

**T**alk about budgets and images of green-visored "bean counters" come to mind—distant, mean and humorless people, cutting resources from hard-working units earning the Bank's bread.

There are quite a few myths about planning and budgeting. An unseen revolution has been in the making for most of the last two years. "Dollar Budgeting" has been introduced, with salaries and benefits (and, more recently, cost of office space) being decentralized to units. Under dollar budgeting, line items and positions are no longer controlled by central departments. Instead, an increasing portion of the funds needed to deliver work programs is placed with managers—who are in the best position to make judgments on resource use for their own specific needs. The idea is to increase flexibility and instill greater managerial accountability for the productive use of resources.

But more important than the technicalities of budgeting practices, our attention has to shift toward the substantive issues at stake. It's the condition of the world out there that determines the Bank's emerging agenda which, in turn, should drive our budgetary allocations.

First, in the business of transferring financial resources and know-how to our borrowing member countries, the Bank is not alone. Multinational and local research institutions, as well as private advisory services of all types, have increased significantly the sources of intellectual advice from which national policy-makers can draw. And, equally important, the capacity of countries and borrowers has become steadily more sophisticated. On the financial side, with an increasing number of players, multilateral official

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## Planning and Budgeting Approaches

*Why, and What For?*

*by Miguel Schloss*



its member countries. There, the Bank competes increasingly for access to concessional funds for its borrowers, facing increasing challenges to the concept of lending by public development

loans represented, in 1994, only some 6 percent of total net long-term resource flows to developing countries. Private financing has become a major source of capital for some of our members. And, despite the volatility we have seen recently in foreign capital flows, direct investments seem not to have been much affected. Such investments often come in tandem with transfer of know-how, market access for products and services, and other development ingredients.

But it's not just that the Bank's monopolies or near-monopolies have evolved into a more competitive environment, giving our borrowers an array of choices. The Bank also faces serious competition for aid resources in the minds of the public and their parliaments in

institutions as opposed to alternative channels supporting the myriad individual objectives comprising development.

Within this more diversified global context, it's vitally important that the Bank be an increasingly cost-effective, responsive and flexible institution, able to deliver timely, high-quality advice, supported by adequate financing to implement programs and projects. This is the premise underlying the planning and budgeting efforts. At the risk of stating the obvious, no one wants mindless cost-cutting efforts, even though finding savings and achieving greater efficiency have their place in establishing stronger budgetary discipline. Also essential are the substantive choices about priorities we have to make at all

Cartoons by Silvia Lay de Schloss

levels of the institution, and the build-up of new activities and capabilities to meet emerging client needs.

To this end, the planning and budgeting process has started this year by focusing on each unit's substantive medium-term goals, issues, strategies for achieving such goals and resolving issues, and expected outcomes. Strategic Discussion Notes are being prepared to help determine the Bank's direction over the next three years. The key to our long-term success—even survival—is what it's always been: to invest, to innovate, to lead, to create value where none existed before. And that's where discussions will center in the ongoing planning cycle. After that, of course, we must focus on the equally important task of implementing the strategies. Just being able to conceive bold new ideas is not enough. Managers at all levels must be able to translate such goals into concrete action so that things get done; they must be able to pace the progress we are making, and take corrective action when a change in course is called for.

Seen in this light, our planning and budgeting approaches are a means of communication between management levels about what's happening that's likely to affect our business: What should we do now and in the future? What should we learn from our experience? Where are we going? Why do we need to undertake certain activities? And, what are the alternatives? It's important to our future to ask these simple questions.

The questions aren't asked only to get the answers, but rather to get everyone thinking instead of simply reacting or administering. Our planning processes are increasingly aimed at addressing these questions, so that the resources are allocated to explicitly defined priority activities and that will, ultimately, enhance the Bank's effectiveness.



"Boss, how are you measuring my performance when more and more of us are doing cross-functional work?"

We aren't alone in planning and resourcing our business, and have exchanged views extensively with other institutions in both the private and public sectors, such as the Shell Group, Hoffmann La Roche, and Union Bank of Switzerland, and with various regional development banks. We have learned a lot from them and, in some instances, have been asked to give them some ideas. No two institutions are alike, and none has found the perfect formula to translate its changing business environment into appropriate resource allocation. But all agree there's no substitute for thinking hard about the future and its implications.

Each institution has developed its own methods for planning and resource allocation that fits its management culture. Some have developed bottom-up budgetary approaches, letting each unit come up with its plans, and allowing the institution to become a reflection of aggregate objectives and budgets. This has resulted in simple, realistic approaches, but has tended to ignore unit interdependencies and diluted the institutional focus. Other organizations have instituted top-down approaches, reflecting

corporate goals, which may have resulted in "stretch"—sometimes unattainable, objectives, with little support and ownership from middle level management.

Over time, we in the Bank have developed a more interactive approach: bottom-up with proposals emerging from units, and top-

down allowing management to cast the institutional priorities on unit-developed plans and priorities. At times, it may have resulted in longer and more complex processes, but all of us (in the Bank as much as anywhere else) live in an imperfect world of trade-offs where the ends and ambitions far exceed the means and capabilities.

This is, indeed, the crux of our planning exercises: to facilitate decision-making in an informed manner. It's no longer an activity done at the center to satisfy top management's requirements for control. It's becoming an integral part of the Bank's work, from the definition of broad institutional goals down to the individual task level. As in other institutions, there is unfinished business on developing performance measurements and enhancing the means of tracking levels of performance, both internal and external. Even so, some assessments have been initiated of resource use to identify areas for improvement. That being said, this is a business that calls for continuing improvements. But we must do so in a way that doesn't add to bureaucracy or stifle creative and entrepreneurial thinking.

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50th anniversary has begun to sink in and much of it has been accepted as true. So I spent a lot of time explaining the Bank, citing successes, and arguing in favor of economic development as a precursor to child nutrition, women's rights, and a healthier environment. (No one I talked to accused us of subverting the private sector, but this was not a random sample!)

I'm not sure where my friends were getting their information from. Another thing I learned was how bad regional American papers are. If the news isn't local or violent, it doesn't make the front page in Portland or Seattle. International news is mostly about war and is buried inside. Trade issues are the exception: if it's about fish, logs,

cancellation of the Ararat Dam project. And I seem to remember another citation of the Bank on women's issues. My impression was that the Bank is active and relevant and deeply involved in important issues of the day. And sometimes it's even being reported.

So why the disparity between the news and people's perceptions? Part of the problem must be inertia. Our critics have been taking aim at us for years. The Bank is still learning how to operate in an open environment. We can't change public opinion overnight. Nor can we rely on the media to tell our story for us. We'll have to prove by our actions that we are as good as we say we are. And we must convince those who have the

the time I turned on my TV on account, half the vice presidents were supposed to be out the door! And then the local press chimed in with stale news about more redundancies, as if they couldn't find anything better to write about in the dog days of August.

So it was good to hear from another vacationer, President Wolfensohn, who called to tell me that no decisions had been taken and to ask the SA's help in keeping the Bank focused on the really important work at hand. It seems like a good idea. And maybe next year when I take leave there will be a few people who stop me to tell me about all the good things they hear the Bank is doing.

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When all's said and done, we're all here to make the Bank a more relevant and high impact institution. The budget process is a means, not an end, to attaining this goal. Our manuals, guidelines and memo-

randa, with their disembodied language, may not fully capture what we are trying to do. Informal chats help establish and cement relationships of personal trust and understanding, and can go beyond the technicalities.

Indeed, those who are interested might find it useful to be in touch with their budget officers. We may all learn a lot and, in the process, enrich the discussions that drive our planning and resource allocation approaches.