standpoint. But it is also unacceptable from the standpoint of simple self-interest. It is surely in all our interests that the developing economies prosper and grow.

Investing for development is always challenging work, but never more so than in critical times. Investing to combat poverty is always demanding work, but never more so than under unfavorable conditions. And investing for long-term results is always urgent work, but never more so than when past advances stand hostage to heavy, short-term pressure.

Let me now turn to the role of the World Bank in this effort.

Heavily Indebted Middle-Income Countries

The heavily indebted middle-income countries face a basic problem: how to resume growth and development while dealing with the burden of debt. Simply put, they need to adopt and implement far reaching adjustment programs; they need to expand their income from trade; they need adequate supplies of net new capital from both public and private sources; and they require reciprocal adjustment in industrial countries.

A number of these heavily indebted countries have been making strenuous efforts to resume growth by means of far-reaching adjustment programs. These often provide an improved policy framework for vigorous private-sector development, a more liberal environment for export growth, and public-sector management that combines greater fiscal discipline with a much sharper focus on those areas where public resources can and must play a central role -- for example, basic infrastructure and the provision of educational and other social services.

The experience with adjustment programs has been diverse and underscores the necessity of following a case-by-case approach. Much progress has been made. Indeed, in a number of countries adjustment programs are going well and the resumption of sustained growth seems underway. But in many other countries adjustment efforts have been inadequate or have not been sustained.

In part this is because adjustment programs have come under severe internal political and social pressures as the process has taken much longer than anticipated. In part it is because of domestic policy mistakes -- for example, stimulating consumption to unsustainable levels with consequent effects on inflation.

However, the problems of these countries have also been greatly complicated by an insufficiently supportive global environment. Deteriorating terms of trade have reduced the value of primary commodity exports. Sluggish world markets and rising protectionism have greatly reduced the growth rate of manufactured exports, even though a few countries have achieved some notable successes. Interest rates have remained high by historical standards and have again begun to turn upwards. Net new financial resources from abroad have sometimes been inadequate and what funds have been available have often taken too long to arrange.

As a consequence, the burden of debt has risen, not declined, since the onset of the debt crisis five years ago, despite large debt service payments by debtor countries to their creditors (amounting, in the case of Latin American debtor countries, to $130 billion, or four percent of their collective GDP since 1982). Meanwhile, there has been a major setback to development in most of these countries in the 1980s. While they almost doubled their per capita incomes between 1965 and 1980, in this decade incomes have fallen by about 20 percent. The consequence has been an alarming growth in absolute poverty, worsening unemployment and deterioration of social welfare.

We shall not find a quick solution for these debt and development problems. But we must learn from the experience and strengthen our existing approaches. In the evolution of the problem since 1982 there have been a number of stages, and I believe we are reaching another turning point in the implementation of the debt strategy. It is apparent that the adjustment process and the resumption of sustained growth are taking longer than we had hoped. Moreover, it is becoming increasingly difficult for the heavily indebted countries to obtain timely new financing.

Following the onset of the debt crisis, commercial banks rescheduled substantial amounts of the obligations of the heavily indebted middle-income borrowers, made net new commitments of funds, and provided major financing to countries that had not rescheduled. But in recent years they have drawn back, and the prolonged nature of the problem is making it more difficult to arrange concerted lending packages with hundreds of partner banks. The recent provisioning decisions of large banks in the United States and elsewhere may be expected to limit the availability of new lending still further. Financing from some official sources -- export credit agencies, for example -- has also dropped markedly from levels earlier in the decade. The total flow of financial resources to the heavily indebted middle-income countries has been dwindling.

And yet the problems of these highly indebted countries can only be overcome through a determined partnership between the debtor countries, their international creditors, both private and official, and investors.

Resolution of debt problems is crucial if our common development objectives are to be achieved.

It is also crucial to the healthy growth of the industrial countries. As I noted in my recent speech to UNCTAD, the reversal of growth in the highly indebted countries has meant a $200 billion shortfall in imports by these countries -- which means foregone exports, jobs and profits for the industrial world. It is therefore urgent that sustained non-inflationary growth be resumed in the heavily-indebted middle-income countries. I believe that an annual growth rate of at least 2.0 percent per capita should be the objective we all agree to support as a key element of every adjustment program. Our common goal should be that this growth occurs, so that the major debtor countries are restored to full creditworthiness within five to seven years.

For our part, the World Bank is already an active participant in many countries, and we are ready to play an even more vigorous role in the future. The restoration of sustained growth and creditworthiness will be major objectives of our programs for these countries. More of our best staff skills and more of our financial resources will be devoted to help design and implement long-term adjustment agreements with them. Where countries are prepared to sustain adequate reforms, we will back up their adjustment programs with substantial amounts of new lending in support of macroeconomic and sectoral reforms.

And we -- the Bank and the IFC -- will play a vital role in assembling, restructuring and financing packages, including the development of a broader menu of financial instruments directed both at mobilizing new lending and at debt reduction.

We will encourage the wider and more creative use of debt conversion, to turn debt into equity or working capital. This is an innovation which has proven effective in reducing debt and debt payments, and for which there is more demand than present programs in the indebted countries are able to utilize. We will work with these countries on the expansion of such programs consistent with prudent fiscal and monetary policies and with the encouragement of sound investment. Other approaches which reduce outstanding debt and annual interest payments -- such as exit bonds -- also warrant further development. The limited success of exit bonds when they were recently tried in Argentina was due more to inappropriate pricing than to a flaw in the concept.

To complement the broadened menu, the Bank will help countries to strengthen their domestic financial sectors and, particularly, their capital markets. The broader the domestic financial sector, the greater can be the flow of private capital -- whether through debt equity conversions or direct investment -- without confronting the sometimes politically sensitive issue of majority foreign ownership.

One of the major problems in recent years has been the process of agreeing on restructuring of debt and the provision of new funds, even when ultimately the funds requested have been obtained. We are all familiar with the complexities which have led to these protracted delays. Governments and ministers commit themselves to major policy changes which are often politically difficult. Their success depends on a supply response -- increased production and employment -- which, in turn, depends on the financing to be provided. But if such financing is delayed by 6-9 months, which has not been unusual, the public commitment to such changes wanes and the pressure for alternative approaches mounts. We will work with the commercial banks and export credit agencies to help streamline this process considerably, so that external financing is available expeditiously after agreement has been reached on a satisfactory growth-oriented adjustment program. Exit bonds, which help reduce the number of banks involved, may help here too.

Export credit agencies too have an important role in this effort. The Export-Import Bank of Japan has been authorized to provide untied, quick-disbursing loans to the highly-indebted countries, in association with World Bank operations. This has proved immensely helpful in Mexico, Argentina, and other countries. We welcome this initiative and urge other OECD countries to consider similar approaches.

We also intend to initiate a program of financial technical assistance, in which the highly-indebted countries will have priority. The program will draw on the financial expertise of the Bank to assist countries in utilizing financial techniques to mitigate the interest and currency risk in the management of their debts and foreign assets. One of the major uncertainties facing all work-out programs is the future level of interest. Since much of their debt is on floating rates, even moderate increases in interest rates can have a major adverse impact on their projected financing plan. Means to reduce this risk -- through interest rate swaps or other means to increase fixed rate lending -- will be of great importance.

The solutions which we help to develop will be designed to benefit both debtors and creditors and will be consistent with the prudent management of the Bank's own financing.

For the past several years the Bank has been the leading source of net funds for the heavily indebted middle-income countries. Last year, in fact, the Bank provided over 90 percent of total net lending to the 15 countries that are central to the debt strategy. The Bank has been prepared to accept this increased exposure because it was both prudent and necessary to help ensure a resumption of growth and development in the affected countries.

As I have indicated, we intend to maintain our greatly expanded program of lending to these countries. While we will not give comfort to risks which properly belong in the private sector, we will energetically develop our relationships with commercial banks and seek through our participation in financing packages to build confidence in these countries' prospects. We will not take over the debts of others, but we are prepared to maintain substantial disbursements that increase our exposure as long as we see credible adjustment efforts and responsive actions by the governments of the debtor countries, as well as appropriate participation by other official and private creditors.

If these efforts by both creditors and debtors are sustained -- as they must be -- I believe the stronger highly indebted economies can recover spontaneous access to the world's credit markets in five to seven years. For such countries -- Brazil, Argentina, Mexico and Venezuela, for instance -- the right approach remains one of strong adjustment programs together with imaginative packages based on new borrowing from both private and public sources, as well as on other types of financing.

For some less resilient middle income countries, pursuing adjustment, however, there may be legitimate concerns about financing solutions which increase indebtedness. Their return to normal credit status is likely to be more protracted and their growth and debt servicing capacity is more limited, while commercial financing on appropriate terms is increasingly difficult to arrange. These differences -- which underline the wisdom of the case-by-case approach -- may require extension of the present range of options within the menu to provide the debtor with adequate foreign resources. These may include greater reliance on official sources of finance, and understandings between commercial banks and debtor governments on ways to avoid increasing the stock of debt on commercial terms and the unmanageable build-up of arrears. These are areas which need further exploration in the search for individually tailored arrangements to restore growth and creditworthiness as rapidly as possible.

The success of any debt work-out program in which the World Bank might participate will be heavily dependent on actions by the industrial countries. These countries, particularly those in surplus, bear a great responsibility to ensure more rapid growth in the world economy. Moreover, if developing-country trade surpluses are to be generated via expanded export revenues, developed countries will need to absorb greater amounts of their exports. This will entail painful adjustments in the productive structures of the developed countries while resisting easy but self-defeating protectionism. Actual and threatened protectionism in the industrial countries is totally counterproductive to any viable debt work-out strategy.

This is just one of the many reasons why the success of the GATT Uruguay Round is so essential to the welfare of the global economy, and why urgent steps are needed to assure a stand-still and roll back of existing protectionist measures.

In sum, many of the heavily indebted middle-income countries should be able to work themselves out of debt and see their creditworthiness restored within five to seven years. For others, the process will take longer and may require enhancement of the existing strategies. In all cases, however, debtors and their creditors must persist with the quest for negotiated, mutually accommodative solutions. And the World Bank must shoulder an increasing share of responsibility despite its attendant risks. We cannot shirk this responsibility. We do not wish to do so. But this in turn has implications for our own resource base -- a point which I take up in greater detail below.

The African Crisis

Let me turn now to another troubled group of countries. The severity of the crisis in sub-Saharan Africa is well-known to this audience -- and the response of governments and ordinary people in the developed countries has greatly strengthened African initiatives. That generous response must be translated into sustained, long-term assistance to tackle Africa's deep-seated problems -- a fragile ecology, weak institutions, underdeveloped human potential and minimal infrastructure. These problems have been exacerbated, in an extremely difficult external climate for primary producers, by policy errors and wasted resources in too many African countries. The common results have been increasing debt, foreign exchange scarcity and virtual fiscal collapse.

Long-term recovery in Africa must thus start from a determined effort to contain and manage the present crisis, and to institute sustained adjustment programs to liberate the entrepreneurial and productive potential of Africa's economies and people. Structural adjustment is therefore absolutely fundamental to the Bank's assistance strategy for Africa, and is not in any sense separate from our development role in the continent. Indeed, we will continue to concentrate IDA resources on the growing number of countries which are making determined and realistic adjustment efforts. The Bank's adjustment lending, backed up by imaginative new programs being initiated by IFC, will particularly encourage African private sector development, and assign the leading role in recovery and expansion to Africa's farmers, businessmen and investors.

Africa's courageous reform efforts are being hampered in many cases, however, by the severe burden of debt. Determined and coordinated action is needed, as the Venice economic summit recognized, to relieve debt distress in the low-income countries and to mobilize the additional resources essential to economic recovery.

Specifically, the Bank has proposed an ambitious but realistic international program of assistance to a group of low-income, especially debt-distressed countries undertaking significant adjustment programs. While our proposals have focussed on Africa, we recognize that there are low-income countries elsewhere which face identical problems. In Latin America, for instance, Bolivia's future development depends equally on official actions and financing. For the group of about 15 highly indebted low-income African countries, the objective is to mobilize at least $1.5 billion in additional external resources each year in 1988-90, to permit a modest growth of two percent per in GDP, and some growth in consumption in these countries, while maintaining debt service ratios at manageable levels of about 25 percent.

This program consists of:

- concessional debt relief in the Paris Club, including lowered interest rates and extended grace periods and maturities as well as continued conversion of loans to grants, o increased flows from IDA, together with expanded co-financing from other donors and speedier disbursement in support of adjustment operations, and

o the enlargement of the Structural Adjustment Facility proposed by the Managing Director of the Fund.

Organizing this multi-donor/creditor effort in support of these countries is an urgent task to which the Bank gives very high priority. We were encouraged by the response of the donor community when we put forward this program in Paris in July, and we are now undertaking special missions to develop programs with donor governments. But we have yet to achieve the tangible progress needed -- especially on debt relief -- to make the program a reality. I hope that the recent Canadian announcement that some $ million in Canadian loans to African countries would be converted into grants -- a most welcome step -- will be followed swiftly by others. I urge the donor countries to support efforts to mobilize the resources vital to African recovery, by agreeing to these special programs, by completing legislative actions required to make the resources committed to IDA available expeditiously, by supporting an enlarged SAF, and through their own national assistance programs. I wish to thank those donor countries -- ~~Japan, Canada~~, ..., which have notified their contributions to IDA and thus enabled us to continue lending to our poorest member countries without interruption.

Adjustment programs provide the essential basis for economic recovery. But the process of recovery will inevitably be painful and prolonged. In the meantime, Africa's 450 million people, the vast majority of them very poor, will continue to be vulnerable to austerity and to the natural calamities which have blighted the continent in recent years. The position of the poor and of vulnerable groups must be protected while growth gradually resumes. In particular the availability of adequate supplies of food in all countries must be ensured, while we all make strong efforts to increase food production. Sub-Saharan Africa needs to grow four percent more food every year to match the growing population and to reverse declining food production trends. Food security for all Africans will therefore be a central feature of the Bank's long-term assistance strategy in Africa, and we will work in close collaboration with other donors and with African governments to achieve it.

To do so, some important objectives have to be met:

- Individual African countries need to concentrate their efforts on important food crops in which they are or can become efficient producers, rather than adopt expensive and wasteful policies of self-sufficiency in all foods.

- Specific policies must be designed to reduce fluctuations in the food supply and to increase production and purchasing power within food-deficit regions and population groups.

- Food distribution systems need to be improved both within and between countries, by encouraging smoothly functioning markets and appropriate supporting institutions.

- Environmental degradation and the loss of valuable food-producing land must be reversed.

To help meet these objectives, we are taking a number of initiatives. Adjustment lending in the agricultural sector will be expanded to assist African governments in establishing the policies, incentives and institutional framework which will encourage farmers to produce and sell more. Adjustment lending will also help governments remove inappropriate interventions in the marketing and distribution of food, which have often inhibited food production and consumption. At the same time, we will pay careful attention to providing safeguards for groups whose food security may be threatened during the process of adjustment--for example, urban poor people affected by the phasing out of subsidies, or retrenched state employees.

The production of African agriculture can be sharply increased. National programs are being developed to bring research results, technology and agricultural services to small farmers, using management and organizational techniques pioneered by the Bank which have already proven successful in some African countries. Some of these programs have already been launched, and they will soon be underway in 14 countries. A key objective of this initiative will be to reach women farmers, who produce the bulk of the continent's food but whose role in food production has too long been ignored.

There is much that can be done to expand food production based on presently known technologies. But Africa's farmers must also benefit from the great strides in biology and genetics of recent years, and this knowledge must be adapted to the different and often very difficult terrain of Africa's farmers. We are therefore providing financial support and a secretariat for the Special Program for African Agricultural Research, which is mobilizing international efforts to develop effective technical solutions for African agriculture.

Africa is shifting rapidly from a land-abundant, labor-scarce farming economy to one where land frontiers are closing and population pressures are increasing rapidly. Policies, tenure systems, farming practices and labor markets will all have to change greatly in response to this historic shift. But government policies and social attitudes (for example, about inheritance and the desirable number of children) are still too often geared to the past. The resulting pressure on natural resources and the human environment has reached crisis proportions in large areas of the continent.

Food security will therefore also require a major environmental rescue and development effort: three-quarters of a billion hectares of Africa's land are turning to desert, and almost four million hectares of forest and woodland are disappearing annually. Poverty breeds environmental neglect and abuse, and resource degradation deepens the poverty problem. We must break this vicious circle.

Spearheaded by our new Environment Department and a supporting technical unit in the Africa Region, the Bank will promote policy changes to reverse the incentives for environmental degradation and to bring about a synergy between food production and the renewal of Africa's natural resources. An important part of this effort will be our planned trebling of lending for forestry, much of it concentrated in those countries of sub-Saharan Africa that have policies conducive to environmental preservation. Far from competing with food production, forests preserve the rainfall and soils essential to it.

Finally, we will work closely with governments and international bodies such as the World Food Program to increase African countries' capacity to deal with food scarcity and emergencies, and to design food security packages for specially affected population groups -- incorporating market and institutional development, food aid, storage and disaster response elements.

In all these efforts we will cooperate closely with others and target our assistance to ensure that what we do is complementary, not competitive, and builds on the distinctive financial and technical strengths of the Bank.

Food security is central to our efforts to alleviate African poverty. Closely linked is the need to strengthen Africa's human resources.

Investment in people is a fundamental requirement if these economies are to achieve sustained growth as well as to emerge from the present crisis.

Africa has achieved much in providing education for its people, but the current crisis has made that achievement vulnerable. I propose to expand the Bank's sector adjustment lending to promote reforms which will mobilize more private and community financing of education, provide better materials and equipment, and encourage cost containment and the more efficient use of schoolteachers.

We should not neglect higher education, which is vital to the development of the continent's managerial and technical capacity. Through our policy advice and adjustment lending, we will encourage governments to introduce policy, financial and institutional reforms to improve access to higher education, and to share its costs and benefits more equitably than in the past.

We will complement these efforts by continued support for the Safe Motherhood initiative, and by other programs aimed particularly at female and child welfare. By 1990 we plan to be lending to sub-Saharan Africa for population, health and nutrition programs at more than double the present rate. We will support the World Health Organization's worldwide effort to combat AIDS, a disease which has potentially grave consequences for some countries in Africa. In all these efforts, we will be looking for new and more creative ways to work closely with voluntary organizations, community and church groups, and the private sector, for there are clear limits to the role of governmental and official agencies in combating poverty at the grassroots.

The Bank's Role in Asia

In its work in Africa and Latin America, the Bank is responding to deep economic crisis and dramatically interrupted growth. In Asia, by contrast, we have had enduring partnerships with countries which comprise the most diverse, dynamic and fastest growing region on earth and one which has been relatively little affected by recession and crisis.

As these countries continue their impressive development, our own role as development partner must change. We are placing particular emphasis, through our lending and policy advice, on facilitating the process of market-oriented reform in major Asian countries -- of which China is a complex and striking example. We are assisting our East Asian borrowers to adjust the trade, financial and industrial sectors of their increasingly sophisticated economies to changes in the global economy. And we plan to examine with them their strategic options for the next phase of growth, especially those offered by increased trade, investment and economic integration within the Asian region itself.

These are important initiatives. Today, I wish to highlight a further major direction for the Bank.

In the large, poor countries of Asia, we wish to work with governments to develop strategies for eliminating the worst aspects of absolute poverty by the year 2000. In China and India, in particular, our efforts will support comparable commitments by the respective governments to raise per capita incomes and eradicate absolute poverty by the turn of the century. These are bold objectives, but not impossible ones. In the face of the most pessimistic predictions some 20 years ago, low-income Asia has tripled its gross domestic product and almost doubled its per capita income, which now stands close to $300. In the first half of this decade these countries maintained a striking average annual growth rate of almost 8 percent, while much of the rest of the world suffered from deep recession. We believe there is every prospect that these countries can double their per capita income again by the turn of the century, placing them in the ranks of middle-income countries.

This great region, therefore, stands at the threshold of transition from poverty to relative affluence. But in spite of these great achievements and bright prospects, the proportion of people living below the poverty line -- that is without the income needed to buy an adequate amount of food -- has changed very little. That proportion varies by country -- it is much higher in India than in China, for example -- but throughout low-income Asia it has remained at about the same level for decades. Neither have disparities within the large countries changed very much -- the richest Indian states still have per capita incomes twice as high as the poorest, and people in China's richest province earn two and a half times the income of their compatriots in the most backward.

For all of Asia, therefore, some 500 million people still live in absolute poverty, and there is little ground for expecting that future growth alone will achieve the improvements in their position which it has failed to secure in the past.

Bank resources alone of course cannot address these huge problems. But we can and will target an increased proportion of our IDA lending directly to tackle the poverty which may otherwise remain impervious to the benefits of growth: among the landless and assetless rural poor, among vulnerable social groups such as rural women and children, and in distant or backward areas of the large countries. Extreme poverty lies overwhelmingly in the countryside, and most of its solution must be found there, although we will not ignore the hard pressed mega-cities of Asia. Our strategy will concentrate on the delivery of basic services to ensure adequate food, shelter and health care, and on conserving the often fragile environment of rural areas. It will support education, nutrition and family planning programs, and increased attention to rural employment and income generation for landless labor. In all our poverty alleviation programs, we will apply the lessons we have learned toward more effective, targeted approaches to eliminating the worst aspects of poverty: malnutrition, disease and lack of employment opportunity. Our lending programs will emphasize eliminating poverty in ways conducive to economic efficiency and growth.

Integrate
6/28

Many of the technologies to combat this entrenched poverty are cheap, simple and effective: village hand-pumps to draw clean and safe water, oral rehydration tablets costing a few cents which save the lives of thousands of children, contraceptives which can provide poor people with the family choices from which much of Asia already benefits.

But the institutions to deliver these services to poor people and to inaccessible areas are frequently absent or -- in the case of official programs -- are often cumbersome and ineffective. We will work with governments, therefore, to find new ways to involve voluntary, non-government organizations (NGOs) and the private sector in our poverty eradication efforts. In many Asian countries, NGOs have a proven record in devising imaginative solutions to the problems of organizing poor people and delivering services to them at low cost. We can all learn much from this experience, provided that we respect their independence and their sometimes unconventional approaches, and provided that the international community and governments can work together to develop and deliver the research and technical packages -- in dry land farming, livestock, root crops and pulses, and simple replicable technologies -- which the poor can use. The Bank has acquired valuable experience in these areas, and is supporting further research: we will find fresh ways to put the results to work for the poor.

We will also work with governments to remove the barriers which inhibit the development of fair markets and better incentives. Only governments have the ability to remove some of these administrative restrictions -- restrictions which permit both bureaucratic and private exploitation of poor people -- and to provide the incentive framework within which poor producers and an efficient and competitive private sector can flourish.

In the coming months we will be developing these ideas further, in concert with our Asian partners and other experienced donors and organizations. Together, I believe we can ensure that continued rapid development is more widely and equitably shared, so that these countries enter a new century free of the terrible poverty that has stained every century before.

Bank Resources

Mr. Chairman, I have set out today a challenging agenda of action for the World Bank. I have rededicated a renewed World Bank to economic growth and the fight against poverty. In pursuit of these goals, I have pledged strong action on debt, firm support for economic reform and adjustment, new initiatives to promote the private sector, and renewed and innovative programs to safeguard the human environment.

It is an agenda which places heavy demands on our staff, and which requires close cooperation with our borrowers and other partners in the international community. I referred earlier in my remarks to the demands that it would also make on our financial resources, and in concluding my address today I would like to spell those out a little more fully.

There has been a dramatic decline in the resources flowing to developing countries in recent years -- in a period when their needs have been very pressing indeed. Total resource flows were halved between 1981 and 1986, largely because of the virtual disappearance of net private bank lending and net export credits. Official flows and private foreign investment, which in aggregate have inched up only a little from the levels of the early 1980s, therefore account for almost four fifths of the current reduced total flows.

These figures are all the more depressing in the face of the blow dealt to developing countries' efforts in the 1980s. Excluding a few major countries which managed to sustain substantial growth rates, developing countries' income and consumption actually fell, while investment and imports declined deeply and debt service rose sharply to almost one quarter of export earnings. In sub-Saharan Africa incomes declined by one quarter, investment and imports have been effectively halved, and debts service has soared from 8 to 30 percent.

None of our mutual goals for development, none of our hopes for success in the struggle against poverty, none of our investments in strengthening human resources and protecting natural resources can be realized by the World Bank acting alone. We are but a small part of the total need. The major burden falls on the developing countries themselves. But the program I have outlined today depends not just on these efforts and on increasing the Bank's resources, but on substantially expanding the flow of all resources from the industrial nations to the developing world.

That flow has been shrinking. It must grow. And it must come from all quarters. But the role of the World Bank Group is of particular significance, as we have global responsibilities -- in the heavily populated giant nations of Asia, in the poorest countries, especially in sub-Saharan Africa, and in the middle-income countries. It can and does lead the way in helping borrowers address poverty and growth, not least by encouraging and mobilizing the energies and the resources of the private sector. Adjustment efforts are creating promising new climates for investment, encouraging openings for entrepreneurship. As barriers -- licensing restrictions, import and export controls -- come down, private forces should rise to the opportunity. The flow of private equity investment, stagnant at about $10 billion over the last four years, is particularly important -- and we must find new ways of increasing it. The policies of developing country governments are critical to investor confidence, and a precondition for success. But we also need new mechanisms to mobilize the trillions of investment dollars available in the markets so as to benefit the developing world -- and thereby ultimately to benefit us all.

In addition to the Bank's own work in this area -- and in strengthening the infrastructure essential to the workings of market forces -- the International Finance Corporation and the Multilateral Investment Guarantee Agency (MIGA) offer vital backing to private initiative. The IFC's $800 million program of investment this year shows the range of help available and the diversity of enterprise possible. IFC is also developing other innovative ways to tap the world's capital markets -- for example, through debt conversion funds, and by a campaign to introduce selected developing country corporations to the international markets. MIGA has already been ratified by the necessary number of developing countries, and by Japan and Denmark among the industrial nations. It is poised to begin valuable work in strengthening the private sector through programs to help improve investment conditions, attract capital and facilitate joint ventures. I am ready to call a conference of signatory countries in Washington next month to decide on any further steps needed to enable MIGA to swing into action.

For the poorest countries, the IDA-8 replenishment is fundamental to the whole structure of international action. The ratification of IDA-8 must now be followed by governments notifying the Association of their commitment and initial payment into the replenishment as soon as possible. In the same vein, it is critical that our efforts to mobilize resources for the most distressed debtors and the proposal for an enlarged Structural Adjustment Facility be translated into concrete action and financial commitments with all possible speed.

For the highly indebted middle income countries, the Bank is currently virtually the sole source of net funds. Others must do more, and we ourselves must do more. I have pledged to you today that we will continue our greatly expanded support for the recovery efforts of our heavily indebted members, on the basis of thoroughgoing and sustained programs of economic and institutional reform. To achieve this while maintaining and increasing our essential commitments to other bank borrowers' growth and poverty alleviation program, we must move forward with a substantial general capital increase for the Bank sufficient to support our expanding lending program well into the 1990s. If we do not act on a general capital increase now, we simply cannot provide the resources we are being asked to provide, nor take the risks we are being asked to take. I am confident that your strong support for a substantial increase in our capital can be translated into an agreement this year.

I realize that the Bank is putting a demanding load on its members. The burden of a positive response, however, is lighter than the weight history would attach to our failure. With so many lives, so much past progress and future potential at risk, the international development community must now put new effort and added resources into the work of recovery and renewed progress.

This then is my vision for the new World Bank. In close collaboration with the International Monetary Fund, in concerted action with its member countries, in cooperation with commercial banks, export credit agencies and the broad private sector of potential investors, we are ready to make that essential effort.

Thank you.

September 16 MTG.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

→ Carol – Circulate

DATE: October 7, 1987

TO: Vice Presidents and Department Directors

FROM: William Cosgrove

EXTENSION: 73962

SUBJECT: Work Performed for the Bank or IFC by Former Bank Staff Leaving with Package A or B

This is intended to provide you with the information to share with your managers and I would be grateful if you would provide the appropriate distribution.

Introduction

1. The basis on which staff are leaving the Bank with Package A or B is that their services are no longer required on a career basis. Nevertheless, there may be occasions on which the services of these individuals are needed after their appointments as staff members have ended and it is in the institutional interest to allow this. Institutional interests also indicate that such work be subject to stringent controls, and the following sets out the policy and procedure that will apply in the Bank/IFC regarding work to be performed by former staff who have received Package A or B.

Limitations on Period of Service and Rate of Pay

2. Work for the Bank or IFC on a Consultant or Temporary appointment, as an employee or member of a consulting or other firm, or as an agency Temporary will be subject to the following restrictions:

(a) Length of Contract. During the period used to calculate the lump sum severance payment, the individual may not be paid for work performed for more than a total of 30 days in a 12-month period starting from the date of termination, and extensions beyond the 30-day period will not be approved. The 30-day limitation applies whether the former staff member's services are procured on an individual basis or through a firm. After the period covered by severance pay has ended, further work as a Consultant or Temporary will be subject to the limitations of Staff Rule 4.01.

(b) Rate of Pay. During the period used to calculate the severance payment, the daily rate paid to or for the services of the former staff member will not exceed the daily rate of salary in effect when the former staff member's service ended. The rate may not exceed the maximum of grade 26, however.

Procedure

3. As established in Staff Rule 5.09, requests for the reappointment of any staff member whose employment was terminated with Package A or B must be approved by the Vice President, Personnel, with the concurrence of the Assistant General Counsel, Administration and General Affairs. (Requests for reappointment of former vice presidents must be referred to the Vice President, Personnel who shall make a recommendation to the President.) The request must be made by a manager at the level of department director or above, and be endorsed by the chief personnel officer responsible for the hiring unit. This procedure will be applicable to services covered in paragraph 2 above.

Status During Salary Continuation (Special Leave)

4. Staff members entitled to receive their severance may receive it in the form of lump sum or salary continuation (Special Leave). The Bank reserves the right to require the services of staff on Special Leave. No additional compensation is payable in these circumstances and the length of Special Leave and amount of severance pay are unaffected by the Bank exercising its rights in this respect.

Reappointment on a Regular or Fixed-Term Appointment

5. In very exceptional circumstances, the Bank or IFC may wish to rehire on a Regular or Fixed-Term appointment a former staff member who had received Package A or B. Any such appointment would have to follow the same procedure set out paragraph 3 above. In the unlikely event that such a reappointment were to occur during the period for which the individual had received severance pay, appropriate recompense would have to be made to the Bank.

cc: Chief Personnel Officers
VPPER Managers

PC COMM

SEPT. 16 MTG

FORM NO. 2232
(6-87)

THE WORLD BANK/IFC

ROUTING SLIP

DATE: 9/17/87

FROM THE OFFICE OF THE
SENIOR VICE PRESIDENT, ADMINISTRATION

NAME	ROOM NO.
Policy Committee Members	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS:

As discussed in the Policy Committee meeting of yesterday regarding future work for staff leaving with Package A or B, attached please find a revision of the policy control to apply.

FROM: W. Wapenhans Ext. 75656

POLICY REGARDING FUTURE WORK FOR THE BANK/IFC FOR STAFF LEAVING WITH PACKAGE A OR B

Introduction

1. The basis on which staff are leaving the Bank with Package A or B is that their services are no longer required on a career basis. Nevertheless, there may be occasions on which the services of these individuals are needed after their appointments as Regular or Fixed Term staff members have ended and it is in the institutional interest to allow this. Institutional interests also indicate that such work be subject to stringent controls, and the following sets out the policy and procedure that will apply to future working for the Bank/IFC to be performed by former staff who have received Package A or B.

Consultancy

2. Work as a consultant for the Bank or IFC will be subject to the following restrictions:

(a) Length of Contract: During the period for which severance pay has been paid, the individual may not be paid for more than a total of 30 days per year as a consultant. [Depending on whether it is Package A or B and the length of service of the staff member, the severance pay period may range from a minimum of 11 months to a maximum of 36 months.] The 30-day limitation applies whether the former staff member's services are procured on an individual basis or through a firm. After the period covered by severance pay has ended, further work as a consultant will be subject to the provisions of Staff Rule 4.01 "Appointment".

(b) Rate of Pay: During the period covered by severance pay, the daily rate paid to the former staff member rehired as a consultant will not exceed the daily rate of compensation in effect when his/her service ended. There will be no allowance for benefits built into the rate of pay since the continuation of a range of benefits is provided for under both Package A and B. After the period covered by severance pay has ended, the rate of pay will be established under the prevailing rules. This may include, where appropriate, an allowance for benefits.

(c) Type of Work: During the period covered by severance pay, work as a consultant in a professional discipline will not be allowed when a vacancy in that same professional discipline remained at the end of Round 2.

(d) Level: In accordance with current practice, former Vice Presidents may not be rehired without the approval of the President.

Procedure

3. As established in Staff Rule 5.09, requests for the reappointment of any staff member who has received Package A or B must be approved by the Vice President, Personnel with the concurrence of the Assistant General Counsel, Administration and General Affairs. The request must come from a manager at the level of Department Director or above, and be endorsed by the Chief Personnel Officer responsible for the hiring unit.

Status During Salary Continuation (Special Leave)

4. Staff members entitled to Package A or B may, subject to certain restrictions, elect to receive their severance pay in the form of a lump sum or salary continuation (Special Leave). The Bank reserves the right to require the services of staff on Special Leave. No additional compensation is payable in such circumstances and the length of Special Leave and amount of severance pay are unaffected by the Bank exercising its rights in this respect. In practice, the Bank has exercised this right very rarely and this experience is not expected to change with respect to Package A or B recipients.

Reappointment on a Regular or Fixed Term Appointment

5. In very exceptional circumstances, the Bank may wish to rehire on a Regular or Fixed Term appointment a former staff member who had received Package A or B. Any such appointment would have to follow the same procedure set out in paragraph 3 above, and in the unlikely event that such reappointment were to occur during the period for which the individual had received severance pay, appropriate recompense would have to be made to the Bank.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 16, 1987

TO: Files

FROM: Marianne Haug, EXC

EXTENSION: 73585

SUBJECT: Minutes of the Policy Committee of September 16, 1987

Members Present

Messrs. Conable, Hopper, Ryrie, Stern, Thahane, Wapenhans

Acting Members

Messrs. Scott, Thalwitz

Other Staff Members

Ms. Haug

Mr. Tanaka

Mr. Thahane reported that Directors were likely to accept, although reluctantly in several cases, the supplementary budget request. Mr. Al-Sultan would be the only Director to oppose the request.

Proposed Review of Reorganization Implementation

Mr. Thahane mentioned that Mr. Xu had suggested the launching of an ex-post review of the reorganization implementation which would be done through either the Staff Compensation Committee or the Joint Audit Committee. Mr. Stern strongly opposed a review in addition to the previously agreed reporting on the reorganization. He considered that such review would only sustain the state of turmoil, and that the SCC and the JAC had no mandate to do such a review. Mr. Scott disagreed by stating that this was consistent with the oversight rights of the Board. Mr. Wapenhans clarified that this initiative had arisen from informal discussions among Board members (particularly Messrs. Lankester and Rao Sahib) who were concerned about the implementation of the reorganization. Mr. Stern insisted that such review could not be done in a disinterested way, that the implementation of the reorganization was a managerial responsibility, and that it was improper for the Board to launch an investigation. In response to a question by Mr. Conable on whether this review was related to the budget, Mr. Thahane clarified that the Board is not concerned with individual cases but would like to examine how funds allocated for reorganization purposes have been used. He specified that the Board perceived the review as falling within its oversight functions and not as an investigation. Mr. Stern considered that the report scheduled for October would provide a sufficient base for examination and that no supplementary review was warranted. Mr. Scott mentioned that the Joint Audit Committee should not be involved in this matter.

Status of Round 2

Mr. Conable enquired about the status of Round 2 placements and the adequacy of the US$ 35 million envelope. Mr. Wapenhans clarified that this budget envelope meant that 80 staff should be placed. While there are good prospects to reach this target, progress to date has been haphazard as staff are holding offers without responding, and, in certain cases, managers are not formally making offers as there is a tendency to protect vacancies. Mr. Wapenhans stated that a five day rule to respond to a formal written offer should be enforced in order to give momentum to the process. Mr. Stern considered that the budget envelope should be ample since it includes a 30% margin over the number of staff estimated placeable by VPPER. In response to a question by Mr. Thalwitz, Mr. Wapenhans informed that 40 formal offers had been made to date. Mr. Thahane informed that the British Director was concerned by the lack of response to the training option and the case of support staff. Mr. Wapenhans pointed out that the training option is clearly perceived as a second best option, and that secretaries with higher grades are refusing lower graded positions even if their grade is maintained.

Consultancies by Separated Staff

Mr. Wapenhans communicated the EDs concern on the issue of consultancies by separated staff, and proposed that approval of such consultancies would rest with the VPPER in consultation with the Legal Department. The discussions then revolved around the number of days of consultancy which should be allowed for holders of packages. The general consensus was that the 90 day proposal was too high. Considering that individuals with packages were on a special leave status and received salaries for periods up to 8 months, Mr. Hopper argued that there should be no consultancy opportunity for package holders since continuity issues could be resolved within the timeframe of the special leave. Messrs. Stern and Thahane agreed with this position emphasizing that this issue has a direct impact on the public image of the institution. Mr. Thalwitz emphasized the case of individuals who had received packages on the grounds of poor managerial performance, but who could still provide valuable technical services. Mr. Wapenhans clarified that EDs were not looking for a total elimination of the option, but wanted to check that there was a clear process in place to address the 'revolving door' issue. Mr. Thahane considered that a clear rule should be made during the special leave period since EDs want to be able to satisfy their own constituencies on this issue.

The Meeting then discussed briefly the sources of funding for remaining packages and enhancement of pensions, and the role of the Staff Association in relation to the upcoming Board discussion.

JTanaka

Sept. 10 MEETING

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 10, 1987

TO: Files

FROM: Marianne Haug, EXC

EXTENSION: 73585

SUBJECT: Minutes of the Policy Committee of September 10, 1987

Members Present

Messrs. Stern, Shihata, Thahane, Wapenhans

Acting Members

Messrs. Rajagopalan, Thalwitz

Other Staff Members

Messrs. Cosgrove, Picciotto, Challa, Murli, Tanaka
Ms. Haug

Reorganization Progress Report

Several members made detailed comments on the contents of the Report. The Operations section will be revised with a new version ready by this afternoon. Mr. Wapenhans proposed, and several members agreed, that the Progress Report and the Budget papers be presented separately.

Supplementary Budget and Request for Additional Funding

Mr. Stern opened the discussion by inquiring whether the validity of currently accepted packages had been checked and what had been the basis of the financial estimates. He emphasized that numbers to be presented could not be unrealistic estimates, this having to be the last request to the Board. Mr. Wapenhans responded that packages approved to-date had been checked in relation to Staff Rule 5.09 and that these packages could not be denied. A discussion followed on specific cases of staff known to be considering retirement previous to the reorganization and of their eligibility for packages. It was agreed that a follow-up would be done in the case of individuals for which documentation related to a retirement decision preceding reorganization could be found. Members also discussed the issue of the skills mix criterion being applied to secretaries. Mr. Shihata wondered how some hundred secretaries could not be absorbed due to the skills mix criterion. Mr. Wapenhans noted that several packages were requested due to a grade rather than a skills issue since secretaries at level 17 were not, in many cases, offered positions.

Mr. Shihata suggested that more effort should be made to place individuals, who are not poor performers, by placing them in tasks in which they have a chance of performing better over time, and that termination should be considered later based on strict performance evaluation. Mr.

Wapenhans noted that the rules stipulate that an equivalent offer must be made and that the prospect of termination within a given amount of time did not constitute an equivalent offer to staff. Mr. Stern pointed out that such option required also good faith on the part of the manager. Mr. Wapenhans remarked that the group being discussed represented a limited marginal group and that the purpose of the reorganization should not be undermined by the use of methods not in line with the overall reorganization objectives. The issue of lack of documentation of poor performance was raised by several members. Mr. Stern considered that the creation of a pool of individuals whose assignments could be terminated following performance evaluation was unrealistic.

Mr. Stern asked for an estimate of the percentage of individuals granted packages who were coming back on consultant contracts, clearly stating that such pratice was unacceptable. Mr. Shihata agreed by emphasizing the immorality of such action, reminding that he had requested the Legal Department to clear consultant contracts in order to avoid such problems. Mr. Rajagopalan stated that the revolving door should be shut. Mr. Thalwitz mentioned the case of managers who were leaving the Bank due to a lack of position at the appropriate grade level and who could still provide relevant experience to the Bank.

Mr. Stern inquired about the current status of round 2. Mr. Cosgrove pointed out that placement during round 2 had until now been distributed over time with no initial wave of placement as initially expected. Most panels, which had been set up to examine in detail staff remaining to be placed, had been completed and the last panel would conclude its work tomorrow. Mr. Cosgrove noticed that a system remained to be found to place secretaries. He specified that the prospect of placement contained in the middle option (116) reflected the outcome of the panel process, but did not take into account vacancies and manager behavior. Mr. Stern concluded by stating that around 116 staff could therefore be implied to be legitimately placed on a skills criterion, based on a collective technical consensus reached through the panels, and that there were no grounds for pursuing the integration of more than 116 individuals.

The discussion then turned to the timing of presentation to the Board. Mr. Shihata considered that presentation before the Annual Meetings meant that the high option had to be adopted in order to work within a sufficiently safe budgetary envelope. Ms. Haug and Mr. Wapenhans noticed that several ED's were anticipating the need for a request, and are looking towards a swift conclusion of the reorganization. Mr. Thahane thought that the Board may agree with a supplementary request in principle but would request a detailed justification. He was concerned also that early presentation would refocus the attention of ED's and Governments on the overall cost of the reorganization just before the Annual Meetings. Messrs. Shihata and Thahane mentioned that the week of September 21 would not be good timing since many Government representatives would already be on their way to the Annual Meetings.

Mr. Thalwitz raised the issue of budgetary constraints to the implementation of the lending program, pointing out the suggested use of incremental salary underruns. Mr. Stern considered that this would represent an issue only at the time when all vacancies are filled, and that this was unlikely to represent a constraint to operations.

Mr. Stern concluded by stating that the Board paper should be revised with a clearer description of the process to-date, emphasizing the shift from total managerial initiative to review panels, concluding with an estimate of the number of people which could be placed, and the supplementary budget required based on these expectations. More attention should also be given to training. In relation to the Board, Mr. Stern asked Mr. Wapenhans to consult with the ED's from the G-7 countries, India and China. Mr. Stern further stated that there should be a managerial follow-up to the panels and that the Staff Association should be informed that no decision will be made with respect to Board presentation until placement estimates are completed and financial requirements set. A final version of the Board paper based on the latest estimates was requested by c.o.b. Friday, September 11, 1987.

JTanaka

PC

POLICY COMMITTEE MEETING

THURSDAY, SEPTEMBER 10, 1987

9:00 a.m.

AGENDA

* 1. Round 2: The Last Lap--Issues and Options
(Memo from Mr. Wapenhans dated September 9, 1987)

* 2. Initial Draft
The Reorganized Bank: A Progress Report

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* Attached

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

→ consultants
→ good faith
→ amended
– skill
– grade

DATE: September 9, 1987

TO: The Policy Committee

FROM: Willi A. Wapenhans, SVP, Administration

SUBJECT: Round 2: The Last Lap - Issues and Options

1. As Round 2 approaches its final phase, it is necessary to estimate the number of staff who are likely to remain unselected, and who will, therefore, have to be carried or separated. This memorandum contains a forecast of unplaced staff (paras. 4-8) and gives a range of the funds needed to cover the costs of completing the process (paras. 9-10). It also lays out the options available for: (i) managing the closure of Round 2; (ii) handling unselected staff; and (iii) securing the resources to cover the costs involved (paras. 11-12). My recommendations appear in paras. 15-17.

Cost Escalation

2. Separation costs are escalating beyond the levels prescribed in the Supplementary Budget for four reasons:

(a) lower than expected number of selections: some 360 staff 1/ (over and above the 260 staff already declared eligible for separation packages) were still unplaced as of last Friday while about 70 staff can be separated with the uncommitted separation funds;

(b) lower than the budgeted projection of the ratio of A to B packages (1:5 instead of 1:3);

(c) higher than expected unit costs for B packages ($348,000 instead of $261,000), essentially due to "unselections" of older, more senior staff than expected;

(d) higher ancillary and support costs (resettlement, other services, etc.): $9.9 million instead of $6.9 million budgeted.

3. The only item being underspent is training ($622,000 committed out of $4.5 million). As of September 4, 1987, $78.8 million, or 78% of the $101.3 million Supplementary Budget, was committed 2/. Annex Table 1 provides further details on the unit cost assumptions at the time of budget presentation and the actual experience to date.

1/ This number includes 19 staff members who may be ineligible for Package B but excludes 63 cases being handled outside the reorganization (20 pre-reorganization skill mix cases, 29 normal terminations, 5 training cases with institutional re-entry, 9 cases of sick leave and medical disability).

2/ Based on 258 cases of eligible separations.

Forecast of Unplaced Staff: Base Case

4. As of September 4, 1987, there were about 360 staff still not placed, 1/ of which 227 were higher level and 133 were support level. As Round 2 progresses, some of these staff will be placed, but it is expected that a substantial number will remain unplaced and will face separation or some other disposition.

5. The number of expected placements during the remaining part of Round 2 has been arrived at through examination by Personnel Officers (and selecting managers) of existing vacancies and of candidates with skills appropriate to these vacancies. Given the complementary screening of candidates by technical, economists' and other screening/placement panels now under way, there is little likelihood that candidates available for vacant positions will pass "unnoticed". However, among both the higher level and the support staff groups, undocumented performance and skills mix problem cases are being reported. The present judgement of the Personnel Officers is that during the remaining period of Round 2, not more than 116 further placements will be made (64 higher level; 52 support level), implying selection ratios out of the currently unplaced staff of about 28% for HL staff and 39% for SL staff. If this expectation materializes, a total number of about 225 staff would be left whose disposition would need to be managed at the end of Round 2. 2/ This is summarized in the table below.

EXPECTED PLACEMENTS AND IMPLICATIONS FOR FINAL DISPOSITION

	HL	SL	Total
Presently Unplaced	227	133	360
Additional Placements	64	52	116
Ineligible for Packages	13	6	19
Estimate of Potential Additional Separations with Packages	150	75	225

1/ All numbers related to staff selections need checking. The latest status report on Round 2 (September 3, 1987) suggests that out of 359 staff now on the Round 2 roster, 9 may already have been selected (according to the Personnel Officers).

2/ This figure excludes 19 staff members on the roster who have turned down valid job offers and are therefore ineligible for receiving a separation package. It has been assumed that they will be placed during Round 2 over and above the 116 staff referred to above, but if any are not in fact placed they would have to be released without a package.

The "High Separations" Case

6. Fewer selections than projected above cannot be ruled out given the highly decentralized nature of the process and the fatigue which appears to have set in among managers and staff. It is conceivable that the number of incremental placements could turn out to be as low as 88 (45 HL; 43 SL). This added to the number of additional separations already signed or being processed (260) would yield 513 separations - still below the 600 numbers originally estimated but well above the number finally retained in the Supplementary Budget (390). 1/ In this case, the selection ratios from remaining staff would be rather low, at about 20% for HL staff and 32% for SL staff, reflecting the high standards being exercised by selecting managers in filling positions.

Living Within the "390" Ceiling

7. Without resorting to outright forced placement, two measures might still be considered to achieve the selection levels postulated in the Supplementary Budget:

(a) institution of centrally funded staff pools in each Senior Vice Presidency for staff members without documented performance problems and judged to be potentially valuable to the Bank. Such a device would help place staff with needed skills (including support staff) who have not made any effort to be placed, who are not well known to selecting managers and/or who might be otherwise acceptable candidates but only "loose" fits in available positions.

(b) aggressive use of training funds 2/ and re-entry guarantees, for candidates motivated to stay in the Bank and willing (and able) to undergo the training required to make them attractive for Bank employment.

1/ Adding the 29 odd cases of terminations being treated as "outside the reorganization" and the 19 cases now considered ineligible for Package B would bring the number closer to the original estimate of 600.

2/ Less than 15% of the funds provided for this purpose in the Supplementary Budget have been committed so far.

8. With such measures, it would be conceivable to keep the total separations within the estimate of 390 in the "More Likely Scenario" which the Board accepted. This would require the placement of about 210 staff (119 HL; 92 SL) out of the 360 on the roster, implying selection ratios of 52% and 69% for HL and SL staff. To achieve these levels, however, each Senior Vice Presidency would have to take on the burden of absorbing an appropriate share of the current staff surplus. The levels involved are shown, on an illustrative basis, below. Obviously, to proceed on this path requires the consensus of the SVPs that this approach is compatible with the philosophy of the reorganization and is feasible to implement.

INDICATIVE PLACEMENT SCENARIO
"Low" Separation Case

	OPRNS	FIN	PPR	ADM	Others	TOTAL
Vacant Funded Positions	173	66	31	59	8	337
Required Placements	107	42	20	37	5	211
Of Which:						
Higher Level	55	22	20	19	3	119
Support Level	52	20	0	18	2	92

Note: Placements have been allocated in proportion to vacant funded positions.

Separation Options

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9. The budgetary implications of the three separation options sketched above are shown in the table below:

ALTERNATIVE ESTIMATES OF EXPECTED PLACEMENTS AND SEPARATIONS

	Number of Separations		
	High	Medium	Low
Presently Unplaced	360	360	360
Additional Placements	88	116	165
Unplaced End of Round 2	272	244	195
Ineligible for Packages	19	19	19
Additional Separations with Packages	253	225	176
Separations Already Announced	260	260	260
Total Separations	513	485	390
Of which Funded	330	330	330
Still to be Funded	183	155	60
Additional Requirements for Packages ($m)	46.5	39.6	16.8
Additional Cost of Resettlement	4.6	3.6	-
Total Cost of Expected Separations & Resettlement ($m)	144.9	137.0	110.6
Original Budget for Separations & Resettlement ($m) a/	93.8	93.8	93.8
Budget Overrun	54%	46%	18%

a/ The total Supplementary Budget of $101.3 million was made up of the following items:

	$m
Staff Separations	92.7
Resettlement	1.1
Training	4.5
Office Moves	2.5
Data Systems	0.5
	101.3

Further details of the implications to numbers of separations by level, selection ratios, remaining vacancies and opportunities for external recruitment are provided in Annex Table 2.

10. All three scenarios assume that:

(a) the existing Supplementary Budget of $92.7 million can fund 70 additional separations (45 HL; 25 SL) over and above the 260 packages (77 "As" and 183 "Bs") already granted or being processed;

(b) no further approvals of A Packages will be granted;

(c) based on actual experience, unit costs will average $306,000 for Grade 18-25 staff and $150,000 for Grade 11-17 staff.

It should be stressed that all three scenarios allow for reasonable numbers of external recruitment. Even in the "low separation case" there would be scope for outside recruitment of 139 new HL staff (see Annex Table 2).

Financing Options

11. Alternative options exist with respect to financing of the overrun. 1/ In designing a financing plan, the following sources should be considered:

(a) Unused training and TAP funds: Scenarios involving higher numbers of separations than originally planned can be expected to yield savings in training expenditures (up to $3.5 million) and in the subsidies required to establish a TAP program (up to $1.0 million). Depending on the selected scenario, these sources could generate about $3-4 million.

(b) Reorganization Contingency Regular Budget: This $7.8 million reorganization contingency is available to be applied in full (or in part) to cover the overrun.

(c) Incremental salary underruns: Budgeted fill ratios have been based on the separation of 390 staff. The increment of up to about 125 separations is likely to produce salary savings over the second and possibly the third quarter of FY88 ($4-6 million, depending on the option and ground rules to be set), which could be tapped to fund separations.

1/ An Executive Director has proposed that the Pension Fund should contribute to coverage of reorganization expenditures. This is not desirable and in any event, may be unfeasible on legal grounds. Similarly, accruals from the FY87 budget must be reserved for terminations of skills mix cases initiated prior to the reorganization.

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(d) Additional savings from the Regular Budget for FY 88 and beyond: Given the negative impact of the overrun in separations on the reorganization "payback", it would be appropriate to translate the managers' more vigorous stance on skills mix separations (e.g. 193 skills mix separations in the high-option scenario vs. 70 assumed in the Supplementary Budget) into lower requirements for regular positions. In effect, this would recognize the productivity improvements expected from the implied raising of the skills-fit threshold; for example, in the "high" scenario case, on the basis of a 1:4 ratio (i.e. one position saving for every four incremental skills mix cases resolved through outside recruitment), "savings" of, say, 31 positions (21 HL; 10 SL) equivalent to annual economies of $3.0 million should be expected. 1/ To further minimize the impact on payback, efficiency taxes related to the average grade inflation experienced in each SVP Unit as a result of the reorganization might also be considered. Such measures would help demonstrate that management has left no stone unturned to ensure cost conscious implementation of the reorganization.

12. The full range of available options and their budgetary implications are shown below.

	Separation Scenarios		
	High	Medium	Low
Supplementary Budget Overrun (Maximum Funding Option)	51.1	43.2	16.8
Less:			
Contingency	7.8	7.8	7.8
Training/TAP	4.0	3.0	1.0
Salary/Benefits Underrun	6.0	4.0	-
~~Efficiency Tax~~	~~3.0~~	~~2.5~~	-
Incremental Budget Needed (Minimum Funding Option)	33.3 ~~30.3~~	25.9	8.0

1/ The Board's main reservations during the discussions of the Reorganization budget as well as the efforts to obtain a consensus on the "More Likely Scenario" centered around the large number of skills mix redundancies and the need to use the training option more aggressively to correct skills mix problems; as a result, the Board approved "pure" skills mix redundancies of only 70 compared to the maximum of 280 suggested by management.

Policy Choices

13. In sum, the policy options available to Management depends on two sets of considerations:

(a) the degree to which Managing Units are prepared to absorb staff so as to keep the number of separations within prescribed levels, e.g., through creation of specialized pools; and

(b) the extent to which the specific measures indicated are adopted to minimize the impact of the overrun on the "payback" of the reorganization.

14. While a wide range of choices exist, three specific options are presented for discussion by the Policy Committee:

(a) Option A would request "release" of the $51.1 million contingency without any countervailing cost recovery measure. This "clean" option has the advantage of consistency. It would impose no burden on the regular budget. Management would merely be seeking what it was originally denied by the Board. One difficulty with the option lies with the apparent lack of a Management response to the unveiling of a substantially worse outcome (in terms of cost and "payback") than previously considered "likely". Failure to reallocate the unused training monies would be especially hard to justify. So would the lack of reallocation of the reorganization contingency and, given the high vacancy rate, the failure to produce any incremental salary savings.

(b) Option B would undertake to maintain separations within a total ceiling of 485 (the level currently considered "doable" by Personnel). This would be combined with all the above indicated cost recovery measures, involving an incremental budget request of $26 million together with an authorization by the Board to apply certain savings from the Supplementary and the FY88 Regular Budget to fund the Reorganization. This option has the merit of balance - it lies between the original estimates and the "More Likely Scenario". It demonstrates that management will be taking steps to dampen the impact of the cost escalation on the Supplementary Budget. At the same time, it would allow timely completion of the placement process within existing rules, thus minimizing further damage to the morale of managers and staff in what is undoubtedly the most painful and disruptive phase of the Reorganization.

(c) Option C would keep to the "390" separation ceiling of the Supplementary Budget and would absorb the bulk of incremental costs within the Regular Budget while seeking authorization to overrun the Special Leave Budget by up to $8 million. This "hard" option would symbolize the determination of the President to live "within budget" as well as the seriousness with which Bank Management has responded to the human cost implicit in large numbers of separations. Unavoidably, such a course would be perceived by some managers and staff as a "forced placement" program and there might even be legal challenges to the late introduction of fresh initiatives to enhance the number of selections. The Option would also add to the tightness of the operating budget and would require a certain amount of risk taking in the selection of candidates so far unplaced. On the other hand, by making imaginative use of the training option, by actively involving Senior Management in the resolution of human resources problems and by forcing difficult resource deployment choices to live within budget, it would demonstrate the ability of the new Bank organization to manage difficult challenges with flexibility and initiative and to be accountable for results.

Recommendations

15. Based on the medium separation scenario, I recommend that we seek Board authorization for an increment of $30 million in the Supplementary Budget. Without denying the principle of cost recovery for unanticipated cost increases (which, after all, we often impose on our borrowers), I consider that the removal of additional positions as efficiency taxation related to the number of separations would involve extraordinary difficulties. In my view, no more than $3 million in net salary savings should be expected (in order to give room for partial relief through the consultancy budget) and it would be prudent to keep about $0.5 million in the training account of the reorganization budget.

16. A funding request should be forwarded to the Board as soon as practicable. Given the near exhaustion of the Supplementary Budget, I have instructed the staff concerned to withold approval of additional separation packages until we have secured Board authorization to commit additional resources to the separation program.

17. Also attached is a draft of the status report on the reorganization which describes how each major Unit is tackling its new mandate. This document would incorporate a budget section in case Option C is selected by the Policy Committee. Otherwise, I would recommend that a separate budget request be circulated to the Directors for discussion at the same Board meeting. A draft budget document is attached for your review.

(RPicciotto/draftfin:RP#3)

TABLE 1

BUDGETED AND ACTUAL PROJECTED COSTS OF COMPENSATION PACKAGES

	Budgeted		Actual As of September 3, 1987		Difference	
	No. of Separations	Unit Cost of Separations $	No. of Separations	Unit Cost of Separations $	No. of Separations	Unit Cost $
UNIT COSTS ($)						
1. Package A						
Managers (26+)	10	322,000	-	-	-10	n.a
Higher-Level (18-25)	60	188,000	44	172,000	-16	-16,000
Support-Level (11-17)	30	81,000	33	80,000	3	- 1,000
Bankwide Average	100	171,000	77	132,000	-23	n.a
2. Pacake B						
Managers (26+)	43	438,000	62	522,000	19	84,000
Higher-Level (18-25)	214	245,000	85	306,000	-129	61,000
Support-Level (11-17)	33	101,000	37	149,000	4	48,000
Bankwide Average	290	261,000	184	348,000	-106	87,000
TOTAL COSTS OF SEPARATION ($m)						
Package A (100)	100	17.1	77	10.5	23	6.6
Package B (290)	290	75.6	184	64.1	106	11.5
TOTAL	390	92.7	261	74.6	129	18.1

1/ Based on committed and projected costs of staff members who have signed or are in the process of signing the packages, calculated with maximum usage of benefits.

(ABararia/Compack:dt#7)

Summary and Implications of Separations Scenarios

(Number of Staff)

	Low	Medium	High
A. Additional Separations			
(as of 9/3/87) 1/			
(a) Higher-Level			
Managers (26+)	3	3	3
Other (18-25)	92	147	166
	95	150	169
(b) Support-Level			
Non-Secretarial	25	28	31
Secretarial	10	47	53
	35	75	84
TOTAL	130	225	253
B. Packages already granted			
(prior to 9/3/87)			
Higher Level	190	190	190
Support Level	70	70	70
	260	260	260
C. Total Separations (A+B)			
Higher Level	285	340	359
Support Level	105	145	154
	390	485	513
D. Staff unplaced			
(as of 9/3/87)			
Higher Level	227	227	227
Support Level	133	133	133
	360	360	360
E. No. of staff to be selected			
from those still unplaced 2/			
Higher Level	119	64	45
Support Level	92	52	43
	211	116	88

F. Implied Selection Ratio for remaining staff			
Higher Level	52%	28%	20%
Support Level	69%	39%	32%
G. Total Vacancies (as of September 3, 1987) 3/			
Higher Level	364	364	364
Support Level	146	146	146
	510	510	510
Memo Items			
H. Vacancies after taking account of budgeted fill ratio 3/			
Higher Level	258	258	258
Support Level 4/	83	83	83
	341	341	341
J. Efficiency tax (position savings promised) in regular budget			
Higher Level	0	17	21
Support Level	0	8	10
	0	25	31
K. Available vacancies in FY88 budget for external recruitment (H-J-E)			
Higher Level	139	177	192
Support Level 4/	(9)	23	30
	130	200	222

1/ Assumed distribution among different categories of staff based on experience to date and assumptions about the operation of secretarial pools.

2/ Excludes 19 staff (13 Higher Level, 6 Support Level) who have turned down valid job offers and therefore are ineligible for receiving a special separation package.

3/ Excludes Special Positions.

4/ Excludes Support Level positions originally reserved for TAP.

REORGANIZATION OF THE BANK

Status of Supplementary Budget [and Request for Additional Funding]

Introduction

1. The Executive Directors have been informed about the progress of the Reorganization, the status of the selection process and the steps being taken by major Units to implement their new mandates. A separate report on the operations pipeline has also been circulated. In light of this information, this memorandum concentrates on the budgetary aspects of the Reorganization. It compares direct costs incurred to-date with: (i) the estimates included in the "Supplementary Budget for the Reorganization of the Bank" (R87-85 dated May 7, 1987); and (ii) the alternative formulation included in the "Note on a More Likely Estimate" dated May 15, 1987. [Based on this review, the memorandum proposes a contribution of $_____ million to help fund the full requirements of the Reorganization.]

The Supplementary Budget

2. The original Supplementary Budget proposed for the Reorganization (submitted to the Board of Executive Directors on May 4, 1987) provided for separation of up to 600 staff members and for incurring up to $152.4 million in direct costs. However, based on the alternative formulation of May 15, 1987, it was decided to proceed on the basis of more conservative projections of staff redundancies and skills mismatches and lower budgetary provisions for staff separations. Accordingly, the Supplementary Budget for the Reorganization approved on May 19, 1987 involved a ceiling for direct costs of $101.3 million, based on an estimate of 390 staff separations. 1/ An additional amount of $51.1 million, representing the difference between the original and revised requests, was proposed as a contingency, was not approved.

3. The successive presentation of these alternative formulations reflected the difficulty of predicting the outcome of a decentralized process providing considerable latitude to managers in the design of jobs and the selection of staff to carry them out: the staff selection rules were specifically designed to enhance the accountability of selecting managers, to ensure full staff involvement in the process and to provide a central oversight capacity ensuring transparency, fairness and protection of institutional and staff interests. Equally, the agreed formulas underlying compensation for staff separations were sensitive to the demographic characteristics of the separated population and these could not be known in advance. Therefore, Management undertook to carefully monitor progress of all aspects of the Reorganization and to return to the Board to seek authorization for additional expenditures should actual funding requirements prove larger than provided in the Supplementary Budget.

Number of Staff Separations

4. While the staff selection process has not yet run its full course, it is far enough advanced to permit a reasonably sound judgment as to its likely outcome and the related budgetary impact. The major elements are shown below in relation to the original estimates and those underlying the Supplementary Budget.

	Original Estimates	Supplementary Budget	Expected Outcome
A. Redundancies and Mismatches (No.)			
1. Structural/efficiency redundancies	320	320	320
2. Skill Mismatches remedied through outside recruitment	280	70	[___]
3. Total Separations	600	390	
Of Which:			[___]
4. Voluntary (A Packages)	-	100	[___]
5. Involuntary (B Packages)	600	290	[___]
6. Skill Mismatches remedied through training	-	100	[___]
7. Total Skill Mix cases (2+6)	280	170	[___]

	Original Estimates	Supplementary Budget	Expected Outcome
B. Separation Costs ($m)			
Voluntary Separation Costs ($m)	-	17.1	
Involuntary Separation Costs ($m)	147.4	75.6	
Total Separations Costs($m)	147.4	92.7	
Unit Costs ($000)	245	238	

5. The structural/efficiency redundancies mandated by the Reorganization were embodied in the allocations of the Regular FY88 Budget and provided the basis for distribution of positions to each Management Unit. These, in turn, provided the budget envelopes within which the selection process took place. At the outset there were 5,914 staff members on the selection roster 1/. By the end of Round 1, 5,078 staff members had been placed - a selection rate of 86%. Out of the remaining [836] staff members, 212 staff members were selected under Round 2 by September 3, 1987 and another [260] were judged eligible for termination (of which 77 were voluntary separation cases) leaving [360] staff members still subject to selection. It is expected that about 116 of these will be placed and [19] released without access to a Package, 2/ leaving an additional [225] staff members potentially eligible for the B Package.

6. Thus, the number of separation packages (both A and B) is expected to reach [485]. This is [95] more than proposed for in the Supplementary Budget but still [115] less than the originally estimated "upper limit". This means that the selection process is expected to accommodate [5,406] out of 5,914 staff members, a retention rate of [91.5%]. Systematic skill searches, continuous monitoring and feedback to staff, establishment of specialized advisory placement panels and full involvement by Senior Management have ensured that institutional goals have been met and that all staff rights have been duly protected.

1/ 5,977 less 49 terminations unrelated to the reorganization, 5 training cases with institutional re-entry commitments, and 9 medical disability/extended sick leave cases. (These numbers need checking)

2/ This needs explanation.

Skills Mix

7. The vacancy rate resulting from the selection process will be relatively high - about [__]%. The anatomy of vacancies confirms a pent up demand for highly qualified policy and sector economists and technical specialists to be met through outside recruitment and training. On the other hand, there is a surplus of administrative and clerical staff made redundant by reorganization streamlining and the new office technologies. In general, it is clear that most managers have based their decisions on careful staffing plans designed to adapt the skills complement of their units to the new requirements of the Bank's business.

8. In this process careful attention was given to training/retraining options leading to the redeployment of [35] staff members in conjunction with tailor made training programs. In order to minimize the potential for future skill mismatches, central training cum placement and the associated use of institutional guarantees was limited to exceptionally deserving cases which could not be accommodated through normal processes. By and large, training programs were initiated and conceived by the staff members themselves in consultation with their selecting managers and with the advice of Training Division specialists. [However, in order to minimize the loss of special skills in critical areas, a central pool of ____ positions was established to accommodate etc.]

Unit Separation Costs

9. Over half of the excess in separation costs over supplementary budget estimates reflects higher than expected unit costs for staff separation. This reflects two factors - a lower than expected ratio for the number of A to B packages and a higher than expected unit cost for the average B package. Out of 250 applications received for Package A, 238 were valid. From this number, [77] managers and staff eligible for consideration in the initial reorganization phase were not selected into positions by the time of the August 22 deadline and according to the Reorganization rules were awarded packages. Of the remaining 163, all of whom had accepted placements in positions, [75] stated their desire to remain in the Bank. The other [88] will be retained in the institutional interest. Thus, against an estimate of 100 included in the Supplementary Budget, actual access to A packages has been limited to 77 in order to conserve critically needed skills and to minimize budget outlays.

10. A major assumption underlying the original cost estimates for the Reorganization was that staff eligible for the enhanced termination package would embody the characteristics of the average staff population. However, experience has shown a tendency for the older, longer serving groups to be selected out. Taken overall, the average age has been 10 years greater than assumed, the average length of service 7 years longer and the average salary about $5,000 above the initial estimates. The number of separated staff at grade 26 and above was also higher than expected (70 vs. 53). These differences have had a cumulative impact on the severance pay formula, on pensions and on some of the other benefits.

11. Nearly two-thirds of all the cost increase is explained by higher pension benefit payments. The other benefit categories have all increased more or less uniformly in line with the average growth in the underlying demographics. Four factors underline the higher pension costs: (a) higher age/service/salary characteristics overall; (b) number of 26 level and above separations greater than expected; (c) average age of those in this group higher than expected, and the service level longer; (d) 25% more candidates for pension benefits. The severance pay formula, a function of salary and years of service, has also been affected by the underlying demographics. However, the cumulative effect is much less than for the pension benefit because there is no age impact on the formula, and, also, because the severance formula has a cut off for service above 18 years. Significant growth in the cost of the currency option has come both from a higher share of European staff in total redundancies than initially anticipated, and, to some extent, from a difference in the blend of currencies involved which has raised the average conversion cost.

DISTRIBUTION OF COST INCREASES
BY MAJOR BENEFIT COMPONENT 1/

	Initial Estimates	Experience/ To-Date	Difference	% Share
Severance Pay	61.3	63.6	2.3	13.0
Supplemental Pension	19.0	30.0	11.0	62.5
Currency Option	1.2	3.4	2.2	12.5
Other	11.2	13.3	2.1	12.0
TOTAL	92.7	110.3	17.6	100

1/ Table to be updated.

12. While separation costs are, by far, the largest element of the reorganization budget, total direct costs also include resettlement costs, training of redeployed staff, office moves, modifications in computer-based systems, consultancy/advisory services and overhead costs. Each of these elements of the program is briefly reviewed below.

Resettlement

13. [To be furnished by Personnel]

Training

14. Throughout the process, staff as well as managers were encouraged to pursue training and retraining options to facilitate matching of skills with vacancies. Firm plans have been designed for [35] staff members (of which 5 are former managers) in a variety of disciplines. About 60% of the cases involve language training. The balance ranges from short skills enhancement courses to formal master's degree programs in business, finance or economics. About $600,000 has been committed for these programs and another $______ remains available for additional training opportunities currently being explored.

Office Moves 1/

15. Reconfiguration of the SVP Units has led to movements of _____ staff, ____% above the number estimated. The creation of the

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1/ This section will need careful review and enhancement by ITF.

PPR Vice Presidency, the consolidation of the Asia and Africa Regions, the redeployment of Projects staff within Regions and the assumption of Energy and Industry staff into Operations involved extensive movement of furniture, materials and equipment, alternations of offices and reamping of communications materials. Despite inevitable scheduling difficulties, office moves have largely proceeeded on schedule and costs have been kept within budget.

Data Systems and Consultancy/Advisory Services

16. [To be prepared by Administration]

Total Direct Costs

17. Due to a combination of larger than budgeted number of staff separations and higher unit costs of enhanced separation packages, the total direct costs of the reorganization are now estimated to be [__%] higher than provided for in the 'More Likely Estimate' underlying the Supplementary Budget but [__%] below the original cost estimates presented to the Board. A comparison between current estimates for these items and those included in the Supplementary and Regular FY88 Budgets appears below. Details are provided in Annex ___.

	Original Estimates	Supplementary Budget	Current Estimates
Separations	145.0	92.7	2/
Resettlement	4.4	1.1	
Training	(10.5) 1/	4.5	
Office Moves	2.5	2.5	
Computer and Data Systems	0.5	0.5	
	152.4	101.3	

1/ Not added to the total in original submission.

2/ Assumes that the existing budget of $92.7 million accommodates 330 staff and that additional funding is provided for an additional 155 separations at $274,000 unit cost.

Justification for Increased Funding

18. The staff selection rules and the compensation criteria for involuntary terminations embodied in the Reorganization were designed to balance institutional requirements with staff prerogatives. The Reorganization implementation program was carried out within this framework. Screening of candidates, matching of skills with positions and backup counselling information services enhanced an intense and systematic process of consideration between managers and staff. Continuous monitoring by Senior Management was established and "apex" screening/placement panels were set up to ensure that full consideration was given to each candidate's skills, commitment and suitability for continued employment at an appropriate grade in available positions. These measures were backed by a full freeze on external recruitment for the duration of the selection process. Short of forced placement (which would have been against the spirit of the reorganization), little else could have been done to further stimulate the selection process. Equally, within the agreed rules, little else could have been done to reduce unit separation costs.

Financing

19. The higher than expected number of separations will lead to savings in salary and benefits estimated at $_____ million. These savings will be used towards the increased costs of separations. [In addition, it is foreseen that the more exacting process of skills mix replacements exercised by managers will yield incremental efficiencies which will be captured by sterilizing one out of every four incremental vacancies over the level prescribed in the FY88 Budget. This will yield economies of $_____ million a year.] Finally, it is recommended that the amounts set aside in the reorganization contingency ($7.8 million) be applied to meet the overrun. The balance of $_____ million would be met by an incremental provision to the Supplementary Budget hereby submitted to the Directors for their review and approval.

[Insert Financing Table]

The following table updates the "payback" calculations provided to the Board as part of the FY88 Regular Budget document. Based on the same simplified methodology, it shows that the costs of the reorganization could be paid back over a three-year period instead of the two-year period estimated at the outset. Thus, the "payback" has been kept within an acceptable range.

[Insert Payback Table]

Recommendation

20. In order to meet in full the direct costs likely to be incurred to implement the Reorganization, and in particular to absorb the costs of separation for a maximum of [__] staff members, Board approval is sought for [ ].

(RPicciotto/annex:dt#7)

1) drop payback
2) Operations:

09-09-87

THE REORGANIZED WORLD BANK: SECOND PROGRESS REPORT ~~AND~~

~~REQUEST FOR~~ SOURCES OF ADDITIONAL FUNDING

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Section 1

Introduction

On July 30, the first interim progress report on the reorganization was distributed to members of the Board after a Board discussion of an oral presentation of the report. It was clear from those discussions that the second interim report should include, in addition to the important data on staff reassignment and the supplementary budget, an account on how the four new complexes were handling their new mandates in the new Bank structure. In the final analysis, the benefits of the reorganization will be measured in terms of increased efficiency and responsiveness in delivering development assistance to its borrowers. Therefore, this second interim report has been expanded to include the work underway and the programs initiated so far in reaching that objective.

Section 2

The Operations Complex

2.1 Objectives of the reorganization for the Operations Complex are to strengthen the country focus of the organizational structure, simplify and streamline operational management process, improve the Bank's capacity to deliver assistance on financial aspects of development, and achieve greater operational responsiveness and efficiency. The reorganized structure of the complex is now in place with managerial appointments, staffing, office moves, and technical support facilities completed or nearing completion. The Complex has launched a number of new operational initiatives and is implementing the new management processes introduced by the reorganization.

Country Assistance

2.2 An intensive, department-by-department, examination of the status of the Bank's country assistance programs is now complete. This review identified the priorities that the new Country Departments must follow in their medium-term country assistance plans to implement the Bank's operational objectives and to ensure that the Bank would be positioned to provide the types of lending, policy advice and technical assistance which is most appropriate and responsive to the needs of borrowers. The results of that review are evident in the priorities for key issues and strategic options identified for each of the four regions.

2.2(a) **Africa**. Crisis management and rehabilitation will continue to dominate the Region's work program, but beginning in this fiscal year, greater attention will be focused on bolstering the foundations for longer term development. There will be expanded lending in education, women in development, population, nutrition and health, including special emphasis on a regional strategy to combat the spread of AIDS. Stronger efforts to improve natural resource management will be undertaken, especially in connection with the growth of agricultural production and urbanization. Debt management and resource mobilization efforts will follow up the recent Special Action African Program, and in the area of food production and security, the Region will formulate by the end of FY-88 a Food Security Strategy for Africa which will incorporate specific policies and production programs to guide the Bank's future lending.

2.2(b) **Asia**. For Asia and China, the Region will augment its significant level of lending in infrastructural and social investments with sharper efforts to address issues in financial system reform, industrial and trade policy and economic liberalization. These same policy areas will be pursued vigorously with the more advanced East Asian economies while intensified work on the macroeconomic adjustments these countries must make goes forward. In the crucial area of poverty alleviation, the Region will support more targeted programs aimed at eliminating malnutrition, disease, and lack of opportunity.

2.2(c) **Emena**. The long standing obstacles to a more effective Bank relationship with Egypt will be addressed vigorously this fiscal year. Similarly, in the fast changing lending environment of Eastern Europe, the Region will intensify its efforts toward encouraging their economies to develop more liberalized economic and trade regimes which in turn will allow greater financial integration and trade relations with OECD countries.

2.2(d) **Latin America and the Caribbean**. Expanded structural and sector adjustment lending will be combined with a wider array of approaches for ameliorating debt-service burdens in its region, while more effective relationships with the global financial community will be part of more active Bank leadership in the debt management area. Economic diversification and institution building will be the hallmark of the lending for the smaller middle-income countries while rehabilitation and reconstruction remain the short-term urgent objectives for Haiti and Bolivia.

2.3 Enhancing the Bank's field presence is a prominent aspect of the focus on country assistance. The establishment of new resident missions is under consideration in a number of countries where the size of the portfolio and quality of the policy dialogue justify a more permanent Bank presence.

Financial Intermediation

2.4 The center of the Bank's effort in assisting borrowers with debt restructuring, co-financing, financing strategies, and improved access to capital markets is the Vice Presidency for Financial Intermediation Services. Recruitment of management and staff for this new unit is progressing well, and it is expected that the Vice President will be appointed before the end of the year.

Operations Process and Management Issues

2.5 The reorganization envisages greater lending work efficiency through a number of process improvements. The Operations Complex is now undertaking the streamlining of approval processes, increased delegation and greater management accountability down the line, the reduction of loan processing times, closer coordination between country and sector staff, and a reduction in the number of reviews. These and other changes will be reflected in lower completion costs of projects and a reduction of staff-years lost due to dropped projects. With respect to dropped projects, managers in the new structure will be able to stop work on non-viable projects earlier in the project cycle. Revised operating procedures and practices are being developed and distributed so that clear guidelines for all the revised working processes and procedures within Operations will be available by the end of FY-88. Draft Operational Guidelines for investment and adjustment lending have been circulated for review, while plans for revising the Operations Manual Section on Economic and Sector work should be completed by the end of Calendar '87.

Operations Pipeline

2.6 A detailed paper on the status of the Operations pipeline was submitted to the Board on September ___, 1987. It concluded that all parts of the Operations complex are now proceeding to ensure that the FY-88-89 lending pipeline is built up and strengthened in all regions/countries and across all sectors. In the case of adjustment lending, special efforts will continue to be made, in line with country circumstances, to improve the policy dialogue underpinning the preparation of these operations. Overall, lending work will receive top priority in the deployment of staff and budget resources. These efforts should accelerate the pace of appraisal work in FY-88, while the Bank continues to maintain its traditional standards of high quality in its operations.

Section 3

Finance Complex

3.1 The reorganization did not identify Finance as in need of major restructuring, but both before and during the reorganization, a number of significant changes have taken place in the Complex. Treasurer's implemented major changes in its component units before the Bank-wide reorganization to delegate responsibility more effectively to operational staff. Controller's and the Financial Policy Staff are putting in place the recommendations of the reorganization task force. The decentralization of the accounting functions and the modernization of the Controller function involve extensive alterations and upgrading of computer systems as well as changes in line manager attitudes to, and responsibilities for, these activities. These changes, if supported by the appropriate investments in hardware and software development, will strengthen the overall response capacity of the Finance Complex and improve the efficiency and effectiveness of its operations.

FY-1988 Financing

3.2 Implementation of the $11 billion FY1988 borrowing program is well underway. Borrowings totalling $3.5 billion having been completed at very tight spreads over the cost of the relevant Government bond benchmarks. A pipeline of borrowing transactions totalling a further $1.0-1.5 billion is expected to be completed before the end of September.

3.3 The behavior of the credit markets has been particularly challenging for the management of the Bank's $19 billion liquidity portfolio. A very volatile bear market has brought sharp increases in interest rates which threatened to inflict severe capital losses on the Bank's portfolio. Skillful risk management by the Investment Staff has thus far kept initial income projections for the year on target and has generated investment results which so far exceed our benchmark indices by a comfortable margin.

General Capital Increase

3.4 Active discussions on the parameters of the GCI were initiated in July, in the Committee of the Whole. The discussions have helped to develop a broad consensus on a number of issues, so that the report to the Ministers for the Development Committee was able to note substantial progress. Informal discussions to provide special capital increases through the use of already authorized capital also are progressing well.

IDA

3.5 Implementation of IDA-8 is progressing as expected. Several countries have already notified, and the advance commitment scheme will come into force once Japan has notified. This is expected prior to the Annual Meeting.

Headroom

3.6 In the current volatile exchange rate situation, the mismatch between the currencies constituting the Bank's capital and the currency mix of our disbursed loans remains a major problem. Steps have been taken to improve the Bank's headroom. The resolution incorporating membership shares in the Bank's capital base has been approved by the Governors. This added about $3 billion to our headroom. Over 20,000 shares, with an approximate value of $2.4 billion, were released and have been reallocated to countries which are expected to subscribe expeditiously. More disciplined arrangements relating to the subscription of unsubscribed shares are expected to make additional shares available for early subscription. A detailed monitoring system has been put in place.

Longer-Term Issues

3.7 Despite the disruption caused by staff relocation, work is well advanced on the review of liquidity policy, which we plan to present to the Board towards the end of the year. Work has also been started on the various aspects of currency management. This highly complex subject is scheduled for discussion in the Board in early 1988. Preparation for a series of preparatory Board seminars is well advanced. In view of the increased financial sophistication of many of our borrowers, a review has been initiated of those of our lending instruments which do not offer borrowers the opportunity to hedge their risks.

Management and Process Issues

3.8 Restructuring of the Controller's function is underway, including the development of new systems and training of staff in Controller's and in the receiving units. A detailed work schedule to transfer accounting functions to the business units is scheduled to be submitted on September 30. In the Loan Department, management of Trust Funds is being strengthened and the program to restructure loan disbursement controls has been initiated.

3.9 Improvements to the principal facilities of the trading function in the Investments Department are about complete. Severe budget and staffing constraints still leave us short of acceptable state-of-the-art technology. Progress has been achieved in improving information and computer services in both the Investments and Financial Operations Department. Improvements in the staffing of the Investment and the Financial Operations Departments are still elusive. Both departments employ mobile, highly-prized talent. While such talented staff is attracted to the Bank, they also are likely to avail themselves of other opportunities after some time. Bank recruitment and staffing strategies still must be developed to assure the Bank continued high quality financial talent.

Section 4

The Policy Planning and Research Complex

4.1 PPR has three major roles to play in the Bank: it is a service unit that works with other Bank units to provide information and policy guidance based on research and analyses of Bank experience; it is the Bank's center for front-rank research and dissemination; and it is the Bank's planning and monitoring center, not only for Operations policy, but for the institution's budget as well. With most of PPR's units now moved and largely staffed, policy and research work is underway under the broad headings of six major development issues (adjustment, debt management, poverty and social policies, environment, women in development, and Sub-Saharan Africa), while planning and budgeting initiatives move forward in PBD.

Adjustment Programs and Policies

4.2 The PPR work programs deals with important aspects of adjustment programs and policies at both the macroeconomic and sectoral levels. The Country Economics Department is undertaking a series of country studies which focus on: the effectiveness of adjustment programs in accomplishing stabilization objectives; the factors influencing the extent of "supply responses" (the level and efficiency of output); and the impact of adjustment programs on income distribution and poverty. The International Economics Department, through numerous internal papers and Board documents, focusses attention on the implications for developing countries of global economic development, including projections of world demand, inflation and exchange rates. It also continues to assume its responsibilities for commodity price forecasts and for Bank policies in lending for primary commodities.

4.3 Adjustment issues are prominent in the work program of the Agriculture, Industry and Energy, and Infrastructure and Urban Development Departments. The Agriculture Department is preparing a global strategy paper on the livestock sector with specific attention to policies needed to improve economic efficiency of the sector and to strengthen its technological base. A related paper addresses the need for agricultural diversification in Asia. In the Industry and Energy Department, a major concern of research and policy work is centered on how to insure an appropriate supply response to the trade and policy measures being introduced as part of structural adjustment programs. Several papers are in progress on aspects of this problem; also in preparation is a research study on small enterprise development. The operations work of the Department will focus on the design and implementation of industrial adjustment programs in 15 key countries. In the energy sector, research studies relating to the adjustment process include a retrospective analysis of the Bank's lending for electric power and another on petroleum investment lending, both yielding important insights into the Bank's operations in those sectors.

4.4 Housing, transportation, and urban infrastructure, which constitute about half of the capital stock in developing countries, have not been given adequate attention in structural adjustment programs. The research projects in the Department of Infrastructure and Urban Development address cost recovery and inappropriately designed financing mechanisms in housing finance institutions, and in water and transport sectors. Creating a conducive environment for private sector development is a central theme as well. A major study focuses on transport-related trade facilitation issues, analyzing how inappropriate transport policies raise costs and severely affect the international competitiveness of export enterprises.

4.5 Reaching across sectors, the Country Economics Department has focused on private sector development, with work on such issues as regulatory reforms, privatization of public enterprises, and strengthening private institutions which interact with government. A series of papers will be prepared to diagnose the problem of the private sector in particular countries and sectors.

External Debt Management

4.6 Adjustment programs and policies are an integral part of external debt management. Much of PPR's work focusing on improvements in efficiency, expansion of exports, and measures for long-term sustainable growth will contribute importantly to better understanding of ways to deal with external debt difficulties. In addition, the International Economics Department is planning to increase its technical assistance in debt data management and has already strengthened procedures to monitor the adequacy of these data. Intensified work on debt-related policy issues is being pursued both within that Department and by a Bank-wide Task Force it chairs.

Poverty, Productivity, and Social Policies

4.7 Poverty alleviation is being institutionalized as an integral part of the Bank's analyses leading to the formulation of structural and sectoral adjustment programs. The Population and Human Resources Department's work program is designed to promote country allocation of appropriate levels of Bank resources to the development of human capital, and to help ensure that these resources are used as efficiently as possible.

4.8 The wealth of data generated by Living Standards Surveys is being used to analyze the causes and consequences of poverty in developing countries. The focus of the analyses is on the behavioural responses of households and individuals to changes in the economic environment.

4.9 In the education sector, a paper on Education in Sub-Saharan Africa has already been discussed with African ministers of education and will be distributed to the Board this month. Papers are also underway on the effectiveness and efficiency of education and on vocational education and training. The objective of doubling Bank lending for population, health and nutrition by 1990 is being supported by analyses of appropriate instruments and policies for investments in these sectors, particularly in Africa. A major policy paper (in close collaboration with the Africa Region) on health and nutrition in Sub-Saharan Africa is being prepared. In cooperation with WHO's Special Program on AIDS, an economic and demographic analysis of the consequences of the rapid emergence of this disease is being undertaken.

Environment

4.10 Environmental aspects of development will be a major focus of PPR's efforts. Work on such issues is being undertaken not only in the new Environment Department, but also in other sector departments through studies such as those of the sustainability of agriculture production systems and the efficient use of natural resources and compliance with resettlement and environment guidelines. For example, the Agriculture Department is undertaking a comprehensive review of resettlement activities in the Bank's lending program. In addition, the Environment Department's staff has dedicated considerable efforts to working out procedures for introducing environmental concerns systematically into the Bank's operational work. A number of countries have been selected, in agreement with Regional staff, for assessment of natural resource bases, trends, and development of appropriate environmental management strategies. Field work has started in Indonesia and China and is planned for other countries. UNDP will jointly finance these studies in selected countries. Task Forces are being created jointly with the Regions to tackle specific issues such as desertification, salinity, deforestation, industrial pollution.

4.11 Other ongoing activities include preparation of a Tropical Forest Action Plan initiative and a research effort on industrial hazards. Work has also begun on research preparation in the areas of agriculture pricing and sustainability; air quality management; and the role of women in natural resource management. Consultants are addressing such issues as cost effectiveness of alternative soil conservation techniques, and legal and cultural aspects of environmental management. Informal working arrangements with environmental agencies and non-governmental organizations will enable us to improve the policy dialogue and the design of natural resource conservation programs. We are also strengthening our cooperation with UNDP, FAO, and other UN and bilateral agencies in areas of environmental policy planning and program design.

Role of Women in Development

4.12 The Women in Development Division is initiating the Bank's first policy work in this field, organizing associated research, and expanding operational support focused on economic strategy/SALs, agriculture, education and the Safe Motherhood Initiative. In association with the Regions, it has begun "country action plans" in Kenya, Ethiopia, India, Bangladesh, and Bolivia and has been asked to begin several others. In cooperation with the Africa Region, it has begun a UNDP project to raise the agricultural productivity of African women. The initial policy work will include analysis of "best practice" projects and development of operational guidelines for addressing women's issues in economic analysis and in key sectors.

Sub-Saharan Africa

4.13 Africa is a major focus of attention in both the macroeconomic and sector efforts of PPR. For example, the work on the strategy and efficiency of household energy supplies is concerned primarily with Africa. Both the adjustment and external debt servicing difficulties of countries in this geographic area receive considerable attention in the PPR work program. In addition, particular attention is being paid to productivity improvements. A paper addressing design issues in African agricultural lending, for example, is under preparation. Industrial adjustment in Sub-Saharan Africa is also being examined. Three inter-related research projects focus exclusively on transport problems in the area. In close cooperation with the Africa Region, PPR will look at rural-urban linkages and appropriate urban development policies in these countries.

Support, Training, and Dissemination

4.14 The Strategic Planning and Review Department has disseminated the results of PPR (and other Bank units') work through preparation of the President's Report to the Development Committee, his speech to the UNCTAD meeting, and through participation in a variety of UN Agency, OECD and NGO meetings where the Bank's poverty alleviation, environmental, and resource mobilization activities are major concerns. Further, this Department is also preparing a progress report on Structural Adjustment lending and on completing the report of the Poverty Task Force.

4.15 PPR is also active in disseminating the results of its work within the Bank through participation in Bank operational missions and the organization of seminars and workshops. These activities are of considerable importance in all PPR Departments. At the present time, PPR has the difficult task of constraining the response to demands for operational support, in order not to sacrifice its policy and research activities. In the newer activities -- in particular, environment and women in development -- a decision has been made that substantial support, dissemination and training efforts will be undertaken in order to influence the nature of Bank operations and policy dialogue as expeditiously as feasible. Such support is also being provided to structural adjustment operations and to external debt analyses.

4.15(a) A report summarizing FY87 Bank research activities will be submitted to the Board in December. It will provide a review of the changes that occurred in the Bank's research portfolio during recent years and outline proposals for its future orientation.

4.15(b) Although the organization of EDI has not been substantially affected by the Bank-wide reorganization, there has been a significant change of staff designed to match more closely the skills required to support the work program presented to the Board in April 1987. New curricula are being introduced on financial sector reform, adjustment issues for EMENA countries, agricultural policy reforms and other subjects. In the expanding support for training institutes, the emphasis is on starting-up the UNDP project on strengthening Sub-Saharan African institutes, fostering institute networks in China and increasing transfer of techniques to partner institutes in joint courses.

Planning and Budgeting

4.16 The reorganization has been reflected in the Bank's FY-88 budgets and these are being distributed at the department and division levels. Also in distribution is a revision of FY-88 work plans to reflect responsibilities under the new structure and to take account of present staffing levels, budget constraints, and substantive emphases. In an effort to strengthen the linkages among institutional strategic planning, work programming and budgeting, the Planning and Budgeting Department (PBD) and the Strategic Planning and Review Department (SPR) have begun a process of close collaboration to shape the strategic agenda and the budget framework for FY-89. Within PBD, work has started to explore the implications of nominal full-cost dollar budgeting and develop the means for introducing it. PBD is in the process of identifying, for special attention and close monitoring, those dimensions of work programs which are of particular interest to top management and the Board.

Management and Process Issues

4.17 Several units of PPR have not yet been adequately staffed, but for the most part this is due to skills match problems with available staff on the roster. External recruitment will be used to fill many such positions. It is expected that notification of the proposed appointment of the Vice President, Development Economics and Chief Economist, will be ~~distributed to the Board within a few days~~. External candidates for the position of the Director of the Environment Department have been interviewed and the selection is expected to be made shortly.

4.18 Process improvements affecting PPR's work on the Bank's strategic agenda and its interaction with other complexes is well underway. A draft document on procedures for initiating and reviewing policy papers is being reviewed in the Complex. The agenda for Policy Committee review of policy papers and planning documents has been prepared, while work is in progress on the agenda for reviews to provide feedback to Operations on cross-regional trends in selected areas. Also ongoing are efforts to improve PPR/Operations linkages through the establishment of "informal colleges" linking PPR departments with their Operations counterparts to plan staff training, research, and policy priorities.

Section 5

The Administration Complex

5.1 Having played a central role in the implementation of the reorganization, the Administrative Complex is now focusing a growing proportion of its efforts on its post-reorganization responsibilities. The Complex is shifting its operational mode from centralized production of services to its new mandate to set policies and standards, and to ensure that conditions are adequate Bank-wide for their successful implementation. FY-88 should therefore be seen as a transitional year for the Complex, but important initiatives have and will continue to be launched during the year in the areas of (i) human resource management, (ii) communication strategies both internally and externally, (iii) information technologies, (iv) facilities and services, and (v) evaluation, monitoring, and auditing.

Human Resource Management

5.2 After completion of the reassignment process, the top priority for the Complex is to put in place the basic building blocks for a revamped human resources strategy. A strategy paper is under preparation for submission to the Policy Committee this year. Studies and reviews on the benefits delivery system, promotion policy, an expanded training program, recruitment, objectives and nature of medical services and field support services are either underway or planned for later in the fiscal year. The Bank's compensation and reward system, including pension arrangements, will require overhaul during the next year in collaboration with the IMF.

Communications

5.3 Internal communications is still concerned with the effects on staff morale caused by the selection process and separations. The Bank's written communication tools are being used to present information, answer questions, and provide updates. Efforts to encourage face-to-face management-to-staff communication are being planned, inasmuch as it is the responsibility of line management to both instill the new culture of the Bank and to help revive staff morale. Improvements in morale will closely follow the restoration of momentum in the Bank's work in the four complexes, a process now well underway. No new legal appeals have been filed since the last progress report at the end of July, and the Legal Department has filed the Bank's position on the cases it has received. About a dozen administrative reviews have been requested by staff to date within their respective Vice-Presidential units. Other cases of disagreements involving separation and selection decisions have required careful and close follow-up by managers and personnel officers to ensure that fairness was maintained. Not all, but many such cases have been settled to the reasonable satisfaction of the parties involved.

5.4 External communications strategies under the reorganized External Affairs Vice Presidency are the subject of a study which is examining the organizational placement, level, and procedures for developing and implementing external affairs policy in the Bank.

Information Technologies

5.5 Making better use of information technology resources within the Bank is another top priority for the Complex. A key first step is the installation of the Information Technology Policy Committee for which the terms of reference are being prepared. The Committee's top priority this fiscal year will be the production of a Bank-wide information system plan, the work on which is scheduled to be initiated later this year. Decentralization of end-user support personnel has progressed well with Phase I ahead of schedule. The goal of greater reliance on the market as a source of services has been the subject of three completed studies on contracting out with other studies scheduled for later in the fiscal year.

Facilities and Services

5.6 Management of facilities and services must be consistent with technology choices and reflect the broader institutional concerns for quality, efficiency, and economy of operation. The present policy of integration of information/technology with facilities will be pursued further through a number of initiatives (initial study and first phase of Main Complex retrofit and telephone system conversion; reorientation of records management toward videotext, etc.). The three-year program of studies on contracting out of services (including the operational definition of "full cost recovery," outside contract market assessment, and chargeback implications) will be pursued vigorously and their recommendations will be promptly implemented. The focus in FY-88 will be on translation services, physical plant operations and publication sales.

Policy Evaluation, Monitoring, and Auditing

5.7 Given the increased decentralization of decision making authority, the growing complexity of Bank activities and the increased use of electronic systems, the role of the Internal Audit Department will become even more crucial than in the past. A number of issues will be urgently addressed: among them, the definition of auditing standards; a more judgmental determination of work program priorities (which should be risk-driven rather than calendar-driven); a clarification of the respective roles of IAD, OED, PPR, etc.; a reassessment of the interaction of IAD with the Joint Audit Committee; and a clear determination of the nature and extent of delegation to the SVPAD of supervisory responsibilities over IAD.

Section 6

Staff Selection and Training

Selection of Staff

6.1 Round 1 of staff selections ended on July 22. A total of 5,116 staff, or about 86% of the 5,977 staff on Board as of end June, were placed in Round 1 or were unaffected by the reorganization and did not participate in the selection process. Of these initial placements, 417 were in managerial and senior non-managerial positions. Some 862 staff were either not selected or declined offers in their previous broad organizational groupings during Round 1, while roughly 700 vacancies remained at the end of Round 1. Round 2 of staff selections, which was designed to facilitate Bank-wide matching of remaining candidates and vacancies, began on August 3. Table 1 gives the details of the overall staffing situation by grade level group and by nationality, as of August 31, 1987.

6.2 Round 2 selections are continuing and a number of specific measures are being implemented to help make as many job-person matches Bank-wide as possible before the scheduled September 30 end of the Round 2 process. These special measures include the following:

(i) systematic skill searches are being conducted for each remaining vacancy using the Staff Profile skills inventory which contains both Bank and pre-Bank experience;

(ii) line managers have carefully reviewed the rosters of unselected staff to identify candidates both for selection and for training/retraining;

(iii) senior managers have completed reviews of the efforts which have been made to fill each vacancy in their units;

(iv) specialized placement panels, each chaired by a senior manager, have conducted systematic Bank-wide reviews of vacancies and candidates in particular disciplines and identified some candidates whose skills were missed in earlier assessments by managers;

(v) senior managers are also conducting reviews within their units to see whether any marginal redistributions of already selected staff would enable greater absorption of still available staff.

Unselected staff are aware of these measures and have been encouraged to explore all positions for which they consider themselves suitable. Staff who may have been avoiding selection have been advised that this might lead to separation without the benefit of any special compensation.

Training/Retraining

6.3 Both staff and managers have been encouraged to pursue training/retraining options where these are likely to lead to job-person matches. At this point, firm retraining plans associated with the redeployment of staff have been agreed with 34 staff members in the following disciplines:

Table 1

STAFFING SITUATION AS OF AUGUST 31, 1987 1/

	Staff Selected or Not Affected by the Reorganization							Staff Not Selected				
	Oper	FIN	PPR	ADM	Other Units	Other/2	TOTAL	Package A	Package B	Round 2 Roster	TOTAL	Total Staff
HIGHER LEVEL STAFF												
Part 1 A. US	411	87	139	199	54	11	901	11	49	45	105	1006
B. UK	172	18	40	51	9	3	293	6	26	16	48	341
C. Japan	32	6	4	6	1	0	49	0	0	2	2	51
D. France	123	10	21	31	11	1	197	2	10	11	23	220
E. Germany	68	7	11	9	7	2	104	3	5	12	20	124
F. Other P1	285	36	64	45	31	5	466	8	29	34	71	537
Subtotal Part 1:	1091	164	279	341	113	22	2010	30	119	120	269	2279
Part 2 G. Africa	142	12	23	12	17	3	209	2	4	13	19	228
H. Asia	372	105	122	76	25	5	705	8	25	78	111	816
I. Europe Part 2	76	7	17	13	6	0	119	1	5	6	12	[illegible]
J. West Hemisphere	190	26	46	47	19	0	328	4	9	25	38	366
Subtotal Part 2:	780	150	208	148	67	8	1361	15	43	122	180	1541
Subtotal HL Staff:	1871	314	487	489	180	30	3371	45	162	242	449	3820
Of Which: Women	360	127	128	185	51	6	857	12	31	73	116	973
SubSaharan	103	9	19	7	10	2	150	2	1	10	13	163
Arab League	60	5	9	7	11	2	94	1	5	11	17	111
Level 26-above	200	25	75	23	28	8	359	0	61	5	66	425
Level 21-25	1487	161	296	279	135	18	2376	33	66	161	260	2636
Level 18-20	184	128	116	187	16	4	635	12	35	76	123	758
SUPPORT LEVEL STAFF:	864	179	254	448	170	14	1929	32	42	154	228	2157
TOTAL (HL and SL):	2735	493	741	937	350	44	5300	77	204 3/	396	677	5977

Notes: 1/ Includes all regular, fixed-term, and part-time regular IBRD staff on board on 30-June-87.

2/ "Other" includes staff terminating for reasons other than the Reorganization, staff undertaking training with institutional re-entry guarantee, and staff on extended sick leave or pending medical disability cases.

3/ Includes 21 separations budgeted prior to Reorganization.

Economists	7
Loan Officer/Country Officer	7
Technical Specialists	6
Financial Analysts	6
(former) Managers	5
Personnel Staff	2
Secretarial	1
	34

6.4 Among these, there are 20 cases of language training. The others range from relatively short courses to formal in-residence master's programs. The total training costs identified to date are about $600,000 (including fees/tuition, related other costs and, as consultants will be needed to replace staff away on longer term training, the salary costs in those cases). It is expected that additional training/retraining possibilities will be identified toward the end of Round 2, as a substantial number of additional training cases are emerging as Round 2 nears completion.

6.5 It is also expected that further training plans will be developed for selected staff after the end of Round 2. Through this training, managers will focus on improving the skills of the staff they have selected to meet the requirements of their work programs.

Section 7

Status of Supplementary Budget and Request for Sources of Additional Funding

7.1 This section concentrates on the budgetary aspects of the Reorganization. It compares direct costs incurred to-date with: (i) the estimates included in the "Supplementary Budget for the Reorganization of the Bank" (R87-85 dated May 7, 1987); and (ii) the alternative formulation included in the "Note on a More Likely Estimate" dated May 15, 1987. {Based on this review, it is recommended that a contribution of $___ million be approved to help fund the full requirements of the Reorganization.}

The Supplementary Budget

7.2 The original Supplementary Budget proposed for the Reorganization (submitted to the Board of Executive Directors on May 4, 1987) provided for separation of up to 600 staff members and for incurring up to $152.4 million in direct costs. However, based on the alternative formulation of May 15, 1987, it was decided to proceed on the basis of more conservative projections of staff redundancies and skills mismatches and lower budgetary provisions for staff separations. Accordingly, the Supplementary Budget for the Reorganization approved on May 19, 1987 involved a ceiling for direct costs of $101.3 million, based on an estimate of 390 staff separations.[1]

7.3 It has been widely accepted from the outset of the Reorganization that it would be difficult to predict the exact outcome of a relatively decentralized process involving the accountable managers, a large number of specific job descriptions, and the selection of staff to carry them out. Equally, the agreed formulas underlying compensation for staff separations were sensitive to the demographic characteristics of the separated population and these too could not be known in advance. Given the tight constraints underlying the "more likely" scenario and the level of uncertainty in predicting the precise outcome of the selection process, management undertook to carefully monitor progress of all aspects of the Reorganization so as to permit a timely return to the Board, if necessary, to seek authorization for additional expenditures should actual funding requirements prove larger than provided in the Supplementary Budget.

Number of Staff Separations

7.4 While the staff selection process has not yet run its full course, it is far enough advanced to permit a reasonably sound judgment as to its

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1/ An additional amount of $51.1 million, representing the difference between the original and revised requests, was proposed as a contingency but requires further review and approval by the Board.

likely outcome and the related budgetary impact. The major elements of the selection process are shown below (Table 2) in relation to the original estimates and those underlying the Supplementary Budget.

Table 2

Number of Redundancies and Mismatches

(No.)	Original Estimates	Supplementary Budget	Expected Outcome
1. Structural/efficiency redundancies	320	320	320
2. Skill Mismatches remedied through outside recruitment	280	70	{___}
3. Total Separations of which:	600	390	{___}
4. Voluntary (A Packages)	-	100	{___}
5. Involuntary (B Packages)	600	290	{___}
6. Skill Mismatches remedied through training	-	100	{___}
7. Total Skill Mix Cases (2+6)	280	170	{___}

7.5 As of August 31, a total of 183 staff had been given the involuntary separation option with Package B benefits (excluding 21 separations budgeted prior to Reorganization). Of those, just under 80 had completed the process of negotiating and signing the necessary agreements. In addition to the involuntary separation cases with Package B benefits, 77 voluntary separations with Package A benefits have been agreed. Against an estimate of 100 included in the Supplementary Budget, actual access to A packages has been limited so far to 77 in order to conserve critically needed skills and to minimize budget outlays.

7.6 As of September 4, 1987, there were 360 staff still not placed, of which 227 were higher level and 133 were support level (see Table 3). As Round 2 progresses, some of these staff will be placed, but it is expected that some will still remain unplaced and face separation.

7.7 To estimate the number of expected additional placements in the remainder of Round 2, the Personnel Department has examined each set of vacancies still available and the staff still in the roster with skills appropriate to the vacancies. The systematic screening of candidates on the roster now taking place has been further strengthened through the work of the technical, economists, and other screening/placement panels which were organized during Round 2. On the basis of the results of the screening process so far, judgments can be made on how many of those still unselected will be placed. Consideration has been given of the candidates' performance records, and likely commitment to the Bank. The final judgment is that during the remaining period of Round 2 not more than ____ further placements will be made (__ higher level; __ support level). This leaves a total number of ___ staff whose disposition would need to be managed at the end of Round 2. This is summarized in Table 3.

Table 3

Summary of Unplaced Staff, Expected Placements, and Potential Separations

	HL	SL	Total
Presently Unplaced	227	133	360
Expected Placements	___	___	___
Unplaced at end Round 2	___	___	___
Ineligible for Packages	___	___	___
Potential Separations	___	___	___

7.8 Thus, the total number of separation packages (both A and B) is expected to reach {___}. This is {___} more than proposed for in the Supplementary Budget but still {___} less than the originally estimated "upper limit". This means that the selection process is expected to accommodate {______} out of 5,914 staff members, a retention rate of {____}%.

7.9 The vacancy rate resulting from the selection process will be relatively high -- about {__}%. The anatomy of vacancies confirms a pent up demand for highly qualified policy and sector economists and technical specialists to be met through outside recruitment and training. On the other hand, there is a surplus of administrative and clerical staff made redundant by Reorganization streamlining and the new office technologies. In general, it is clear that most managers have based their decisions on careful staffing plans designed to adapt the skills complement of their units to the new requirements of the Bank's business.

Unit Separation Costs

7.10 Table 4 shows the comparison between original separation costs, those approved in the Supplementary Budget, and the expected outcome.

Table 4

Separation Costs ($m)

	Original Estimates	Supplementary Budget	Expected Outcome
Voluntary Separation Costs ($m)		17.1	___
Involuntary Separation Costs ($m)	147.4	75.6	___
Total Separations Costs ($m)	147.4	92.7	___
Unit Costs ($000)	245	238	___

7.11 Over half of the excess in separation costs over supplementary budget estimates reflects higher than expected unit costs for staff separation. This reflects two factors -- a higher than expected ratio for the number of B to A packages and a higher than expected unit cost for the average B package.

7.12 A major assumption underlying the original cost estimates for the Reorganization was that staff eligible for the enhanced termination package would in demographic terms parallel the average staff population. However, experience has shown a systematic tendency for the older, higher salaried, longer serving groups to be identified as eligible for separation packages. Overall, the average age has been 5 years greater than assumed, the average length of service 3 years longer and the average salary $5,000 above the initial estimates. The number of separated staff at grade 26 and above was also higher than expected.

Table 5

Comparison of Original Estimates and Experience

to date on Demographics of Package B Cases

	Original Board Estimates	Projected and Committed Cases as of August 31, 1987
Levels 26+		
Number	43	65
Average Service	15	19
Average Age	49	56
Average Salary	$84,500	$87,300
Levels 18-25		
Number	214	97
Average Service	10	15
Average Age	44	50
Average Salary	$58,000	$52,800
Levels 11-17		
Number	33	42
Average Service	8	16
Average Age	40	51
Average Salary	$23,000	$27,700

7.13 These differences have had a cumulative impact on the severance pay formula, principally in terms of pension contributions and on some of the other benefits. The cost of the currency option has also been significantly higher than expected given the high share of European staff in total redundancies.

Table 6

{Insert Unit Cost Table}

Cost and Budget Implications

7.14 Because the unit costs of the separation package commitments have proved to be some 16% greater than initially expected, the approved budget of $92.7 million will now be sufficient to cover only 330 separations, not 390 as earlier assumed. The existing budget, therefore, could cover 70 further separations, thus leaving a funding requirement for the remaining _____cases. This is summarized in Table 7.

Table 7

Net Separations Required

Total to be separated		____
Covered by existing budget	330	
Less those already committed a/	260	
Available separations		70 b/
Net separations required		____

a/ Excludes separations budgeted prior to reorganization (20 previous skills mix cases).

b/ Assumes the 70 available packages will be distributed 45 HL; 25 SL.

7.15 While separation costs are, by far, the largest element of the Reorganization budget, total direct costs also include resettlement costs, training of redeployed staff, office moves, modifications in computer-based systems, consultancy/advisory services and overhead costs as shown in Table 8 below.

Table 8

	Original Estimates	Supplementary Budget	Current Estimates
Separations	145.0	92.7	
Resettlement	4.4	1.1	
Training	(10.5)1/	4.5	
Office Moves	2.5	2.5	
Computer and Data Systems	0.5	0.5	
	152.4	101.3	

1/ Not added to the total in original submission.

Financing

7.16 {To be written according to decision of Policy Committee.}

Table 8

{Insert Financing Table}

7.17 The following table updates the "payback" calculations provided to the Board as part of the FY88 Regular Budget document. Based on the same simplified methodology, it shows that the costs of the Reorganization could be paid back over a three-year period instead of the two-year period estimated at the outset. Thus, the "payback" has been kept within an acceptable range.

Table 9

{Insert Payback Table}

Justification for Increased Funding

7.18 The design of the selection process, while responsive to staff rights and expectations, has also adhered vigorously to institutional concerns and procedures so as to place the maximum number of staff. Screening of candidates, the use of vocational panels, and a freeze on external recruitment have ensured that all potential job-person matches have or will be made. Although the total numbers taking advantage of the training option are still relatively modest, training possibilities have been energetically pursued in all cases where they would facilitate placement. It is expected that use of this option will accelerate as Round 2 comes to a close. Short of forced placement, clearly an unacceptable option, little else could have been done to further increase the number of selected staff. Equally, within the agreed provisions of voluntary and involuntary separation packages, little else could have been done to reduce unit separation costs.

7.19 At this juncture in the Reorganization's implementation, it is crucial to move quickly to a fair and final disposition of the unplaced staff. To attempt to carry or place by force unplaced and clearly unplaceable staff will serve only to perpetuate the most painful and disruptive aspect of the Reorganization. A continuation of morale problems, another round of time-consuming and news$rthy appeals, and a lingering sentiment of a process unfinished and commitments unfulfilled would do much to undermine the restored momentum of the institution and deflect the staff's attention from the urgent tasks before the four complexes.

Recommendation

7.20 In order to meet in full the direct costs likely to be incurred to implement the Reorganization, and in particular to absorb the costs of separation for a maximum of {__} staff members, Board approval is sought for { }.

PCM Hetzel.

September 10, 1987

Mr. Conable

Barber -

I chaired the Policy Committee meeting this morning to consider the attached papers from Mr. Wapenhans. The discussion was extensive and, I believe, productive. At the conclusion, we all shared the view that we must go to the Board to ask for supplementary funds.

We also agreed that we should present tentative numbers to the Board indicating that we expect to be able to place an additional 115 people, but given the complexity of individual circumstances, the need to match grades, and the different requirements of individual managers, it would be prudent to recognize that our estimate might be off by as much as 30 people. We should therefore ask the Board for an incremental budget of $33 million, which would be needed if we only placed an additional 85 people, with the understanding that these funds are not fungible and that a saving of about $5-6 million may be possible. We all agreed that the worst possible result would be if we again underestimated requirements so that we would be faced with further internal budget reductions or a second supplementary request to the Board.

The numbers of positions referred to above are those in para 5 of Mr. Wapenhans' Issues Paper; the dollar amounts are those on page 7, minus the efficiency tax.

Having reviewed the remaining people to be placed through the use of professional panels, it was the clear judgment of Personnel that the number of people which we believe have the necessary skills is about 115, as shown in the medium option. The number of additional placements of 165 shown in the low-option is larger than those which we believe have the necessary skills. The low option therefore conceptually involves placing people with less-than-satisfactory skills level exclusively for budgetary reasons. This is not a sustainable position, in light of our objectives.

We also discussed timing. Some felt that you should wait until after the Annual Meetings to present a proposal to the Board. They fear that the uncertainty of the present numbers, the tight deadline we would have to give to the Board (their last meeting is scheduled for September 18), and the fact that many officials are already travelling to various pre-Annual Meetings caucuses, may bring about a request for delay. On the other hand, it would be highly desirable to complete this before the Annual Meetings, when you will meet with many ministers, so that these sessions do not turn into a discussion of this budgetary issues. Moreover, it would be highly desirable for you to be able to say in your Annual Meetings speech that the reorganization has been completed. Subject to the results of our consultation with the Executive Directors, I certainly believe that we should make every effort to get Board approval before the Annual Meetings.

Based on our discussion, I asked Mr. Wapenhans to do the following:

(a) revise the attached Board paper, in light of our discussion.

(b) to have this paper available to you first thing on Monday morning so that, if satisfactory, it can be issued by Monday evening. The reason for delaying until Monday are: (i) two of the professional panels have not yet completed their work and you should avoid going forward again with numbers which have a large margin for errors; (ii) we need to use Thursday, Friday and the weekend to try to implement the recommendations of the earlier panel and to obtain managerial decisions. If the word gets out that a budget request is under way, we would lose a good deal of influence over the managers.

(c) Mr. Wapenhans will consult with a select number of EDS, including the G-7, and have a reading for you on Friday. He will brief them on the rationale that we have discussed this morning and the order of the magnitude of the additional funds required.

We also reviewed the process to date to see whether there were any opportunities for savings. It is very clear that there are a number of anomalies which we have tolerated by a too slavish adherence to hastily drafted mechanical rules. There are too many cases of people who had announced their intention to retire who ended up with a package, and of people with obvious skills who have not been selected because of personal arrangements. There is little to be done about this at this stage, but it is widely talked about and creates an unpleasant aroma. Part of the problem is that we failed to distinguish between skills issues and grading issues particularly for secretarial staff.

In that context, we discussed again our policy regarding hiring of consultants. There was a very strong view in the Committee that the basic rule should be that we do not hire as consultants staff whom we have just laid off on the grounds that they have inadequate skills and that the Vice President for Personnel should be so instructed. We recognized that exceptions would be appropriate because some managers were displaced because there was a surplus and not because they lacked technical skills, and there may be of few highly specialized skills not easily obtained elsewhere. Most of us believe anything other than very tight criteria on exceptions would not only be improper but would expose us, in due course, to serious public charges and ridicule.

If you like, I would be glad to brief you in more detail early on Friday morning.

Ernest Stern

Attachments

THE REORGANIZED WORLD BANK: A PROGRESS REPORT

TABLE OF CONTENTS

09/08/87

Section 1

Introduction

On July 30, the first interim progress report on the reorganization was distributed to members of the Board after a Board discussion of an oral presentation of the report. It was clear from those discussions that the second interim report should include, in addition to the important data on staff reassignment and separations, a comprehensive account of the impact of the reorganization on the work program and output of the four new complexes. In the final analysis, the reorganization would be judged according to its contribution to the Bank's increased efficiency and responsiveness in delivering development assistance to its borrowers. This second interim report has been expanded to include the results achieved so far in reaching that objective.

Section 2

The Operations Complex

2.1 Objectives of the reorganization for the Operations Complex are to strengthen the country focus of the organizational structure, simplify and streamline operational management process, improve the Bank's capacity to deliver assistance on financial aspects of development, and to achieve greater operational responsiveness and efficiency. The reorganized structure of the complex is now largely in place with managerial appointments, staffing, office moves, and technical support facilities completed or nearing completion. The Complex is now planning or has already launched a number of new operational initiatives while implementing the management process changes introduced by the reorganization.

Country Assistance

2.2 An intensive, department-by-department, examination of the status of the Bank's country assistance programs is now complete. This review identified the priorities that the new Country Department must follow in their medium-term country assistance plans to implement the Bank's broad operational objectives and to ensure that the Bank would be positioned to provide the types of lending, policy advice and technical assistance which is most appropriate and responsive to the needs of borrowers. The results of that review are evident in the priorities for key issues and strategic options identified for each of the four regions.

2.3 **Africa**. Crisis management and rehabilitation will continue to dominate the Region's work program, but beginning in this fiscal year, greater attention will be focused on bolstering the foundations for longer term development. Expanded lending in education, women in development, population, nutrition and health, including special emphasis on a regional strategy to combat the spread of AIDS. Stronger efforts to improve natural resource management will be undertaken, especially in connection with the growth of agricultural production and urbanization. Debt management and resource mobilization efforts will follow upon the recent Special Action African Program, and in the area of food production and security, the Region will formulate by the end of FY-88 a Food Security Strategy for Africa which will incorporate specific policies and production programs to guide the Bank's future lending.

2.4 **Asia**. For Asia and China, the Region will augment its significant level of lending in infrastructural and social investments with sharper efforts to address issues in financial system reform, industrial and trade policy and economic liberalization. These same policy areas will be pursued vigorously with the more advanced East Asian economies while intensified work on the macroeconomic adjustments these countries must make goes forward. In the crucial area of poverty alleviation, the Region will support more targeted programs aimed at eliminating malnutrition, diseases, and lack of opportunity.

2.5 **Emena**. The long standing obstacles to a more effective Bank relationship with Egypt will be addressed vigorously with the objective of a breakthrough for this fiscal year. Similarly, in the fast changing lending environment of Eastern Europe, the Region will direct its work toward encouraging their economies to develop more liberalized economic and trading regimes which in turn will allow greater financial integration and trade relations with Western Europe.

2.6 **Latin America and the Caribbean**. Expanded structural and sector adjustment lending will be combined with a wider array of approaches for ameliorating debt-service burdens in its region, while more effective relationships with the global financial community will be part of more active Bank leadership in the debt management area. Economic diversification and institution building will be the hallmark of the lending for the smaller middle-income countries while rehabilitation and reconstruction are the short-term urgent objectives for Haiti and Bolivia.

2.7 Enhancing the Bank's field presence is a prominent aspect of the Bank's emphasis on country focus. The establishment of new resident missions is under consideration in a number of countries where the size of the portfolio and quality of the policy dialogue justify a more permanent Bank presence. Currently, Turkey and Morocco are being considered for FY-88, and Egypt and Yugoslavia for FY-89.

Financial Intermediation

2.8 The center of the Bank's effort in assisting borrowers with debt restructuring, co-financing, financing strategies, and improved access to capital markets is the Vice Presidency for Financial Intermediation

Services. Recruitment of management and staff for this new unit is progressing well, and it is expected that the Vice President will be appointed [before the end of the year] [in the next month or so].

2.9 A financial technical assistance program with four new positions has been launched by the Finance Complex in cooperation with the Regions. Advisory services in response to requests from Operations have been delivered for several countries through seminars and short missions.

Operations Process and Management Issues

2.10 The reorganization envisages greater lending work efficiency through a number of process improvements. The Complex is now undertaking the streamlining of approval processes, increased delegation and greater management accountability down the line, the reduction of loan processing times, closer coordination between country and sector staff, and a reduction in the number of reviews. These and other changes will be reflected in lower completion costs of projects and a reduction of staff-years lost due to dropped projects. With respect to dropped projects, managers in the new structure will be able to stop work on non-viable projects earlier in the project cycle. Revised operating procedures and practices are being developed and distributed so that clear guidelines for all the revised working processes and procedures within Operations will be available by the end of FY-88. Draft Operational Guidelines for investment and adjustment lending have been circulated for review, while plans for revising the Operations Manual Section on Economic and Sector work should be completed by the end of Calendar '87.

Operations Pipeline

2.11 A detailed paper on the status of the Operations pipeline was submitted to the Board on September ___, 1987. It concluded that all parts of the Operations complex are now proceeding to ensure that the FY-88-89 lending pipeline is built up and strengthened in all regions/countries and across all sectors. In the case of adjustment lending, special efforts will continue to be made, in line with country circumstances, to improve the policy dialogue underpinning the preparation of these operations. Overall, lending work will receive top priority in the deployment of staff and budget resources. These efforts should accelerate the pace of appraisal work in FY-88, while the Bank continues to maintain its traditional standards of high quality in its operations.

Section 3

Finance Complex

3.1 Although the reorganization did not identify the Finance Complex as in need of major restructuring, a number of significant changes have taken place in the Complex, both before and during the reorganization. Treasurer's implemented major changes in its component units before the Bank-wide reorganization. Controller's and the Financial Policy Staff are putting in place the recommendations of the reorganization task force. Making allowance for some as yet unresolved staffing and systems problems, these changes have yielded promising improvements in the overall response capacity of the Finance Complex and in the efficiency and effectiveness of its operations. This is being applied to both the FY-88 financing activities of the Complex and to work on several longer-term policy issues.

FY-88 Financing

3.2 Implementation of the $11 billion borrowing program is well underway with borrowings totalling $3.5 billion having been completed at very tight spreads over the cost of the relevant Government bond benchmarks. A pipeline of borrowing transactions totalling a further $1.0-1.5 billion is well in hand for completion before the end of September.

3.3 The behavior of the credit markets has been particularly challenging for the management of the Bank's $19 billion liquidity portfolio. A very volatile bear market has brought sharp increases in interest rates which threatened to inflict several capital losses on the Bank's portfolio. Skillful risk management by the Investment Staff has kept initial income projections on target for the year and has generated investment results which so far exceed our benchmark indices by a comfortable margin.

3.4 There have already been three Board discussions of issues relating to the GCI. Substantial progress has been made.

- One of the most contentious issues -- that is, how to handle pending requests for special capital increases -- appears well on the way to being resolved amicably.

- There has also been a narrowing of differences with regard to the share to be paid-in.

3.5 Implementation of IDA-8 is progressing as expected. Several countries have already notified. Once Japan notifies -- which is expected prior to the Annual Meeting -- the advance commitment scheme will come into force.

3.6 Steps to improve the Bank's headroom include: approval of the resolution incorporating membership shares in the Bank's capital base; the release and reallocation of over 20,000 shares to other countries; a tightening up of arrangements relating to the subscription of unsubscribed shares; and the distribution to the Board of a set of projections of Bank headroom, which will serve as a basis for further monitoring.

Longer-Term Issues

3.7 Work on longer-term issues includes: a nearly complete review of liquidity policy and plans for a paper on the subject to be presented to the Board in November; preparations for a series of Board seminars on management of currency risks which are passed on to the Bank's borrowers; and a possible expansion of lending instruments available to borrowers is under review.

Management and Process Issues

3.8 Restructuring of the Controller's function is underway, including the development of new systems and training of staff in Controller's and in the receiving units. Agreement has been reached on a work schedule which will transfer accounting functions to outside business units as the new systems are completed and staff are in place and ready to receive them. In the Loan Department, management of Trust Funds is being strengthened and the program to modify loan disbursement controls has been initiated.

3.9 New arrangements for the effective operation of the Pension Finance Committee and for managing the Pension Fund are nearing completion.

3.10 Improvements to the principal facilities of the trading function in the Investments Department are about complete, and although severe budget and staffing constraints have hampered efforts, progress has been achieved in improving information and computer services in both the

Investments and Financial Operations Department. Improvements in the staffing of the Investment and the Financial Operations Departments are still elusive. Both departments employ mobile, highly-prized talent. The ability to retain such talent is limited, and Bank recruitment and staffing strategies must act on that reality once the Bank-wide reorganization is complete.

Section 4

The Policy Planning and Research Complex

4.1 PPR has three major roles to play in the Bank: it is a service unit that works with other Bank units to provide information and policy guidance based on research and analyses of Bank experience; it is the Bank's center for front-rank research and teaching; and it is the Bank's planning and monitoring center, not only for Operations policy, but for the institution's budget as well. With most of PPR's units now moved and staffed, policy and research work is underway under the broad headings of six major development issues (adjustment, debt management, poverty and social policies, environment, women in development, and Sub-Saharan Africa), while planning and budgeting initiatives move forward in PBD.

Planning and Budgeting

4.2 The reorganization has been reflected in the Bank's FY-88 budgets and these are being distributed at the department and division levels. Also in distribution is a revision of FY-88 work plans to reflect responsibilities under the new structure and to take account of present staffing levels, budget constraints, and substantive emphases. In an effort to strengthen the linkages among institutional strategic planning, work programming and budgeting, the Planning and Budgeting Department (PBD) and the Strategic Planning and Review Department (SPR) have begun a process of close collaboration to shape the strategic agenda and the budget framework for FY-89. Within PBD, work has started to explore the implications of nominal full-cost dollar budgeting and develop the means for introducing it. PBD is in the process of identifying, for special attention and close monitoring, those dimensions of work programs which are of particular interest to top management and the Board.

Adjustment Programs and Policies

4.3 The PPR work programs deals with important aspects of adjustment programs and policies at both the macroeconomic and sectoral levels. The Country Economics Department is undertaking a series of country studies which focus on: the effectiveness of adjustment programs in accomplishing stabilization objectives; the factors influencing the extent of "supply responses" (the level and efficiency of output); and the impact of adjustment programs on income distribution and poverty. The International Economics Department collaborates in these efforts by disseminating statistics (e.g. the Economic Indicators Tables) and its analyses and projections of world demand, inflation and exchange rates.

4.4 Adjustment issues are prominent in the work program of the Agriculture, Industry and Energy, and Infrastructure and Urban Development Departments. The Agriculture Department is preparing a global strategy paper on the livestock sector with specific attention to policies needed to improve economic efficiency of the sector and to strengthen its technological base. A paper on low global commodity prices is nearing completion and suggests how Bank lending programs need to be modified in response to this problem. A related paper addresses the need for agricultural diversification in Asia. In the Industry and Energy Department, a major concern of research and policy work is centered on how to insure an appropriate supply response to the trade and policy measures being introduced as part of structural adjustment programs. Several papers are in progress on aspects of this problem. The operations work of the Department will focus on the design and implementation of industrial adjustment programs in 15 key countries. In the energy sector, research studies relating to the adjustment process include a retrospective analysis of the Bank's lending for electric power and another on petroleum investment lending, both yielding important insights into the Bank's operations in those sectors.

4.5 Housing, transportation, and urban infrastructure, which constitute about half of the capital stock in developing countries, have not been given adequate attention in structural adjustment programs. The research projects in the Department of Infrastructure and Urban Development address cost recovery and inappropriately designed financing mechanisms in housing finance institutions, and in water and transport sectors. Creating a conducive environment for private sector development is a central theme as well. A major study focuses on transport-related trade facilitation issues, analyzing how inappropriate transport policies raise costs and severely affect the international competitiveness of export enterprises.

4.6 Reaching across sectors, the Country Economics Department has focused on private sector development, with work on such issues as regulatory reforms, privatization of public enterprises, and strengthening private institutions which interact with government. A series of papers will be prepared to diagnose the problem of the private sector in particular countries and sectors.

External Debt Management

4.7 Adjustment programs and policies are an integral part of external debt management. Much of PPR's work focusing on improvements in efficiency, expansion of exports, and measures for long-term sustainable growth will contribute importantly to better understanding of ways to deal with external debt difficulties. In addition, the International Economics Department is planning to increase its technical assistance in debt data management and has already strengthened procedures to monitor the adequacy of these data. Intensified work on debt-related policy issues is being pursued both within that Department and by a Bank-wide Task Force it chairs.

Poverty, Productivity, and Social Policies

4.8 Poverty alleviation is being institutionalized as an integral part of the Bank's analyses leading to the formulation of structural and sectoral adjustment programs. The Population and Human Resources Department's work program is designed to promote country allocation of appropriate levels of Bank resources to the development of human capital, and to help ensure that these resources are used as efficiently as possible.

4.9 The wealth of data generated by Living Standards Surveys is being used to analyze the causes and consequences of poverty in developing countries. The focus of the analyses is on the behavioural responses of households and individuals to changes in the economic environment.

4.10 In the education sector, a paper on Education in Sub-Saharan Africa has already been discussed with African ministers of education and with the donor community. Papers are also underway on the effectiveness and efficiency of education and on vocational education and training. The objective of doubling Bank lending for population, health and nutrition by 1990 is being supported by analyses of appropriate instruments and policies for investments in these sectors, particularly in Africa. A major policy paper (in close collaboration with the Africa Region) on health and nutrition in Sub-Saharan Africa is being prepared. In cooperation with WHO's Special Program on AIDS, an economic and demographic analysis of the consequences of the rapid emergence of this disease is being undertaken.

Environment

4.11 Environmental concerns are now included, as part of the analyses of issues in agriculture, industry, and infrastructure. For example, the Agriculture Department is undertaking a comprehensive review of resettlement activities in the Bank's lending program with positive results already generated in how the Bank deals with these problems. In addition, the Environment Department's staff has dedicated considerable efforts to working out procedures for introducing environmental concerns systematically into the Bank's operational work. A number of countries have been selected, in agreement with Regional staff, for assessment of natural resource bases, trends, and development of appropriate environmental management strategies. Field work has started in Indonesia and China and is planned for other countries. UNDP will jointly finance these studies in selected countries.

4.12 Other ongoing activities include preparation of a Tropical Forest Action Plan initiative and a research effort on industrial hazards. Work has also begun on research preparation in the areas of agriculture pricing and sustainability; air quality management; and the role of women in natural resource management. Consultants are addressing such issues as cost effectiveness of alternative soil conservation techniques, and legal and cultural aspects of environmental management. External liaison with UN agencies, bilateral agencies and NGOs has been an important activity.

Role of Women in Development

4.13 The Women in Development Division is initiating the Bank's first policy work in this field, organizing associated research, and expanding operational support focused on economic strategy/SALs, agriculture, education and the Safe Motherhood Initiative. In association with the Regions, it has begun "country action plans" in Kenya, Ethiopia, India, Bangladesh, and Bolivia and has been asked to begin several others. In cooperation with the Africa Region, it has begun a UNDP project to raise the agricultural productivity of African women. The initial policy work will include analysis of "best practice" projects and development of operational guidelines for addressing women's issues in economic analysis and in key sectors.

Sub-Saharan Africa

4.14 Africa is a major focus of attention in both the macroeconomic and sector efforts of PPR. For example, the work on the strategy and efficiency of household energy supplies is concerned primarily with Africa. Both the adjustment and external debt servicing difficulties of countries in this geographic area receive considerable attention in the PPR work program. In addition, particular attention is being paid to productivity improvements. A paper addresses design issues in African agricultural lending, for example. Industrial adjustment in Sub-Saharan Africa is also being examined. Three inter-related research projects focus exclusively on transport problems in the area. In close cooperation with the Africa Region, PPR will look at rural-urban linkages and appropriate urban development policies in these countries.

Support, Training, and Dissemination

4.15 The Strategic Planning and Review Department has disseminated the results of PPR (and other Bank units') work through preparation of the President's Report to the Development Committee, his speech to the UNCTAD meeting, and through participation in a variety of UN Agency, OECD and NGO meetings where the Bank's poverty alleviation, environmental, and resource mobilization activities are major concerns. Further, this Department is also preparing a progress report on Structural Adjustment lending and on completing the report of the Poverty Task Force.

4.16 PPR is also active in disseminating the results of its work within the Bank through participation in Bank operational missions and the organization of seminars and workshops. These activities are of considerable importance in all PPR Departments. At the present time, PPR has the difficult task of constraining the response to demands for operational support, in order not to sacrifice its policy and research activities. In the newer activities -- in particular, environment and women in development -- a decision has been made that large support, dissemination and training efforts will be undertaken in order to influence the nature of Bank operations and policy dialogue as expeditiously as feasible. Such support is also being provided to structural adjustment operations and to external debt analyses.

Management and Process Issues

4.17 Several units of PPR have not yet been adequately staffed, but for the most part this is due to skills match problems with available staff on the roster. External recruitment will be used to fill many such positions.

4.18 Process improvements affecting PPR's work on the Bank's strategic agenda and its interaction with other complexes is well underway. A draft document on procedures for initiating and reviewing policy papers is being reviewed in the Complex. The agenda for Policy Committee review of policy papers and planning documents has been prepared, while work is in progress on the agenda for reviews to provide feedback to Operations on cross-regional trends in selected areas. Also ongoing are efforts to improve PPR/Operations linkages through the establishment of "informal colleges" linking PPR departments with their Operations counterparts to plan staff training, research, and policy priorities.

Section 5

The Administration Complex

5.1 Having played a central role in the implementation of the reorganization, the Administrative Complex is now focusing a growing proportion of its efforts on its post-reorganization responsibilities. The Complex is shifting its operational mode from centralized production of services to its new mandate to set policies and standards, and to ensure that conditions are adequate Bank-wide for their successful implementation. FY-88 should therefore be seen as a transitional year for the Complex, but important initiatives have and will continue to be launched during the year in the areas of (i) human resource management, (ii) communication strategies both internally and externally, (iii) information technologies, (iv) facilities and services, and (v) evaluation, monitoring, and auditing.

Human Resource Management

5.2 After completion of the reassignment process, the top priority for the Complex is to put in place the basic building blocks for a revamped human resources strategy. A strategy paper is under preparation for submission to the Policy Committee this year. Studies and reviews on the benefits delivery system, promotion policy, an expanded training program, recruitment, objectives and nature of medical services and field support services are either underway or planned for later in the fiscal year. The Bank's compensation and reward system, including pension arrangements, will require overhaul during the next year in collaboration with the IMF.

Communications

5.3 Internal communications is still concerned with the effects on staff morale caused by the selection process and separations. The Bank's written communication tools are being used to present information, answer questions, and provide updates. Efforts to encourage face-to-face management-to-staff communication are being planned, inasmuch as it is the responsibility of line management to both instill the new culture of the Bank and to help revive staff morale. Improvements in morale will closely follow the restoration of momentum in the Bank's work in the four complexes, a process now well underway. No new legal appeals have been filed since the last progress report at the end of July, and the Legal Department has filed the Bank's position on the cases it has received. About a dozen administrative reviews have been requested by staff to date within their respective Vice-Presidential units. Other cases of disagreements involving separation and selection decisions have required careful and close follow-up by managers and personnel officers to ensure that fairness was maintained. Not all, but many such cases have been settled to the reasonable satisfaction of the parties involved.

5.4 External communications strategies under the reorganized External Affairs Vice Presidency are the subject of a study which is examining the organizational placement, level, and procedures for developing and implementing external affairs policy in the Bank.

Information Technologies

5.5 Making better use of information technology resources within the Bank is another top priority for the Complex. A key first step is the installation of the Information Technology Policy Committee for which the terms of reference are being prepared. The Committee's top priority this fiscal year will be the production of a Bank-wide information system plan, the work on which is scheduled to be initiated later this year. Decentralization of end-user support personnel has progressed well with Phase I ahead of schedule. The goal of greater reliance on the market as a source of services has been the subject of three completed studies on contracting out with other studies scheduled for later in the fiscal year.

Facilities and Services

5.6 Management of facilities and services must be consistent with technology choices and reflect the broader institutional concerns for quality, efficiency, and economy of operation. The present policy of integration of information/technology with facilities will be pursued further through a number of initiatives (initial study and first phase of Main Complex retrofit and telephone system conversion; reorientation of records management toward videotext, etc.). The three-year program of studies on contracting out of services (including the operational definition of "full cost recovery," outside contract market assessment, and chargeback implications) will be pursued vigorously and their recommendations will be promptly implemented. The focus in FY-88 will be on translation services, physical plant operations and publication sales.

Policy Evaluation, Monitoring, and Auditing

5.7 Given the increased decentralization of decision making authority, the growing complexity of Bank activities and the increased use of electronic systems, the role of the Internal Audit Department will become even more crucial than in the past. A number of issues will be urgently addressed: among them, the definition of auditing standards; a more judgmental determination of work program priorities (which should be risk-driven rather than calendar-driven); a clarification of the respective roles of IAD, OED, PPR, etc.; a reassessment of the interaction of IAD with the Joint Audit Committee; and a clear determination of the nature and extent of delegation to the SVPAD of supervisory responsibilities over IAD.

Section 6

Staff Selection and Training

Selection of Staff

6.1 Round 1 of staff selections ended on July 22. A total of 5,116 staff, or about 86% of the 5,977 staff on Board as of end June, were placed in Round 1 or were unaffected by the reorganization and did not participate in the selection process. Of these initial placements, 417 were in managerial and senior non-managerial positions. Some 862 staff were either not selected or declined offers in their previous broad organizational groupings during Round 1, while roughly 700 vacancies remained at the end of Round 1. Round 2 of staff selections, which was designed to facilitate Bank-wide matching of remaining candidates and vacancies, began on August 3. Table 1 gives the details of the overall staffing situation by grade level group and by nationality, as of August 31, 1987.

6.2 Round 2 selections are continuing and a number of specific measures are being implemented to help make as many job-person matches Bank-wide as possible before the scheduled September 30 end of the Round 2 process. These special measures include the following:

(i) systematic skill searches are being conducted for each remaining vacancy using the Staff Profile skills inventory which contains both Bank and pre-Bank experience;

Table 1

STAFFING SITUATION AS OF AUGUST 31, 1987 1/

		Staff Selected or Not Affected by the Reorganization							Staff Not Selected				
		Oper	FIN	PPR	ADM	Other Units	Other/2	TOTAL	Package A	Package B	Round 2 Roster	TOTAL	Total Staff
HIGHER LEVEL STAFF													
Part 1	A. US	411	87	139	199	54	11	901	11	49	45	105	1006
	B. UK	172	18	40	51	9	3	293	6	26	16	48	341
	C. Japan	32	6	4	6	1	0	49	0	0	2	2	51
	D. France	123	10	21	31	11	1	197	2	10	11	23	220
	E. Germany	68	7	11	9	7	2	104	3	5	12	20	124
	F. Other P1	285	36	64	45	31	5	466	8	29	34	71	537
Subtotal Part 1:		1091	164	279	341	113	22	2010	30	119	120	269	2279
Part 2	G. Africa	142	12	23	12	17	3	209	2	4	13	19	228
	H. Asia	372	105	122	76	25	5	705	8	25	78	111	816
	I. Europe Part 2	76	7	17	13	6	0	119	1	5	6	12	131
	J. West Hemisphere	190	26	46	47	19	0	328	4	9	25	38	366
Subtotal Part 2:		780	150	208	148	67	8	1361	15	43	122	180	1541
Subtotal HL Staff:		1871	314	487	489	180	30	3371	45	162	242	449	3820
Of Which:	Women	360	127	128	185	51	6	857	12	31	73	116	973
	SubSaharan	103	9	19	7	10	2	150	2	1	10	13	163
	Arab League	60	5	9	7	11	2	94	1	5	11	17	111
	Level 26-above	200	25	75	23	28	8	359	0	61	5	66	425
	Level 21-25	1487	161	296	279	135	18	2376	33	66	161	260	2636
	Level 18-20	184	128	116	187	16	4	635	12	35	76	123	758
SUPPORT LEVEL STAFF:		864	179	254	448	170	14	1929	32	42	154	228	2157
TOTAL (HL and SL):		2735	493	741	937	350	44	5300	77	204 3/	396	677	5977

Notes: 1/ Includes all regular, fixed-term, and part-time regular IBRD staff on board on 30-June-87.

2/ "Other" includes staff terminating for reasons other than the Reorganization, staff undertaking training with institutional re-entry guarantee, and staff on extended sick leave or pending medical disability cases.

3/ Includes 21 separations budgeted prior to Reorganization.

(ii) by early September, senior managers will be completing systematic reviews of the efforts which have been made to fill each vacancy in their units;

(iii) line managers are carefully reviewing the rosters of unselected staff to identify candidates both for selection and for training/retraining;

(iv) as necessary, specialized placement panels may be organized in September to assist in the systematic Bank-wide review of vacancies and candidates in particular disciplines; and

(v) senior managers are also conducting reviews within their units to see whether any marginal redistributions of already selected staff would enable greater absorption of still available staff.

Unselected staff are aware of these measures and have been encouraged to explore all positions for which they consider themselves suitable.

Training/Retraining

6.3 Both staff and managers have been encouraged to pursue training/retraining options where these are likely to lead to job-person matches. At this point, firm retraining plans associated with the redeployment of staff have been agreed with 34 staff members in the following disciplines:

Economists	7
Loan Officer/Country Officer	7
Technical Specialists	6
Financial Analysts	6
(former) Managers	5
Personnel Staff	2
Secretarial	1
	34

Among these, there are 20 cases of language training. The others range from relatively short courses to formal in-residence master's programs. The total training costs identified to date are about $600,000 (including fees/tuition, related other costs and, as consultants will be needed to replace staff away on longer term training, the salary costs in those cases). It was expected that the bulk of training/retraining would be identified toward the end of Round 2, and a substantial number of additional training cases should emerge before Round 2 is completed.

Section 7

Separation Packages, Unplaced Staff, and Budgetary Implications

7.1 On May 19, the Executive Directors meeting in executive session approved the Supplementary Budget for the reorganization of the Bank in the amount of $101.3 million to cover the direct cost of the reorganization of the Bank on the assumption that redundancies would not exceed 390 staff members. Funding at that level marked a reduction from the original Supplementary Budget request of $152.4 million based on expected redundancies and separation packages for 600 staff. The minutes of the Board meeting which approved the Supplementary Budget noted that management would make every effort to implement the reorganization within the reduced limits [$101.3 million and 390 redundancies], but it was agreed that management could return to the Board for a second request in the event that required funds or the number of redundancies exceeded those limits. Now that Round 2 is more than half completed, it is clear that the selection process has resulted in two sources of higher than anticipated costs of handling separation requirements -- higher costs per separation package and a forecast of a higher number of unplaced staff at the end of Round 2. In this section, the two problems are analyzed and the total budgetary implications presented.

Costs per Separation Package

7.2 As of August 31, a total of 183 staff had been given the involuntary separation option with Package B benefits (excluding 21 separations budgeted prior to reorganization). Of those, just under 80 had completed the process of negotiating and signing the necessary agreements. In addition to the involuntary separation cases with Package B benefits, 77 voluntary separations with Package A benefits have been agreed. Preliminary analyses are that the costs of separating the total of these 260 staff (77 Package A cases and 183 Package B so far) would amount to $___ million (about $___ million on Package A cases and $___ million on Package B cases). This would be about __% of the original allocation of $92.7 million approved by the Board for separation payments.

7.3 Original separation cost estimates were based on the average profile of staff in each grade grouping. So far, the staff identified as eligible for Package B have proven on average to be older, in Bank employment longer and generally at a higher salary than originally estimated. This profile has increased the cost per separation compared to original estimates, principally because of increased capitalized pension contributions by the Bank. Table 2 below compares the original estimated demographics of Package B cases with those of actual cases as of August 31.

Table 2

Comparison of Original Estimates and Experience to date on Demographics of Package B Cases

	Original Board Estimates	Projected and Committed Cases as of August 31, 1987
Levels 26+		
Number	43	65
Average Service	15	19
Average Age	49	56
Average Salary	$84,500	$87,300
Levels 18-25		
Number	214	97
Average Service	10	15
Average Age	44	50
Average Salary	$58,000	$52,800
Levels 11-17		
Number	33	42
Average Service	8	16
Average Age	40	51
Average Salary	$23,000	$27,700

7.4 The original special reorganization budget included a projected $92.7 million to cover about 390 separations. The change in the age and service profile of the Package B cases, however, will reduce the number of cases which can be covered by the special budget to 330, unless the profile of remaining separation cases were to shift substantially. The commitment process is being very carefully monitored on a daily basis.

Forecast of Unplaced Staff

7.5 As of September 4, 1987, there were 360 staff still not placed, of which 227 were higher level and 133 were support level (see Table 3). As Round 2 progresses, some of these staff will be placed, but it is expected that some will still remain unplaced and face separation or some other disposition of their cases.

7.6 To estimate the number of expected additional placements in the remainder of Round 2, the Personnel Department has examined each set of vacancies still available and the staff still in the roster with skills appropriate to the vacancies. The systematic screening of candidates on the roster now taking place has been further strengthened through the work of the technical, economists, and other screening/placement panels which were organized during Round 2. On the basis of the results of the screening process so far, judgements can be made on how many of those still unselected will be placed. Consideration has been given of the candidates' performance records, and likely commitment to the Bank. Among the support staff group there are 35 known performance or skills mix problem cases.

There are also grade level problems in a number of cases which make it difficult to match people and vacancies. The final judgment is that during the remaining period of Round 2 not more than 116 further placements will be made (64 higher level; 52 support level). This leaves a total number of 244 staff whose disposition would need to be managed at the end of Round 2. This is summarized in Table 3.

Table 3

Summary of Unplaced Staff, Expected Placements, and Potential for Final Disposition

	HL	SL	Total
Presently Unplaced	227	133	360
Expected Placements	64	52	116
Unplaced at end Round 2	163	81	244
Ineligible for Packages	16	16	32
Potential Separations	147	65	212

Cost and Budget Implications

7.7 To date commitments have been made for 260 compensation packages, 77 under Package A and 183 under Package B. Since the unit costs of these commitments has proved to be some 16% greater than initially expected, the approved budget of $92.7 million will now be sufficient to cover only 330 separations, not 390 as earlier assumed. The existing budget, therefore, could cover 70 further separations, thus leaving a funding requirement for the remaining 142 cases. This is summarized in Table 4.

Table 4

Net Separations Required

Total to be separated		212
Covered by existing budget	330	
Less those already committed a/	260	
Available separations		70 b/
Net separations required		142

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a/ Excludes separations budgeted prior to reorganization (20 previous skills mix cases).

b/ We have assumed the 70 available packages will be distributed 45 HL; 25 SL.

7.8 Based on the experience of those packages so far committed, Package B separations will have an average unit cost of $308,000 for those in levels 18-25, and $150,000 for the 11-17 groups. The budgeting for all further separations is based on Package B costs, because very few Package A commitments are anticipated. Of the 142 to be separated, 102 would be higher level and 40 support level. Allowing for a 10% contingency to cover any shortfall in the selection rates assumed, a budget requirement of some $41 million could be required to cover these additional separations, as shown in Table 5.

Table 5

Summary Cost of Separations

	HL	SL	TOTAL
Numbers to be Separated	102	40	142
Unit Costs ($)	308,000	150,000	263,500
Budget Requirement ($m)	31.4	6.0	37.4
10% Contingency			3.7
Total Required			41.0

Section 8

Options and Recommendation

8.1 A possible shortfall in funding for separation packages was anticipated by the Board when it provided for a $51.1 million contingency in the event that per unit costs or total separations exceeded the "more likely" scenario of 390 separations at a total cost of $92.7 million. Expectations in the "more likely" scenario for a large number of training assisted selections, and lower estimates of structural and skills mix redundancies have proven in actual experience to be optimistic. Even with the most vigorous screening and selection efforts, there is little that can be done, short of forced placement, to achieve a higher number of Round 2 selections.

8.2 At this juncture in the reorganization's implementation, it is crucial to move quickly to a fair and final disposition of the unplaced staff. To attempt to carry or place by force unplaced and clearly unplaceable staff will serve only to perpetuate the most painful and disruptive aspect of the reorganization. Morale problems, another round of time consuming and newsworthy appeals, and a lingering sentiment of a process unfinished and commitments unfulfilled would do much to undermine the restored momentum of the institution and deflect attention from the urgent tasks before the four complexes.

8.3 The choices before the Board under the present circumstances involve either living within the existing budget with all its attendant difficulties or releasing sufficient resources from the contingency fund to cover the 142 unplaced staff. Solutions between those two choices would seem to preserve the negative aspects of each while achieving relatively little. For example, Board approval of $17.6 million to raise the number of separations from 330 to the originally budgeted 390 would reduce the number of unplaced staff, but the problems associated with forced placement of over 80 remaining staff members would persist. Another option would be to absorb the costs ($41 million) with economies in the administrative budget, but the budget is already tight and adequate resources will be indispensable to gaining lost ground in the Bank's work, particularly the pipeline as described in Section 2 of this report. A Third option would combine a modest request to the Board with economies in the Administrative budget to reach the total amount required to cover the total costs for separating the unplaced staff.

8.4 In order to deal fairly with those not selected, accelerate the restored momentum of the institution, and to put the more difficult aspects of the process behind us, it is recommended that the Board agree to the release of $41 million from the contingency fund for the purpose of separating those staff who will remain unplaced at the conclusion of Round 2.