INTERNATIONAL MONETARY FUND

FY2011–FY2013 Medium-Term Budget

Prepared by the Office of Budget and Planning

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The FY 11–13 medium-term budget (MTB) presented in this paper brings to a close the three-year restructuring effort that began with the FY 09–11 MTB. It secures savings of $100 million in real terms while providing sufficient financing for structural operations and the Fund's response to the global financial crisis.

This budget has been crafted in a period of uncertainty regarding the final scope and duration of the financial crisis as well as the ongoing responsibilities that the Fund may retain even as the crisis unwinds. There is also uncertainty about new responsibilities that may result as a review of the Fund's mandate is undertaken. Addressing these items will be part of the work agenda to be undertaken in the coming year.

Board approval is sought for:

- A structural net administrative budget of $891 million to cover the annual operating (structural) expenses of the institution.
- Carry forward of unspent funds from FY 10. The amounts to be carried forward are capped as follows: (i) 20 percent of the OED's budget for OED expenses; (ii) 5 percent of the IEO's budget for IEO expenses; and (iii) 6 percent of the remaining budget for staff expenses, plus an amount to compensate for a temporary loss of revenue expected in FY 11. The actual amount to be carried forward is not known at this time pending the closing of the financial year, but is estimated to be approximately $61 million inclusive of OED, IEO, and staff.
- A capital budget to be used for: (i) information technology investments ($32 million), and (ii) urgent repairs and maintenance to the Headquarters 1 (HQ1), Headquarters 2 (HQ2), and the Concordia buildings ($17 million). Separately, a presentation will be made to the Committee on the Budget later in FY 11 on the long-term investments that will be required for the HQ1 building.

Contents Page

Tables

Figures

Boxes

Appendices

Executive Summary

- The FY 11 budget brings to a conclusion the three-year restructuring exercise that was started in FY 09. It delivers on the promised savings of $100 million in real terms in the structural administrative budget and a reduction of 380 staff positions.

- Only a few months into the restructuring effort, world financial markets experienced a crisis on a scale unseen in more than two generations. Meeting the demands of the crisis has been challenging. Staff who volunteered to separate as part of the restructuring stayed on temporarily. Dollar budgets were shifted across departments through reallocation, and across financial years by carrying forward unspent appropriations to the next financial year. Staff moved to fill vacancies in the crisis-affected departments, and some new hires were brought on board using limited-term contracts.

- This flexible approach is envisaged to continue in FY 11 with a structural net budget envelope of $891 million, and a temporary budget envelope of $56 million; the latter is financed from unspent resources carried forward from FY 10.

- The outer years of the medium-term framework (FY 12 and 13) have been established on a policy of zero real growth in the structural budget. However, even as the crisis begins to wind down, some demands are likely to persist. Because the crisis has also created a near-term rise in income, the temporary costs could be financed without undermining the needed buildup in precautionary balances.

- Discussions on the Fund's mandate are expected to continue into mid-FY 11, and the outcome could have budgetary consequences. Given the uncertainties of this process and continuing crisis needs, the budget proposes to maintain the structural—temporary budget concept, knowing that outputs falling under the structural budget could change and that some spending currently considered temporary in nature may become permanent. Options on how to address these important issues would be reviewed in the context of the FY 12 budget cycle.

- A capital budget is presented, made up of investments in information technology totaling $32 million; and urgent repairs and maintenance to the HQ1, Headquarters 2 (HQ2), and the Concordia buildings totaling $17 million. Options for renovating the HQ1 building are not part of this paper and will be proposed separately in the second half of 2010.

I. Restructuring and Responding to the Global Financial Crisis

Closing the income-expenditure gap

1. **The FY 09–11 medium-term budget and new income model set out to restructure the financing and spending framework of the institution**. This was done in light of a projected annual structural deficit on the order of $400 million, and on the recommendation of the Crockett Committee that the Fund should reduce its reliance on lending income to finance its annual operating costs (Box 1).

Box 1: The Fund's New Income and Expenditure Framework

Facing a steady decline in lending starting around 2003, it was recognized that the Fund's business model, which relied primarily on income from its lending to finance its operations, had become unsustainable.

In October 2007, the IMFC recognized the need for more predictable and stable sources of income to finance the Fund's diverse activities. It called upon the Executive Board to develop specific proposals on a new income model and a new expenditure framework and to agree on a detailed medium-term budget envelope consistent with the Crockett Report.

Pursuant to that request, the Executive Board agreed on an income-expenditure framework in early 2008:

- A medium-term budget envelope for FY 09–11 that would lower the Fund's annual administrative spending by $100 million in real terms, to be achieved by both a reduction in staff positions (by 380) and non-personnel spending. In addition to the implied real expenditure reduction of over 13 percent relative to the FY 2008 budget, this budget provided for a substantial refocusing of the Fund's activities (e.g., toward multilateral and regional surveillance), while maintaining a commitment to low-income countries, program work, and capacity building.

- Expanding the Fund's investment authority to enhance the return on its investments and enable it to adapt its investment strategy as best practices evolve.

- Creating an endowment from the profits of selling a limited portion of the IMF's gold, with the objective of generating income while preserving the long-term real value of these resources.

- Resuming the long-standing practice of recovering the costs incurred by the IMF in administering the PRGF-ESF Trust for concessional lending to low-income countries.

2. **The restructuring plan aimed to focus activities in areas of comparative advantage and to deliver outputs more efficiently**. A range of streamlining measures have been implemented and low priority activities are being rationalized. Significant investments

in information technology are also being undertaken to assist in the streamlining efforts (Section IV "The Capital Budget"). [1]

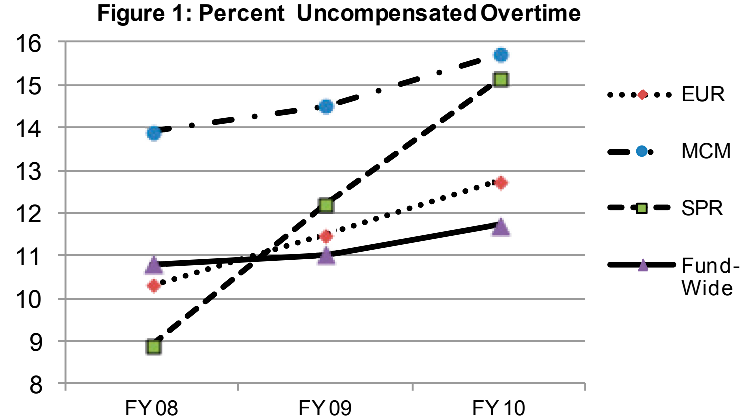
3. **Entering the third year of this plan, success has been achieved by almost all measures**. First, progress has been made in implementing the new income model, including commencement of gold sales. Second, the structural reductions in spending are complete, and departments are adjusting to lower funding levels and lower staffing levels. The number of volunteers in the restructuring was larger than expected, providing scope to change the mix of Fund staff expertise.

Flexibility while preserving core savings

4. **But the restructuring did not take place in a static environment**. Shortly after the restructuring began, the global financial crisis quickly accelerated and the Fund responded with new financial assistance to 21 countries, as well as enhanced multilateral and bilateral surveillance and research of macro-financial linkages and spillovers.

5. **The institution was able to respond to the increase in demands through a series of measures**. First, over 400 of the staff who volunteered to leave the Fund as part of the restructuring stayed on temporarily and helped in early stages of the crisis. Second, financial resources were shifted between financial years through the carry forward mechanism, allowing the under spend from one year to finance temporary spending in another year. Third, limited-term experts were brought in to assist with the crisis response or to fill in for experienced staff that were deployed to crisis departments. Finally, resources were redeployed across departments to provide financing for the areas that were most directly affected. Notwithstanding all of these efforts, staff was stretched and uncompensated overtime continued to increase over each of the past three years in key departments affected by the crisis, as well as for the Fund as a whole (Figure 1).

Figure 1: Percent Uncompensated Overtime



[1] For example, travel, HR, and other administrative processes are being streamlined; and some activities such as seminar and conference participation have been reduced.

Approaching uncertainty

6. **There is a challenge in developing a three-year medium-term budget in the midst of today's uncertainty about the long-term impact of the global financial crisis on the Fund's work**. The challenge is compounded by ongoing discussions of new responsibilities for the Fund. In light of this, the concept of *structural* and *temporary* spending has been useful in addressing the crisis, while anchoring the Fund's structural spending for the new income-expenditure framework to prevail over the medium term (Box 2).

Box 2: Background on Fund Budgets

The Fund has an annual **administrative budget** (or structural budget) that is used to finance the core activities of the institution. This is composed of personnel costs (approximately 70 percent), travel costs (approximately 10 percent), and other miscellaneous costs (building operations, information technology, etc.). Gross budgeted expenditures are offset by receipts, such as revenue from parking or the Concordia, but also receipts from donors (Appendix I and Appendix IV). The result is the net administrative, or Fund-financed, budget.

The Executive Board approves both the structural net administrative budget and an upper limit on gross expenditures. Thus, a lower level of receipts must be accompanied by lower spending. The OED and IEO also have their own administrative budgets (in the case of the OED, both a gross and net budget); these are not fungible with staff budgets.

In FY 09, the Executive Board approved a carry forward mechanism allowing some portion of the under spend in one year to be carried forward to the following year. Thus, a **temporary budget** has been in place for FY 10 and is proposed for FY 11. This concept applies to OED, IEO, and staff budgets.

As part of the restructuring effort, the Executive Board approved a separate one-time **restructuring budget** to be used to finance the costs associated with voluntary staff separations. Since separation payments can be taken over an extended period of time, the restructuring budget was created as a one-time appropriation that could be drawn upon over a three-year period. As with the administrative budgets, the OED also has a one-time restructuring budget.

Finally, the Executive Board approves a **capital budget** that is used to finance one-off investments in information technology and building improvements and repairs. Given the long-term nature of these projects, capital budgets are available for a period of three years, after which time unspent appropriations lapse.

7. **As the current uncertainties associated with the crisis are clarified, and after discussions on the mandate conclude in September 2010, a new medium-term budget will be developed for FY 12–14**. The main focus of the FY 09–11 MTB was to close a structural gap between income and administrative expenses. This focus on fiscal discipline will continue to be a foundation of any new MTB. But the new MTB will also need to make allowances for the Fund operating in a different world than what was envisaged in FY 09.

While the administrative budget should not be dependent on lending income, as the Crockett Report pointed out, neither should it restrict the services that are provided to our membership in times of need. These are issues that will need to be played out in a broader context of the discussions among the membership, starting with the Spring Meetings and continuing through the 2010 Annual Meetings.

II. The FY 11–13 Medium-Term Budget

A. Perspective on the MTB

8. **There are considerable challenges, both endogenous and exogenous, facing the institution over the medium term, and bringing clarity to them will be a necessary part in the coming year's work agenda**. Some specific areas of focus that could affect the production of outputs—and how input funding might respond—are outlined below.

Financial programs

9. **The Fund now has financial arrangements with 59 member countries, 21 more than in December 2007 when the current MTB framework was set up**. The increase is almost entirely in non-concessional lending programs, which historically have cost an additional $2–3 million a year (compared with normal surveillance). For FY 11, funding to cover these added costs will come from the structural budget and the temporary budget.

10. **For FY 12 and 13, it is assumed that the intensity of financial program activity will begin to diminish**. This assumption is based on the fact that programs typically demand more resources in the initial phase, especially when precipitated by a financial crisis. While each program has its unique characteristics and winding down will depend on many factors, a working assumption has been incorporated that, in the aggregate, the crisis program needs will fall by one-third in each of FY 12 and 13; this assumption will be reevaluated each year.

11. **A key question yet to be answered is whether the number of programs in the MTB baseline, and therefore covered by the structural budget, was underestimated during the restructuring**. On the one hand, the number of concessional programs is broadly unchanged, suggesting that this part of the MTB baseline is correct. On the other hand, the number of non-concessional programs in the medium term remains uncertain, and if revised, may need to be reflected in the structural budget. One related aspect that will need to be reexamined is the appropriate number of Resident Representative Offices; an adjustment here could affect financial program and surveillance outputs, with a corresponding change in the structural budget.

Mandate discussions

12. **In the current work program, the Fund's mandate will be reviewed in a series of papers and Executive Board meetings leading up to the IMFC meeting in September**

2010. Until then, changes in the administrative budget beyond normal redeployment would appear premature. When the mandate discussions are concluded, the impact on the Fund's responsibility areas (outputs) will be reviewed. Implications for the structural budget envelope will then be assessed, along with a review of lower priority activities and potential efficiency measures.

13. **In the interim, work on several new responsibilities is moving forward, with financing coming from redeployment within the existing structural budget and some from the temporary budget**. An estimate of staff time for the G-20 Mutual Assessment Program based on inputs from relevant departments pointed to little in the way of *additional* resources because most of the work is being handled by area department desk economists and the WEO team as part of their day-to-day work. On the other hand, the Early Warning Exercise (EWE) is a wider initiative involving staff from multiple departments and external consultations, requiring additional financing. And an increase in resources needed to carry out the additional Reports on the Observance of Standards and Codes (ROSCs) that have been requested by the Financial Stability Board (FSB) has been financed from a combination of the structural and temporary budgets.

Capacity building

14. **The delivery of technical assistance and training was set to rise in the near term, and demand for it has increased even further in the wake of the financial crisis (Appendix I)**. To meet this demand, the Fund embarked on an initiative to deepen and expand its partnership with donors, with the impact reflected in two main product lines. The first, Regional Technical Assistance Centers (RTACs), provides basic capacity building. The recent expansion in this area has been significant: one new RTAC opened in FY 10, and three more are expected to come on line in FY 11. The second main product line, Topical Trust Funds (TTFs), provides highly specialized TA and fits well into recipients' and donors' development strategies, while reflecting the Fund's priorities. The AML/CFT TTF started operations in May 2009, and the TTFs on Revenue and Managing Natural Resource Wealth are expected to start operations in mid–2010, with four further funds in the pipeline. With these new products, use of external financing for technical assistance and training is projected to increase by nearly 40 percent in FY 11.

15. **In line with the projected increase in TA, the capacity at HQ to deliver TA also needs to be scaled up**. In particular, HQ-based backstopping and project management must increase; in consequence, this will lead to a step up in the number of FTEs that are billed to donors. Backstopping and project management are critical elements of the Fund's TA framework: they help enhance the quality of the delivery of technical assistance, and ensure that the work is well integrated with other Fund activities. While no positions are earmarked

for donor funding, a framework is already in place to allow staff that provide these activities to bill a portion of their time to donor funds. The FTEs billed will not be counted toward the notional staff ceiling that limits the number of Fund-financed staff, a principle that is consistent with the framework adopted by the Executive Board.

B. The Structural Budget

16. **The FY 11–13 structural MTB has been crafted to: (i) maintain the fiscal discipline that was instituted as part of the Fund's restructuring; and (ii) allow for resources to be concentrated on the Fund's strategic priorities**. The FY 11–13 MTB thus presents FY 11 as the final year of the restructuring exercise, achieves the savings of $100 million in real terms, and brings to a close the historic restructuring process that was embarked upon in FY 09. It presents structural budgets for FY 12 and 13 as an extension of the FY 11 budget, rolled forward based on a policy of zero real growth (Table 1). The structural budget provides a spending envelope to carry out the central responsibilities of the institution. This envelope is anchored on certain assumptions, including the steady-state level of country engagement, and the responsibilities that the Fund carries out more generally in the global economic arena. In arriving at this structural envelope, a framework was established to estimate the budgetary needs associated with working with countries in various level of engagement (additional details are in Appendices II and III).

Table 1. Medium-Term Structural Budgets, FY 08-13

	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13 1/
	(in millions of FY 08 dollars)					
Approved FY 08-10 MTB, rolled forward one year	922	913	910	896	896	896
Proposed FY 11-13 MTB	n.a.	n.a.	n.a.	796	796	801
Savings relative to FY 08-10 MTB				100	100	95
	(in millions of U.S. dollars)					
Approved FY 08-12 MTB (adjusted) 2/	922	868	876	891	928	
Proposed FY 11-13 MTB				891	927	971
Memorandum items:						
FY 10-12 Global External Deflator (GED) 2/			3.6	4.0	4.1	
FY 11-13 Global External Deflator (GED)				4.0	4.0	4.1

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ FY 13 includes $5 million (FY 08 dollars) for the Annual Meetings to be held in Cairo, Egypt; savings in real terms remain at $100 million.

2/ Adjusted to reflect revised Global External Deflator (GED) calculations for FY 10; based on October 2009 WEO, U.S. CPI.

C. The Temporary Budget

17. **A temporary and pronounced increase in work, beyond what was envisaged when the FY 09–11 structural MTB was approved, has emerged as a result of the global**

financial crisis. The budgetary impact is largely due to the increased number of country financial programs, but also other activities as well. For example, additional resources are normally required for countries that have an increased level of engagement but do not in the end require a Fund program. And there have been additional demands, such as those flowing from the decisions taken at the 2009 Annual Meetings (the "Istanbul Decisions") that include preliminary policy work on the Fund's mandate.

18. **Management is committed to financing these temporary needs with temporary resources, thereby avoiding the problems associated with earlier crises, which led to a permanent build up of the institution.** The resource constraints of the structural and temporary budgets have required departments to seek ways to ease pressures on an already stretched workforce. To cope, there will be continued effort to find efficiencies and identify low-priority activities that can be reduced or dropped altogether: for example, analytical work could become more targeted and streamlined, some non-essential FSAPs for non-systemic countries could be delayed, and the review process could be further streamlined. Finally, in a departure from past practice, the 1 percent contingency reserve normally maintained in the initial budget allocation has been fully released to departments to meet pressing demands.

19. **A temporary budget, to address temporary demands, is thus proposed for FY 11** (Table 2) **and will be financed through carrying forward a portion of the budget resources allocated but not used in FY 10 (Appendix V)**. These resources also include provision totaling $4.4 million to compensate for the loss of revenue that resulted from: (i) the decision to postpone charging for TA, and (ii) a delay in leasing an additional floor of HQ2. Resources carried forward are not added to the base and are not used to determine the structural budget for the subsequent financial year. Thus, the carry forward is temporary in nature and will be used for the purposes of financing temporary demands—an approach that

Table 2. Medium-Term Budget Profile, FY 11–13
(In millions of U.S. dollars)

	FY 11	FY 12	FY 13
Structural budget--MTB			
FY 11–13 (Unchanged real spending FY 11 onward)	891	927	971
Temporary demands	**52**	**33**	**22**
Previously approved (part of FY 10 budget proposal)	32	0	0
Proposed additional	20	33	22
Temporary Resources	**52**	**10-30**	**10-25**
Carry forward available for reallocation for FY 11	42	0	0
Release of contingency	10	10	10
Above MTB program financing (proposed)	0	10-20	10-15

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

is consistent with the initial strategy developed in FY 09 for financing the crisis. The proposed carry forward is slightly above the 3–5 percent range that was broadly endorsed by the COB in 2008, but is justified in the current crisis circumstances.

20. **As the steady state staffing level is reached and temporary budgets are consumed, resources available for carry forward from FY 11 to FY 12 are expected to be minimal.** Therefore, another source of temporary financing will need to be identified; without such a financing mechanism a budget shortfall could emerge. Financing to close this gap could come from whatever (limited) carry forward is available from FY 11, by allocating all or part of the contingency reserve, or by authorizing an additional temporary appropriation separate from the structural budget appropriation. The amount of such additional appropriation could be on the order of 2–4 percent of the net administrative budget, and a transfer of this scale would not jeopardize the planned buildup of precautionary balances as its impact on projected Fund net income would be relatively small. Should this last option be pursued, the underlying principles guiding such temporary appropriation would need to be developed in the course of FY 11 (Appendix II).

21. **In addition to the temporary budget allocation from the FY 10 carry forward, donor financing contributes significantly to the production of Fund outputs—in particular in the areas of technical assistance and training.** Collectively, the gross budgetary resources will be used to carry out the Fund's business plan and to produce the Fund's outputs (Table 3).

Table 3. Total Administrative Budget Resources FY 11-13
(In millions of U.S. dollars)

	FY 11	FY 12	FY 13
Gross Administrative Budget	1,013	1,086	1,144
Of Which:			
Receipts 1/	-122	-159	-173
Net Administrative Budget	891	927	971
Projected Carry Forward Budget 2/	56	0	0
Of Which:			
Available for Reallocation	42	0	0
Departmental Carry Forward	7	0	0
OED	7	0	0
IEO	0	0	0
Total Resources (Gross + Carry Forward)	1,069	1,086	1,144

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.

1/ Receipts for FY 12 and FY 13 are estimates based on a central scenario.
2/ Does not reflect carry forward of $4.4 million to offset lost revenue expected in FY 11.

22. **In closing, it should be noted that allowing a temporary spike in spending will required careful personnel management**. The institution is aware that temporary funding should not be used to engage in open-ended staffing arrangements; departments are therefore mainly using contractual and limited-term appointments to meet hiring needs. Since the beginning of 2009, contractual appointments have made up about 65 percent of all hires (with only 30 percent of all contracts made for one or more years); limited-term appointments about 10 percent; and fixed or open-ended appointments the remaining 25 percent.

III. Turning Resources Into Outputs

23. **The FY 11–13 MTB builds on the priorities set out in the Managing Director's strategic directions and reflects the decisions taken at the 2009 Annual Meetings, but does not at this time presume any changes to the Fund's mandate**.[2] The plan envisages changes in the composition of Fund services and the introduction of new initiatives, financed in part by savings resulting from streamlining processes and enhancing productivity. These changes are reflected in a new output structure—Responsibility Areas (RAs)—that was introduced to represent more accurately the wide range of Fund's services and activities (see Appendix VI). Most activities and services planned in FY 11–13 will be delivered on a broadly unchanged resource envelope compared to the previous MTB; the main exception is capacity building, where increases in the level of activity will be financed through an increase in donor funding.

24. **The Fund's work in FY 11–13 will focus increasingly on global cooperative solutions to work out effective exit strategies from stimulus policies, strengthen oversight of economic and financial systems, and reform the global financial architecture**. Concurrently, the Fund will continue to provide direct services to member countries through assistance and policy advice to countries affected by the crisis, and substantial technical assistance for capacity building in less developed member countries.

25. **The Fund's composition of services provided to member countries is expected to evolve over the medium term**. As the global economy emerges from the crisis, Fund programs will be phased out reducing the share of Fund support to countries' economic adjustments. Offsetting this decline will be an increase in the areas of global cooperative solutions and oversight (Table 4).

Table 4. Fund Outputs, FY10-13 1/
(In percentage of total shares)

	Projected Outturn FY 10 2/	FY 11	FY 12	FY 13
Lead the global economic policy dialogue	26.5	27.3	27.6	27.3
Oversight of the global economic and financial systems	15.5	16.1	16.1	16.2
Advise member countries on economic policies	31.2	29.7	30.3	31.2
Support countries' economic policy adjustments	26.8	26.9	26.0	25.3
Total	100.0	100.0	100.0	100.0

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.

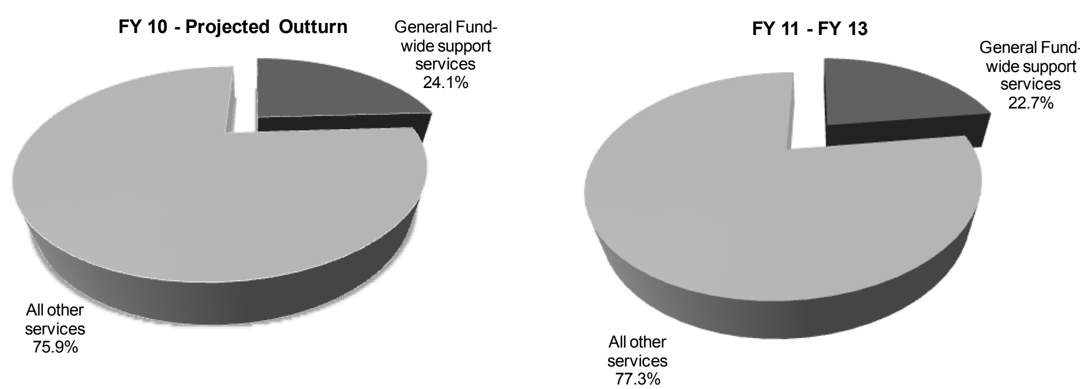
1/ Excludes Capacity Building and internal support services.
2/ Compiled from individual departments' business plans.

[2] Address at the Annual Meeting of the Bretton Woods Committee, February 26, 2010.

26. **At the same time, the level of resources devoted to capacity building is projected to expand substantially during FY 11–13 relative to FY 10**. But this rise in capacity building is driven by donor financing, and therefore it does not reduce the level of resources devoted to the production of the Fund's other outputs.

27. **Within these key deliverables and to ensure their success, several initiatives are planned for expansion: analytical capabilities will be improved, outreach activities intensified, and data and information dissemination increased**. The share of Fund-wide support services will be reduced to allow more resources to be devoted to core activities (Figure 2). The centrally-held contingency has been allocated to departments to address remaining gaps between resource requirements and what was available through reallocation.

Figure 2. Direct Outputs and Fund-wide Support Services, FY 10–13



IV. The Capital Budget

28. **Executive Board approval is sought for an appropriation of about $48 million for capital projects beginning in FY 11** (Table 5). The appropriation for FY 11 provides funding for building facilities and information technology (IT) projects, which can be accessed over a three-year period. Directors are also asked to take note of the capital budget envelope proposed for the following two years, which combined with the FY 11 budget comprise the FY 11–13 capital plan of $148 million.

Table 5. Medium-Term Capital Plans, FY 10–13
(In millions of U.S. dollars)

	FY 10	FY 11	FY 12	FY 13	Total
	FY 10 Current Plan				
Building Facilities	15	17	23		55
Information Technology	30	28	24		82
Total Planned	45	45	47		137
		FY 11 Proposed Plan			
Building Facilities		17	23	24	64
Information Technology		32	29	24	84
Total Requested		48	52	48	148

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.

Facilities

29. The proposed facilities budget will cover repairs to the Fund's three main buildings:

- **Plans to renovate HQ1** are currently under review. Many of the buildings' main systems—air conditioning, elevators, and the roof—are approaching the end of their normal expected lifetimes, suggesting that more than routine maintenance expenditures could be required. Given the size of the potential spending a full review of alternative scenarios will be presented to the COB by November 2010. In the meantime, the capital budget provides for some necessary maintenance to the building, and includes provision for outside experts to carry out the options review.

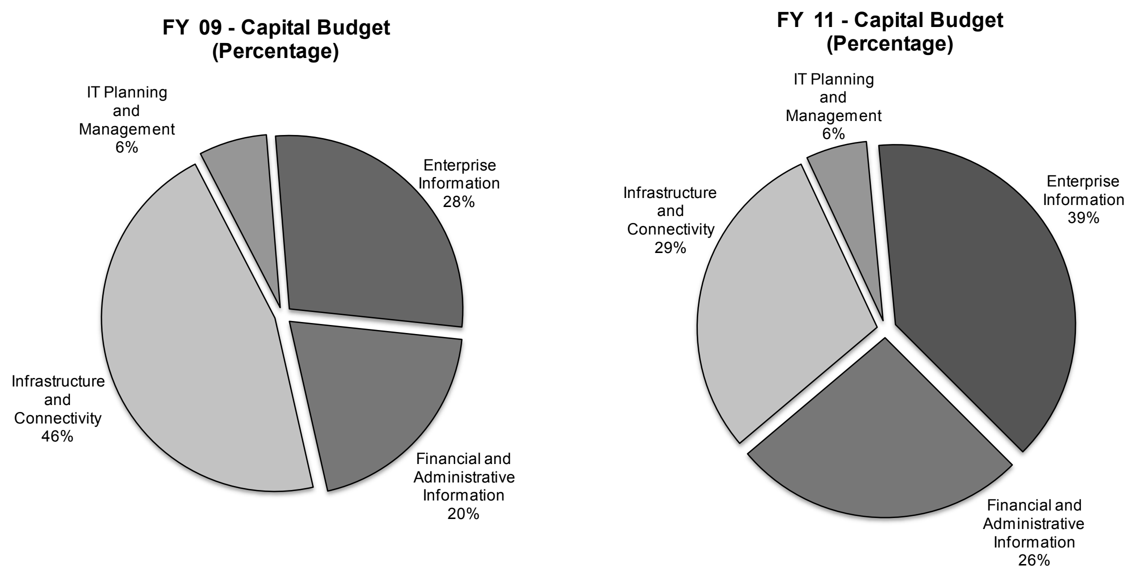
- **HQ2 is five years old** and until now capital expenditures for major repairs are minimal. However, the capital budget provides for an assessment to identify longer-term needs for planning purposes. These estimates could also serve as a basis for a possible sinking fund to smooth the budget appropriations (see below).

- **The Concordia could also require significant investment to replace aging systems.** Before moving ahead, a decision to keep or sell the facility is necessary. Until then, only the most critical repairs to the Concordia will be undertaken.

Information Technology

30. **As the crisis has unfolded and the Fund has undergone restructuring, the structure of the IT budget has also changed, allocating a greater share of resources towards economic tools; data and information management and dissemination; and streamlining administrative operations**. Recent strategic initiatives include enhancements to the WEO, improved forecasting tools, and new risk analysis models. At the same time, projects to support the streamlining and modernizing of the Fund were also undertaken, such as the travel process reforms, ACES, and the human capital management systems: these projects are expected to improve resource allocation (Figure 3).

Figure 3. IT Capital Budget Composition: FY 09, FY 11



Capital Budget Reforms

31. **A sinking fund for building facilities would help smooth facilities capital budget appropriations**. Such a mechanism would apply to HQ2 as noted above, but also HQ1 following its renovation. In concept, a sinking fund would involve annual appropriations for the facilities capital budget that would be accumulated and tracked separately, and could be used when maintenance expenditures are required. Though the legal and accounting frameworks are different, in concept this could operate in a manner similar to the SRP accumulated reserves. It is expected that this would be part of the proposal for the FY 12–14 MTB, but some necessary steps need to be undertaken first:

- Staff will investigate best practices among other institutions on their provision for large one-off expenditures.
- Internal budget systems and practices as well as consistency with the Fund's financial structure will be reviewed to ensure accurate and consistent treatment of planned expenditures.
- Better estimates of required expenditures over the next 10 years for HQ1 and HQ2 renovations will be used to inform the level of contributions to be made to the reserve fund.

32. **Capital expenditures have an impact on the Fund's net income, but the timing can vary**. The financial treatment of the proposed capital budget comprises: (i) capital expenses, which are charged when recorded; and (ii) depreciation charges, which are charged over a period of time (Table 6).

Table 6. Financial Treatment of Capital Projects with FY 11 Funding 1/
(In millions of U.S. dollars)

	Period When Expenses are Recognized				
Asset Category	When Spent	3 years	5 years	18 years	Total
FY 11 Capital Appropriations	8.8	17.3	10.5	11.6	48.2
Building Facilities Projects	5.1	--	--	11.6	16.8
Information Technology Projects	3.7	17.3	10.5	--	31.5
Feasibility Studies/In-House Development	3.7	--	--	--	3.7
Hardware - Equipment	--	11.0	--	--	11.0
Software - Upgrades	--	6.3	--	--	6.3
Software - Purchase or New Development	--	--	10.5	--	10.5

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.

1/ The financial treatment of the proposed FY 11 budget envelope and when its impact on net income will be reflected is determined by International Financial Reporting (IFRS) guidelines. Projects are either expensed in the year of funds outlay or are capitalized over a period based on the type of project, i.e., Buildings – are depreciated over the remaining useful life (18 years for HQ1 and the Concordia in FY 11; Hardware Equipment – is depreciated over 3 years; Software upgrades – are depreciated over 3 years; and Software Purchases or New Software Developments – are depreciated over 5 years.

Appendix I: Leveraging Donor Financing for Fund Technical Assistance (TA)

Governance Framework for Technical Assistance

1. **Technical Assistance—one of the core activities of the Fund—is integrated with surveillance, lending and recipient country reform agendas**. In recent years, the Fund has strengthened the governance framework for its TA. TA is provided only upon request and only in the Fund's core areas of expertise, where the Fund has a comparative advantage, and reflecting institutional priorities. And safeguards are in place for TA that ensure that the use of external financing for all relevant activities would not undermine the Fund's control over its own work program, or the substance of its advice to members. Area departments prepare TA strategies to set out priorities, and the Committee of Capacity Building, chaired by a Deputy Managing Director, finalizes resource allocations. Finally, TA is integrated in the Fund's Medium-Term Budget: The Executive Board annually sets the budget gross financing limit, and thus places a cap on external financing, and approves all trust fund arrangements (Regional Technical Assistance Centers (RTACs), Topical Trust Funds (TTFs), and other multi-donor and bilateral subaccounts).

The Fund's Expanded Partnership with Donors

2. **To meet rising demand for Fund TA, the Fund has embarked on deepening and expanding partnerships with donors**. The Executive Board endorsed this strategy and approved the quantitative increase in Fund TA in the MTB. To facilitate the expansion of TA, the Fund also engaged in major reforms in the past few years, which have brought its management of TA in line with best international practice. While reforms on TA costing and the new external financing have been successfully concluded (see below), further work is being undertaken to make the Fund's TA more results-focused.

- **Strengthened partnership is realized mostly through two product lines and focused on longer-term engagements**.[1] This approach not only increases traction and sustainability in recipient countries and enhances coordination with donors, but also provides funding security for the Fund. The first, Regional Technical Assistance Centers (RTACs), provides basic capacity building TA. Responding to requests from members, the Fund is expanding six existing centers, has opened a new center in Central America this financial year and will establish three further centers in FY 11: Central Asia, Southern Africa, and Western Africa. The second, Topical Trust Funds (TTFs), provide highly specialized TA and fit well into donors' development strategies while reflecting the Fund's priorities. The AML/CFT TTF started

[1] The Fund is also expanding its partnership through bilateral subaccounts.

operations in May 2009 and the TTFs on Revenue and Managing Natural Resource Wealth are expected to start operations in mid-2010 with four further TTFs in the pipeline.[2]

- Fundraising drives for a total of about $600 million for five years are ongoing or will be started shortly (Tables I.1 and I.2).

Table I.1 RTACs: Actual or Planned Five Year Budgets 1/

RTACs	Funding Cycle Start	5 Year Budget
CAPTAC-DR (Central America)	May 2009	35
AFRITAC East	November 2009	51
AFRITAC West	November 2009	51
METAC	May 2010	33
AFRITAC Central	November 2010	50
AFRITAC South*	November 2010	60
AFRITAC West 2*	November 2010	44
CASTAC*	November 2010	49
Total		373

Source: Office of Technical Assistance Management.

1/ The budgets include the host country and IMF contribution. The budgets for the new funding cycles of CARTAC and PFTAC are not yet developed. The new cycles will start January 2011 and May 2011, respectively.

* New Centers.

Table I. 2 Topical Trust Funds: Actual or Planned Five Year Budgets

Topical Trust Fund	Funding Cycle Start	5 Year Budget
AML/CFT (May 2009)	May 2009	31
Revenue	Mid 2010	39
Managing Natural Resource Wealth	Mid 2010	32
Sustainable Debt Strategies	TBD	TBD
Financial Stability Statistics	TBD	TBD
Training for African Officials	TBD	TBD
Public Financial Management	TBD	TBD
Total		...

Source: Office of Technical Assistance Management.

Impact of the Expanded Partnership on the Fund's Budget

3. **The expanded partnership has been incorporated in the MTB**. Because of uncertainties in timing, the MTBs in the past two years have provided a lower and an upper range of the use of external funds. While funding was raised to accommodate spending in line with the upper bound, actual spending has fallen short of the projected mid-points. Building up the infrastructure to spend additional resources has taken time for several reasons: (i) qualified experts need to be recruited; (ii) existing capacity to backstop and manage projects was limited due to the restructuring exercise and the higher than expected number of volunteers; and (iii) HQ TA resources had to be prioritized to deliver TA to crisis countries. For instance, while the AML/CFT TTF was funded to execute an FY 10 budget of $6 million, only $3.5 million are estimated to have been expensed.

[2] Both the RTACs as well as the TTFs are 5 year programs and are based on a governance structure through a Steering Committee (SC) that involves donors (for RTACs also recipient countries), who provide strategic guidance and endorse the annual work plans of the RTAC/TTF. The SCs also provide an effective platform for knowledge sharing and coordination.

Other Implications of the Expanded Partnership

4. **Expanding Fund TA also requires additional personnel at headquarters (HQ)**. While the Fund's TA delivery model relies heavily on short and long-term experts—in FY10 they will deliver 86 percent of TA in the field—to ensure that these experts provide IMF international best practice advice and their work is integrated with other TA from the Fund, HQ personnel supervise and backstop the experts and carry out project management. In addition, Fund HQ personnel complement experts' work with diagnostic missions and provide strategic advice on reform efforts. Thus, unless the expansion in TA is accompanied by a commensurate expansion in externally financed HQ personnel, other activities of Fund TA departments either would be crowded out—which would not be acceptable to donors, who require that their funds result in additional TA—or it would reduce the quality of Fund TA, which would in the long term undermine the Fund's comparative advantage.

5. **The Executive Board approved a new external financing instrument in March 2009 that, *inter alia*, facilitates external financing of these additional HQ personnel**.[3] The new instrument is based on a new TA costing model that transparently accounts for all Fund costs related to the provision of TA and allows for direct billing of HQ backstopping and project management costs. HQ personnel, working on a specific externally financed TA project record their time spent on the project and donors are billed accordingly. Their departments are reimbursed and can use these reimbursements to hire more personnel for additional TA activities.

6. **It should be noted that staff time billed to donors will not be counted against the notional FTE ceiling established under the medium term budget, as it is distinct from Fund-financed FTEs**. A similar mechanism was adopted for the Board for its own purposes, with some limitations, which followed the principle that in line with dollar budgeting the net administrative budget is the binding constraint. There will be no dedicated project implementation or trust fund management units, or identified externally financed positions. Based on their business need, departments will hire a mix of staff (regular and limited term), HQ-based consultants, and contractuals.

7. **That said, safeguards are being put in place to minimize risks to the Fund's budget**.

- Products are designed to make external financing stable and minimize volatility. Financing in multi-donor arrangements is secured for 5 years for the RTACs and

[3] The new external instrument also supports financing of a broader range of activities, an expansion in the pool of donors and in the modalities for attracting external financing, transfer of resources between subaccounts, and enhanced reporting.

TTFs, which constitute a large share of total external financing, thus ensuring long-term stability through the funding horizon and a diversified donor base. Independent evaluations will be conducted in their third or fourth year of operation, and will assess the sustainability of the RTAC/trust fund. For RTACs and TTFs there is also an expectation that they will go through more than one funding cycle. Also projects under bilateral subaccounts are increasingly designed for 2–3 years.

- Fund HR policies provide flexibility to accommodate the increase or decrease in staff.

  - Specific staff positions are not linked to external financing; in principle, all personnel involved in capacity building can potentially charge time against donor financing. Thus, whether financed through the Fund's budget or financed externally, all personnel are treated the same.

  - The management of staff in case of a reduction in external financing could largely be handled through attrition which averages 5 percent per year with higher attrition rates in general for TA experts. This is made possible because no positions are linked to particular externally financed projects, and staff is fungible within their expertise in TA departments. Any reduction in external financing could in the first instance be managed through a reduction in HQ-based consultants (HQBCs), contractual employees, and limited-term staff appointments, which all have time-limited employment contracts.

8. **For FY 11, departments expect to recruit about 25 staff and up to 10 additional FTEs could be utilized for allowing staff to serve as resident advisors, in particular in RTACs**.[4] In addition, a small number of FTEs could be used to facilitate secondment arrangements. The scaling up of HQ staff would be complemented by HQBCs and contractual support personnel. On aggregate, less than one third of the increase in HQ personnel would be in regular staff, but that mix varies substantially by department because of their different business models.

[4] Currently, staff serving in RTACs as resident advisors must take a leave of absence, which creates a disincentive to take up advisors position. In line with providing more external experience to staff, and following requests by donors, this is under review.

Appendix II: Financing Unanticipated Demands

1. **Various unanticipated budget pressures have arisen since the FY 09–11 MTB was set**. While some are small enough relative to the nearly $900 million net administrative budget to be accommodated through internal budget adjustments, others are more significant and need to be addressed directly either through changes in the structural budget or through temporary means.

2. **The practice of funding temporary demands through a temporary budget helps guard against unintended budget expansion, especially when cost drivers are easily identified**. In the current situation this is the case: more than 60 percent of temporary demands in FY 11–13 can be tied to the rise in financial programs. The administrative cost of programs tends to be high relative to surveillance cases because of intensive staff involvement, multiple missions, and the presumption of a resident representative office.

3. **A framework was established during the restructuring exercise to allocate resources to departments based on the level of engagement and intensity of the countries with whom they dealt** (Table II.1).

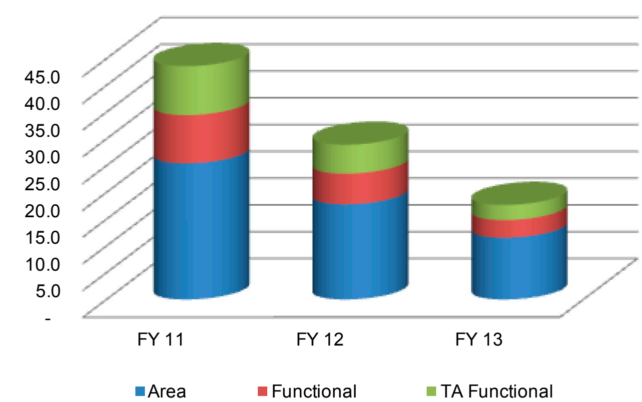
Table II. 1 Country Status and Direct Costs
(In staff years and millions of U.S. dollars)

	Program		Surveillance	
	Staff	Dollars	Staff	Dollars
Mission chief	1.0	0.4	0.5	0.2
Desk economists	3.0	0.7	1.0	0.2
SPR/MCM/FAD economist	2.4	0.6	-	-
Resident Representative	1.0	0.7	-	-
Total Personnel	7.4	2.3	1.5	0.4
	No. of missions	Dollars	No. of missions	Dollars
Missions	4.0	0.4	1.0	0.0
Total Cost		**2.8**		**0.4**

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.

4. **Within this general framework, estimates for the need for temporary resources in the current budget for FY 11–13 were further refined**. Other considerations taken into account included the ability of the department to redeploy resources, and the incremental costs associated with specific country circumstances. For FY 11, the incremental cost of the 20 new programs was estimated at close to $52 million, to be financed by carrying forward the FY 10 budget under run and allocating a portion of the contingency. Over half of these temporary resources were allocated to area departments for crisis programs; the remainder to assist with the crisis response and for international policy coordination and policy design (Figure II.1).

Figure II.1. Temporary Resources by Department Type
(In milions of U.S. dollars)



Source: Office of Budget and Planning.

5. **Turning to FY 12–13, assuming that the FY 12 budgets for those years are fully allocated and the carry forward from FY11 is much smaller, a budget shortfall could emerge**. One option for addressing this would be to make an additional administrative appropriation to meet these temporary demands. The amount of the additional appropriations would be modest relative to current estimates of higher GRA income than anticipated at the time the current MTB was set. Temporary demands could be linked to various measures that in principle should be largely exogenous to staff decisions, easily measured, have significant cost implications, and be time limited. This could include, for example, the number of programs, or the number of ROSCs to be conducted. In the case of programs, the following broad procedures could be envisaged:

- Staff would report to the Executive Board on the number of programs and precautionary arrangements (subsidized and supported by Fund resources) in the FY 12–14 budget paper. If the number differs from the MTB structural budget, staff could recommend an additional appropriation, separate from the structural budget appropriation.

- The amounts would be based on the incremental cost of a typical program.

- The number of program cases would be updated in the mid-year budget execution report. Action would be recommended if there is a significant change in program activity.

- The principle of symmetry could apply. If the number of programs is significantly changed, the structural appropriation could be adjusted downward.

Next Steps

6. **OBP will refine the incremental cost estimates of a typical program**. The ACES initiative will help inform these estimates. A key issue is whether to include support charges. To the extent that these can be traced to changes in staff—for example office space or computer support—they should be included. Fixed costs—for example HR policy development—should not. Charges for governance could also be included, provided clear cost linkages can be established, for example by introducing time reporting in OED.

7. **In keeping with the temporary nature of the financing, workforce planning will be essential to successfully implementing a temporary appropriation arrangement**. Variable appropriations for staff is a relatively new concept for the institution, and caution has been exercised until now to ensure that staffing levels can respond (downward) when temporary financing from the carry forward is exhausted. A workforce planning framework is being formalized and will play a prominent role in ensuring that temporary resources can be effectively utilized through a combination of short-term and long-term employment arrangements.

Appendix III: Assumptions Underlying the FY 11–13 MTB

1. **The proposed FY 11–13 MTB has been formulated based on the following key assumptions**:

- **Staff Salaries**: The compensation award of 4.9 percent is reflected in the FY 11–13 MTB. For the outer two years of the MTB, the FY 11 compensation award has been held constant; this assumption will be revisited as future compensation decisions are taken by the Executive Board.

- **Staff Retirement Plan (SRP)**: In January 2010, management endorsed the recommendations of the SRP Task Force to make changes to the SRP, including updating the SRP grossing-up formulae. Any changes adopted are to be effective April 30, 2011. Accordingly, the budgetary implications of the proposed changes will be determined more precisely during FY 11 and reflected in the FY 12–14 MTB.

  - The FY 11 contribution from the administrative budget to the SRP is based on a rate of 14 percent of pensionable gross remuneration—a rate approved by the Executive Board in 2004—and amounts to an estimated contribution of $85.5 million. Because the actual contribution determined by the actuaries is greater than this amount, an additional 5.29 percent ($32.3 million) will come from a drawdown of the accumulated reserves in the SRP.

- **Retirement Staff Benefits Investment Account (RSBIA)**: Additional voluntary contributions to the RSBIA have been made recently—mainly to recognize the structural deficit of the plan. An estimated contribution of $25–30 million will be made in FY 10; the contribution will be financed from the FY 10 under run that is projected to be in excess of the carry forward limit.

  - Consistent with the FY 10–12 MTB, the FY 11 budget provides for a contribution of $37 million to the RSBIA, and a contribution of $38 million in each of FY 12 and FY 13.

- **Medical benefits plan (MBP)**: Contributions to the MBP have been indexed to the structural change in the pay scale, with annual price increases of 2.6 percent in FY 11–13. A review of the MBP's financing and its reserve position is scheduled to take place in FY 11; this should also take into account the implications of the recently-passed U.S. health-care legislation.

- **Expatriate benefits**: Unit costs for expatriate benefits are expected to remain stable, relative to the FY 10 outturn. A moderate slow-down in the increase for tuition fees has been incorporated for FY 11–13, relative to the assumptions in the FY 10–12 MTB.

- **Local staff salaries and benefits**: Beginning May 1, 2010, salaries for local employees in Resident Representative offices and Regional Technical Assistance Centers will be aligned with the UNDP scale. New medical and separation or retirement benefits will also be introduced as the current 20 percent cash payment in lieu of benefits is phased out. The incremental cost of the new programs has been estimated at $1.5 million.

- **Travel costs**: The recent rebid of the Designated Airline Program is expected to result in more flexibility for staff with some modest cost savings.

- **Other costs**: Expenses in other categories are assumed to rise in line with the non-personnel component of the global external deflator (Table 4 Chapter II, Section B).

- **Global External Deflator**: For FY 10, the Board adopted the use of a global external deflator to be used in setting the nominal budget envelope. The Global External Deflator (GED) is calculated on the basis of a personnel component (70 percent) and a non-personnel component (30 percent), and its construction is shown in Table III.1.

Table III.1 Global External Deflator: Composition

	FY 10	FY 11	FY 12	FY 13
Global External Deflator (in percent)	3.6	4.0	4.0	4.1
Personnel Component (70)				
Salary Index (2009)	5.0	4.9	4.9	4.9
Non-Personnel Component (30)				
2009 October WEO, U.S. CPI	0.3	1.7	1.9	2.2

Source: Office of Budget and Planning.

Appendix IV: Receipts

1. **Receipts contribute to the Fund's gross administrative budget and fall into two categories:** (i) external donor funding, used to finance TA and training (about 80 percent); and (ii) general receipts, which includes revenues from cost-sharing arrangements with the World Bank, publications, parking and office leases (about 20 percent) (Table IV.1).

2. **Following intensified fund-raising efforts, donor-financed capacity building activities are expected to expand substantially over the FY11–13 MTB**. This reflects an increase in demand for technical assistance in light of the current global economic and financial crisis as countries work on strengthening their institutional capabilities (see Appendix 1).

3. **General receipts, on the other hand, are assumed to be mostly in line with the FY 10–12 MTB, though a temporary decline is projected for FY 11.** The decline in general receipts in FY 11 is mainly a result of: (i) the suspension of the application of the charging policy for TA and training ($3.2 million); and (ii) the postponement of leasing an additional floor in HQ2 until after the renovation plan for HQ1 has been determined ($1.2 million).

Table IV.1 Receipts, Comparing the FY 09-11, FY 10–12 and FY 11-13 MTBs
(In millions of U.S. dollars)

	FY 09	FY 10	FY 11	FY 12	FY 13	MTB 1/ Total
A. FY 09-11 MTB						
Externally-financed capacity building	**66**	**65-74**	**68-81**	**..**	**..**	**209**
Technical assistance 2/	60	60-69	63-76	..	..	194
Scholarships (including administrative fees)	6	5	5	..	..	15
General receipts	**33**	**38**	**39**	**..**	**..**	**110**
Of which:				..	..	
Fund-sponsored sharing agreements 3/	5	5	6	..	..	16
Publications income	4	4	4	..	..	12
Concordia apartment	3	4	4	..	..	11
HQ2 leasing	2	5	5	..	..	12
Reimbursement of investment office costs	3	3	3	..	..	9
Travel commissions and rebates	10	10	10	..	..	29
Parking	3	4	4	..	..	10
Total	**99**	**102-111**	**106-119**	**..**	**..**	**319**
B. FY 10-12 MTB						
Externally-financed capacity building	**..**	**72**	**79-89**	**85-95**	**..**	**246**
Technical assistance 2/	..	67	75-85	80-90	..	232
Scholarships (including administrative fees)	..	5	4	5	..	14
General receipts	**..**	**28**	**30**	**31**	**..**	**89**
Of which:	..				..	
Fund-sponsored sharing agreements 3/	..	5	5	5	..	16
Publications income	..	4	4	4	..	12
Concordia apartment	..	3	4	4	..	11
HQ2 leasing	..	3	4	5	..	12
Reimbursement of investment office costs	..	3	3	4	..	10
Travel commissions and rebates	..	0	0	0	..	1
Parking	..	3	3	4	..	10
Total	**..**	**100**	**109-119**	**121-126**	**..**	**335**
	..					
C. FY 11-13 MTB	..					
Externally-financed capacity building	**..**	**..**	**95**	**117-137**	**131-151**	**363**
Technical assistance 2/	..	..	90	113-133	127-147	350
Scholarships (including administrative fees)	..	..	4	4	5	13
General receipts	..	..	**27**	**31**	**32**	**91**
Of which:	..	..				
Fund-sponsored sharing agreements 3/	..	..	5	5	5	16
Publications income	..	..	4	4	4	12
Concordia apartment	..	..	4	4	4	11
HQ2 leasing	..	..	3	6	6	14
Reimbursement of investment office costs	..	..	4	4	4	12
Parking	..	..	3	3	3	9
	..	..				
Total	**..**	**..**	**122**	**149-169**	**163-183**	**454**

Source: Office of Budget and Planning
Note: Figures may not add to totals due to rounding.

1/ Totals based on central estimates.

2/ Includes payments from donors of the administrative and trust management fees. Expected receipts for CARTAC are included with the new funding cycle starting January 1, 2011. Until then CARTAC is managed as a UNDP project outside the Fund's budget.

3/ Includes reimbursements principally provided for the World Bank for administrative services provided under sharing agreements, including the Joint Bank/Fund Library and the Bank/Fund Conference Office.

Appendix V: The FY 10 Projected Outturn

I. SUMMARY

1. **The FY 10 administrative budget comprises structural resources of $880 million and a temporary allocation of $51.7 million; the latter was funded with FY 09 carry forward provisions to address additional crisis demands**. Of the FY 10 budget, it is estimated that about $61 million in under spend will be available for carry forward to FY 11—$53 million for staff; $7 million for the OED; and $0.2 million for the IEO.

2. **Vacancies that resulted from the over subscription of volunteers during the restructuring are largely filled**. Most departments are projected to fully exhaust their structural budgets; the projected under spend is mainly a result of an under utilization of temporary allocations. The estimated under spend also includes the unused contingency reserve and some provision for financing anticipated crisis needs in FY 11.

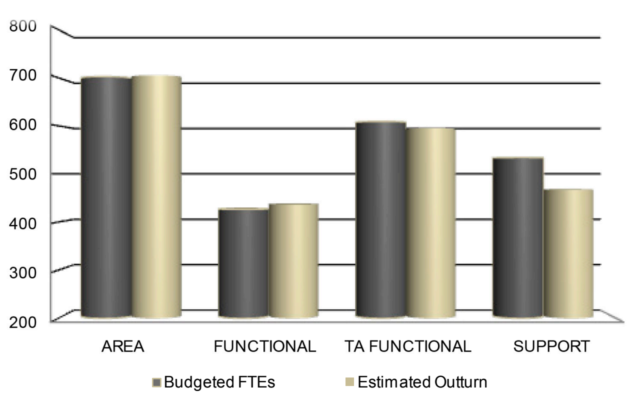
3. **Departments are largely delivering key outputs in line with the strategies set out in the Fund's FY 10 business plan and those post-Istanbul meetings**. Since the FY 10–12 business plan was formulated on the Key Output Areas (KOAs) (prior to the development of the new responsibility areas (RAs), this appendix reports on the performance measured against the outputs in that nomenclature.

II. ADMINISTRATIVE EXPENDITURES

A. Inputs

4. **Budget utilization rates, measured against total resources available, for the first three quarters were above those of the comparable period in FY 09**. Nonetheless, expenditures in all major input categories are projected to end the year below budget (Table V.1). Details on the utilization of structural and temporary resources showed that:

Figure V.1 : Structural FTEs, FY 10
(Excludes temporary allocations)



Source: Office of Budget and Planning.

- **Staffing** levels for the majority of departments are at or above the structural targets, and departments have begun to fill their temporary slots. Structural vacancies are mainly remaining in non-economist and specialized areas (Figure V.1).

Table V.1 Administrative Budget: FY 09–FY 10
(In millions of U.S. dollars)

	FY 09 Budget	FY 10 Budget 1/	Budget Execution: Q3 FY 09 (in percent)	Budget Execution: Q3 FY 10 (in percent)	FY 10 Est. Outturn
Personnel	696.8	734.0	65.3	67.1	704.4
Salary	417.4	437.0	63.0	65.2	403.1
Other Personnel Costs	279.5	297.0	68.6	69.8	301.4 2/
Travel	97.9	103.7 3/	47.4	57.5	94.5
Buildings and Other Expenses	163.4	170.8	56.0	57.2	159.6
Contingency Reserve	8.6	6.6	*n.a.*	*n.a.*	0.0
Available for additional crisis work		16.6	*n.a.*	*n.a.*	0.0
Of which: OED		3.3			0.0
Gross Expenditures 4/	966.8	1,031.7	61.3	63.0	958.5
Less: Receipts 4/ 5/	98.6	99.9	42.5	51.7	87.3
Net Budget	868.2	931.7	63.4	64.2	871.1

Sources: Office of Budget and Planning and PeopleSoft Financials (commitment control)
Note: Figures may not add to totals due to rounding.

1/ Includes crisis budgets and FY 09 carry forward provisions.
2/ Includes a one-off contribution to the RSBIA.
3/ Includes travel to the Annual Meetings in Turkey.
4/ The data exclude reversals of accrued expenditures from the previous year for the Separation Benefits Fund, Bank/Fund joint-sharing agreements, and other msicellaneous revenues.
5/ Figures based on the central estimate for receipts.

- The main factors contributing to the under spend are largely temporary. These are: (i) the allocation in the FY 10–12 MTB to fund crisis activities with carry forward funds spanning across financial years; (ii) vacancies in temporary positions that were created under the temporary allocation; and (iii) to a smaller extent, the departure of volunteers and their effect on the Fund average salary.

5. **Relative to the same period last year, travel volume increased by close to 20 percent**. With the number of program countries rising to 55 in FY 10 Q3, travel volume to crisis affected countries remained high. In particular, travel related to financial program work to the European region almost doubled when comparing the first three quarters of FY 09 and FY 10.

6. **Receipts for externally funded technical assistance projects were well above last year's level**. This was a reflection of stepped up activities in several of the regional technical assistance centers, the increased use of resources from Topical Trust Funds (TTFs), and the onset of some larger projects in a number of countries.

B. Key Outputs

7. **The Fund Business Plan was crafted prior to the Annual Meetings—hence the FY 10 planned allocation did not take into account new mandates and responsibilities stemming from the Istanbul Decisions**. The plan, however, reflected the demands of the financial crisis—increased shares of resources to country program and financial support and

global monitoring, with focus on early warning systems and financial safety nets; and more coordinated and targeted technical assistance (Table V.2).

Table V.2 Gross Administrative Expenditures by Key Output Area and Constituent Outputs, FY 09 and FY 10 1/

(In percentage shares of total gross administrative and restructuring delay expenditures, unless otherwise indicated)

	FY 09		FY 10	
	Plan	Q3	Plan	Q3
Global Monitoring	**18.0**	**18.4**	**19.1**	**23.7**
Oversight of the international monetary system	5.0	5.7	5.6	8.6
Multilateral surveillance	5.0	5.2	5.6	6.9
Cross-country statistical info. & methodologies	3.5	3.8	3.8	4.6
General research	0.3	0.3	0.3	0.5
General outreach	4.2	3.3	3.8	3.2
Country specific and regional monitoring	**36.7**	**34.8**	**30.4**	**29.3**
Bilateral surveillance	28.5	28.5	23.5	23.5
Regional surveillance	3.4	2.6	4.0	2.7
Standards and codes & financial sector assessments	4.8	3.7	2.9	3.1
Country programs and financial support	**20.7**	**22.5**	**23.7**	**23.8**
Generally available facilities	8.3	12.4	12.4	12.4
Facilities specific to low-income countries	12.3	10.1	11.3	11.4
Capacity Building	**24.6**	**24.4**	**26.7**	**23.1**
Technical assistance	17.5	17.6	19.4	17.5
External training	7.2	6.8	7.3	5.6
Total, excluding reserves	**100**	**100**	**100**	**100**
	(in millions of U.S. dollars)			
Memorandum items:				
Contingency reserve	9	n.a.	7	n.a
Support	290	216	291	211
Governance	88	59	95	56
Total gross administrative expenditures 2/	967	629	1,019	650
Restructuring expenditures for volunteers on delay 3/	72	36	n.a.	10
Total gross administrative and restructuring delay expenditures	1,039	665	1,019	660

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Support and governance expenditures are allocated across outputs.

2 / Includes contingency reserve.

3/ The budget for restructuring delay expenditures is a three-year appropriation. Most of the costs were incurred in FY 09.

8. **In light of post-Annual Meetings work priorities, and in order for departments to plan ahead, a reallocation of resources to key departments took place in December 2009**. Within the total available budgets, resources were repurposed to largely address crisis demands, post-crisis management, outreach efforts, and regional and cross country initiatives.

9. **At the end of the third quarter, resource shares allocated to the four key output areas are broadly as planned**. Although departments continue to adapt their work agenda in light of the Istanbul decision, no significant shifts in resource allocations are expected for the year as a whole.

- An increased share of resources was devoted to global monitoring. In particular, resource shares to oversight of the international monetary system and multilateral surveillance surged markedly. This is mainly attributable to work related to the Annual Meetings, the reforms of the global financial system, and to frameworks for macro-economic policies in a post-crisis world.

- The resource shares devoted to country programs and financial support were as planned. They reflect the anticipated demands of crisis countries for work on financial programs and arrangements.

- Greater emphasis on the multilateral perspective in bilateral surveillance and monitoring of systemic and vulnerable countries was reflected in an at target share of resources, with regional surveillance slightly below plan.

- Resource shares for technical assistance were at last year's levels because increases in other outputs, mainly global monitoring, resulted in a lower share for capacity building relative to the budget. Also, timing differences in recording expenses and drawdowns played a role, but these will be eliminated to some extent by year end with the overall share moving closer to plan.

III. Capital Investments

10. **Capital projects advanced as planned**. Work on developing detailed long-term investment plans for the Fund's physical assets is underway; pending its completion, only the most critical capital facilities projects and some other necessary stand-alone projects are proceeding. IT projects are on track and are contributing to the Fund's streamlining initiatives. For example, the recently introduced eReview system was initiated to modernize the review process and facilitate greater collaboration (Table V.3).

Table V.3 Capital Expenses, FY 10
(In millions of US dollars)

	FY 10	
	Budget	Q3
Total Expenditures	45	23
Facilities	15	5
Information Technology	30	19

Source: Office of Budget and Planning.

IV. The Restructuring Budget

11. **The Executive Board approved a total of up to $185 million in restructuring expenditures as part of the FY 09–11 MTB**. This included a provision of up to $7.6 million for restructuring initiatives in OED.

12. **At the end of the FY 10 third quarter, a total of $120 million in delay and separation benefit payments had been recorded** (Table V.4). Of the total number of volunteers only 49 remain on active duty. All volunteers will have either separated or entered into separation benefit leave status by May 14, 2010.

Table V.4 Staff Restructuring Budget Execution, FY 09–10
(In millions of US dollars)

	FY 09	FY 10 Q3	Total
Total	74	48	122
Delay costs	45	11	56
Separation benefits payments	28	37	65
Retooling and Outplacement	1	0	1

Source: Office of Budget and Planning.

Appendix VI: ACES and the New Responsibility Areas

1. **The Fund's FY11–13 medium-term budget (MTB) and departmental business plans have been formulated on the basis of a new outputs structure—the Responsibility Areas (RAs)—and new standard costs by grade**. Both initiatives are integral parts of wider budget reforms in the context of introducing the new Analytic Costing and Estimation System (ACES) in the Fund.

2. **The first change, moving to the new RAs framework, was motivated, *inter alia*, by the need to communicate more clearly, both within and outside the institution, the nature of the Fund's work**. Casting the outputs in this new framework was also intended to make the discussion of outputs an integral part of the decision-making process when assessing necessary trade-offs. The most significant definitional changes included the move of regional surveillance activities from the old "bilateral" KOA2 ("Country specific and regional monitoring") to the new "global" RA1 ("Lead the global economic policy dialogue"); and the move of policy work on surveillance, use of Fund resources, and capacity building from the old KOAs 2, 3, and 4, respectively, into a new output "Development and review of Fund policies and facilities," under RA2 ("Strengthen the oversight of the global economic and financial system").

3. **The second change, moving to standard costs by grade, was essential for more accurate costing of outputs, whether under the new RA structure or the old KOA structure.** Personnel costs account for about 70 percent of the Fund's total administrative expenditures, and the three broad standard costs—while sufficient for budget formulation—did not adequately support the efforts to provide detailed costing information. Thus, the shift from three to 17 standard costs—one for each grade of the staff career ladder—is essential for more accurate costing of the Fund outputs.

4. **The combined effect of definitional changes (the RAs) and pricing change (the standard cost) are reflected in the allocation of the Fund's administrative budget by outputs.** To illustrate the effect of the changes individually and together, the FY 09 administrative budget is reported in four-ways (Table VI.1): (i) by the old KOAs with old standard cost (quadrant A—the base); (ii) by the old KOAs and new standard costs (quadrant B); (iii) by the new RAs and old standard cost (quadrant C); and (iv) by the new RAs and new standard costs (quadrant D). The impact of definitional changes may be gauged by comparing quadrants A–C, that of price factor changes by comparing quadrants A–B, and the full impact of definitional changes *and* price factor changes by comparing quadrants A–D. A more detailed crosswalk from the new RA structure to the current KOA structure is provided in Table VI.2.

Table VI.1. Quadrant Crosswalk, FY 09

(In percent share of total gross expenditures, excluding contingency reserve) 1/

	Quadrant A	Quadrant B
Old KOAs Structure	**Old Standard Cost**	**New Standard Cost**
Global Monitoring	19.4	18.9
Country specific and regional monitoring	33.3	36.7
Country programs and financial support	20.6	21.8
Capacity Building	26.7	22.6
Total gross expenditures	100.0	100.0
	Quadrant C	**Quadrant D**
New RAs Structure	**Old Standard Cost**	**New Standard Cost**
Lead the Global Economic Policy Dialogue	19.6	19.4
Strengthen Oversight of the Global Economic and Financial Systems	12.4	12.6
Advise Member Countries on Economic Policies	25.2	25.6
Support Countries' Economic Policy Adjustments	18.1	18.7
Provide Capacity Building	24.7	23.8
Total gross expenditures	100.0	100.0

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Includes staff charged to the restructuring budget.

Table VI. 2 The New and Old Structure of the Fund's Outputs

New Structure Responsibility Areas (RAs)	Old Structure Key Output Areas (KOAs)
RA1: Lead the global economic policy dialogue 1.1 Global economic analysis 1.1.1 WEO 1.1.2 GFSR 1.1.3 General research 1.1.4 General outreach 1.2 Cooperative economic policy solutions 1.2.1 Multilateral consultations 1.2.2 Support and inputs to multilateral forums 1.3 Tools to prevent and resolve systemic crises 1.3.1 Analysis of vulnerabilities and imbalances 1.3.2 Other cross-cutting analysis 1.4 Regional approaches to economic stability 1.4.1 REO 1.4.2 Surveillance of regional bodies 1.4.3 Other regional projects **RA2: Strengthen the oversight of the global economic and financial systems** 2.1 Development of international financial architecture 2.1.1 Work with FSB and other international bodies 2.1.2 Other work on monetary, financial and capital markets issues 2.2 Data transparency 2.2.1 Statistical information/data 2.2.2 Statistical manuals 2.2.3 Statistical methodologies 2.3 The role of the Fund in the international monetary system 2.3.1 Development and review of Fund policies and facilities 2.3.2 Quota and Voice, SDR issues	**KOA1: Global monitoring** 1 Oversight of the international monetary system 2 Multilateral surveillance 3 Cross-country statistical information and methodologies 4 General research 5 General outreach
RA3: Advise member countries on economic policies 3.1 Assessment of economic policies and risks 3.1.1 Article IV consultations 3.1.2 Other bilateral surveillance 3.2 Financial soundness evaluations 3.2.1 FSAPs/OFCs 3.3 Standards and codes evaluations 3.3.1 ROSCs 3.3.2 AML/CFT (incl ROSC) 3.3.3 GDDS/SDDS	**KOA2: Country specific and regional monitoring** 6 Bilateral surveillance 7 Regional surveillance 8 Standards and codes and financial sector assessments
RA4: Support countries' economic policy adjustments 4.1 Arrangements supported by Fund resources 4.1.1 Programs and precautionary arrangements supported by general resources 4.1.2 Programs supported by subsidized resources 4.2 Arrangements not supported by Fund resources 4.2.1 Non-financial instruments	**KOA3: Country programs and financial support** 9 Generally available facilities 10 Facilities specific to low-income countries
RA5: Provide capacity building 5.1 Technical assistance 5.1.1 Technical assistance reports, notes, manuals 5.2 Training 5.2.1 Training courses, workshops	**KOA4: Capacity building** 11 Technical assistance 12 External training

Source: Office of Budget and Planning