INTERNATIONAL MONETARY FUND

The FY 2004 Budget and the Medium-Term Framework

Prepared by the Office of Budget and Planning

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EXECUTIVE SUMMARY

1. This paper sets out proposals for the administrative and capital budgets for FY 2004, and the medium-term framework for both administrative and capital expenditures. The proposals take account of the earlier discussions in the Executive Board Committee on the Budget (February 27, 2003).

2. On the basis of ten months data, administrative expenditures in FY 2003 are projected to be a little below budget. Gross expenditures are estimated at $778.3 million, that is 2 percent under budget. With reimbursements running slightly below the budget estimates, net expenditures are projected at $734.9 million, or 1.5 percent below budget.

3. The projected outturn reflects action between June and December 2002 to redeploy resources to a few departments under the greatest work pressures, and to contain planned monthly spending in others. Also beginning in mid-February, there was a reduction in planned travel and some personnel expenditures, in response to global security concerns. These developments, combined with strong departmental commitment to staying within allocated budgets, underlie the projected underspend.

4. The proposed FY 2004 administrative budget and the medium-term framework are aimed at keeping the Fund to broadly its present size, while addressing changing priorities and work pressures—and, to the extent practical, new policy initiatives—principally through resource reallocation.

5. Accordingly, the "top down" constraint on the administrative budget for next year has been derived from the medium-term estimate (MTE) for FY 2004 presented to the Board in April 2002—a net budget of $783.1 million. That MTE has been adjusted for:

(i) the resource implications of new policy decisions: an addition for the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) pilot initiative; and savings from the abolition of the subsidy to the cafeteria, and from restructuring the Offices in Europe;

(ii) lower than assumed price or cost increases, taking account of the recent decision on staff salaries and trends in other (nontravel) expenditures;

(iii) higher than anticipated costs for the Annual Meetings in Dubai; and

(iv) the increased budget of the Independent Evaluation Office (IEO).

The combined effect of these adjustments is to reduce estimated administrative expenditures, relative to the MTE, by $0.9 million.

6. Also, donor contributions for externally financed technical assistance, training and other activities are now projected to be $3 million higher than in the MTE. This adds

$3 million to gross expenditures and to reimbursements but leaves the MTE (which is based on net expenditures) unchanged.

7. Board approval is sought, however, for additional expenditures on three items:

(i) measures to provide for business continuity in the event of an emergency;

(ii) an expansion of staff in two Executive Directors' offices; and

(iii) an addition to the resources of the Managing Director's office for the establishment of an Alumni Group.

These proposed expenditures would add $3.3 million to the FY 2004 net administrative budget.

8. Taking account of the policy and the cost adjustments in paragraph 5, the extra resources available from donors (paragraph 6) and additional measures proposed in paragraph 7, approval is sought for a gross administrative budget of $837.5 million and a net (of reimbursements) budget for FY 2004 of $785.5 million. The latter represents an increase of 5.2 percent over the FY 2003 net budget.

9. Given the outbreak of war in the Middle East, there is perhaps greater than usual uncertainty about the allocation of resources both in geographical terms and among the Fund's primary outputs. However, the present departmental business plans indicate that the share of resources devoted to most outputs—policy development, research and operation of the international monetary system, surveillance and use of Fund resources—is likely to remain broadly constant: but important changes in activities, within each category, are planned in response to new priorities. The resources allocated to capacity building (technical assistance and training) are expected to be broadly maintained. Significant redeployment of resources is planned from support activities to the Fund's primary outputs, as delivered by the area and functional departments. Given the uncertainty surrounding the coming fiscal year, a contingency provision of $2 million is proposed—within the overall budget of $785.5 million.

10. Medium-term estimates of administrative expenditures (under existing policies) for FY 2005 and FY 2006 are also provided for information. The administrative expenditure aggregate used in this MTE framework has been slightly narrowed. The budget contribution to the Fund's pension scheme (which is volatile, subject to market developments and dependent on the discretionary use of available reserves) is now excluded from the MTE aggregate. However, whatever contribution the Board determines should be made to the pension scheme from the administrative budget would, as now, be included in the annual budget presented to the Board.

11. After allowing for timing factors, and the return of the Annual Meetings to Washington in FY 2005 and FY 2006, the (revised) MTE increases by 3.8 percent in FY 2005 and by 4.3 percent in FY 2006.

12. Approval is also sought for a capital budget of $39.6 million for expenditures over the next three years on building facilities and IT capital projects, that will start in FY 2004.

13. The Capital Plan for the period FY 2004 to FY 2006, which underlies the proposed capital budget, covers both projects included in the FY 2004 appropriation and new capital projects planned to begin in FY 2005 and FY 2006. In aggregate, the Capital Plan shows a fall in proposed capital spending on new building facilities and IT projects over the next three years from $144 million (the medium-term capital plan in FY 2003) to $115 million (the medium-term capital plan in FY 2004).

14. The paper is structured as follows:

- Section I sets out the projected outturn for the administrative budget for FY 2003; examines the main developments in terms of outputs; and reports on the main variations in inputs as between budgeted and projected expenditures.

- Section II describes how the proposed appropriation for the FY 2004 administrative budget was formulated and how resources would be deployed to deliver planned outputs. Details on the composition of the proposed budget, both by type of department and by input, are also provided. Medium-term estimates for FY 2005 and FY 2006 are presented.

- Section III provides projections of capital expenditures in FY 2003, by category of capital project; summarizes capital budgeting processes; presents the medium-term Capital Plan for the period FY 2004–FY 2006; and then sets out the proposed appropriation for the capital budget, for those projects that will start in FY 2004.

- Section IV indicates the broad effect of the proposed FY 2004 budget on the rate of charge and provides information on expenses for the reimbursement of Trust Fund Accounts.

- Finally, Section V sets out the proposed budget decisions for the consideration of the Executive Board.

I. FY 2003 Administrative Budget and Projected Outturn

A. Overview

15. The FY 2003 budget was the first formulated under the procedures adopted in early 2002 for the preparation and execution of the Fund's budget. The objectives of the new procedures appear to have been broadly achieved. Administrative expenditures in FY 2003 are projected to be slightly below the budget provision, while considerable resource reallocation has occurred both within and between departments to accommodate shifting priorities and work pressures.

16. On the basis of 10 months data, gross expenditures are projected at $778.3 million, 2 percent below budget. With reimbursements running below the budgeted level, net expenditures are projected at $734.9 million, 1.5 percent below budget (Table 1). Within the limit of 2,788 open-ended and limited-term staff positions, full-time staff years are projected at 2,648.

Table 1. Administrative Budget and Projected Outturn, FY 2003

	Budget	Estimated Outturn 1/	Variance	
			Amount	Percent
Gross expenditures				
(In millions of dollars)	794.3	778.3	-16.0	-2.0
Net expenditures				
(In millions of dollars)	746.4	734.9	-11.5	-1.5
Staffing (in staff years)	2,788 2/	2,648 3/	-140	-5.0
Vacancy rate (in percent)				
Gross 4/	4.6	5.0		
Net 5/	1.0	1.3		

Sources: Office of Budget and Planning and Treasurer's Department.

1/ Preliminary estimate based on ten months data (i.e., through February 28, 2003).

2/ Full-Time Staff Positions (FTS), i.e., the total number of open-ended and limited-term staff positions.

3/ Full-Time Equivalents (FTE), i.e., the number of staff years.

4/ Gross vacancies are the difference between FTS and FTE for open-ended and limited-term staff positions.

5/ Net vacancies relate to open-ended and limited-term staff plus experts, consultants, and contractual employees. Net vacancies count staff positions occupied by temporary contractuals as "filled" and are hence always lower than gross vacancies.

17. Several within-year adjustments to departmental business plans were undertaken between June and December 2002. First, a number of departments, including the Asia and Pacific Department (APD), the European II Department (EU2) and the Fiscal Affairs Department (FAD), transferred economist staff to the Western Hemisphere Department (WHD) (for a fixed period) to accommodate additional work pressures in several Latin American countries. Second, to ensure certain functional departments kept within budget, delays and reconfiguration in the timing and size of some Report on the Observance of Standards and Codes (ROSC) and Financial Sector Assessment Program (FSAP) missions were agreed. A few departments (e.g., Policy Development and Review Department (PDR), WHD), which faced unanticipated work pressures initially sought small supplements to their travel budgets. However, the reduced pace of travel from February in response to global security concerns is likely to lead to an underspend on travel in all departments. No use of contingency resources for travel (or any other) spending is anticipated.

18. On the basis of the projected outturn, the year-on-year increase in administrative expenditures in FY 2003 will be 8.6 percent. Two main factors account for the increase: first, as envisaged in the budget, salary expenditures rose by 7.3 percent, because of a further reduction in staff vacancies and some progress in replacing temporary contractuals by open-ended and limited-term staff; second, substantial new policy measures were included in the FY 2003 budget including:

- work on AML/CFT;
- the establishment of regional technical assistance centers in Africa (AFRITACs); and
- increased expenditures for Fund security in the aftermath of September 11, 2001.

19. Full information is not yet available on the use of staff resources (and thus the costs incurred) on the AML/CFT work. However, expenditure on the AFRITACs will be lower than projected, because of the delay in opening the West AFRITAC (as a result of local security issues). The cost of security measures for the Fund is expected to be slightly ($0.9 million) above the budgeted figure, but the additional costs will be absorbed by reductions elsewhere in the Technology and General Services Department (TGS) budget. Table 2 provides information on administrative budgets and expenditures from FY 1998 to FY 2003.

Table 2. Administrative Budgets and Expenditures, FY 1998–FY 2003
(In millions of U.S. dollars and percent)

Financial Year	Net Budget	Net Outturn	Budget-to-Budget Increase		Outturn-to-Outturn Increase	
			Amount	Percent	Amount	Percent
1998	503.7	495.3	13.2	2.7	23.7	5.0
1999 1/	519.6	520.6	15.9	3.2	25.3	5.1
2000	585.1	583.0	65.5	12.6	62.4	12.0
2001	650.9	638.0	65.8	11.2	55.0	9.4
2002	695.4	676.7	44.5	6.8	38.7	6.1
2003 2/	746.4	734.9	51.0	7.3	58.2	8.6
Average increase			42.7	7.3	43.9	7.7

Sources: Office of Budget and Planning (OBP) and Treasurer's Department (TRE).

1/ Actual reimbursements were below the budget estimate; however, the gross expenditure budget was not exceeded.
2/ Estimated outturn.

B. Analysis

Outputs

20. Table 3 provides an assessment of projected FY 2003 administrative expenditures allocated to the five principal Fund outputs.[1] Because this output classification was only adopted midway through FY 2003, the figures, expressed as percentage shares of total staff time, are somewhat broad brush. They were derived on a basis consistent with that used by departments in drawing up their business plans for FY 2004. As explained in Box 1, the figures are based on Budget Reporting System (BRS) data and are subject to several limitations. Moreover the BRS data are currently available only for the first three quarters of

[1] The classification presented to the Committee on the Budget in October 2002 identifies the following outputs: (1) policy development, research, and operation of the international monetary system; (2) standard setter/provider of standardized information; (3) bilateral and regional surveillance; (4) use of Fund resources (UFR); and (5) capacity building services.

FY 2003, and no allowance has been made for seasonal or discretionary adjustments in work patterns in the final quarter.

Table 3. Administrative Expenditures: Outputs, FY 2002–FY 2003

	Resource Shares FY 2002 Outturn	Resource Shares FY 2003 Est. Outturn
	(In percent)	
1. Policy Development, Research and Operation of the International Monetary System	9.0	9.5
2. Standard-Setter/Provider of Standardized Information	5.5	5.0
3. Bilateral and Regional Surveillance	28.0	28.5
4. Use of Fund Resources	36.0	34.0
5. Capacity Building Services 1/	21.5	23.0
Total	100.0	100.0

Source: Office of Budget and Planning.

1/ These numbers refer only to net administrative expenditures; donor financed capacity building is excluded.

21. Whatever the shortcomings, the information submitted by departments for FY 2004 is the only basis available for analysis. The data shown in Table 3 for the shares of total output in FY 2002 and FY 2003 have been “projected backwards” by applying the patterns observed in the BRS reports for these years.

Box 1. Administrative Expenditures by Output

Several technical problems hinder a reliable measurement of the resources devoted to delivering the Fund's five outputs.

- Departments have prepared a projection of the dollar costs of delivering their outputs for FY 2004. These cover all staff and non-staff costs (such as travel), based on the new output classification discussed with the Committee on the Budget in October 2002.
- The estimated breakdown for staff costs, however, is still based on the somewhat unreliable Budget Reporting System (BRS), which provides the data for allocating staff time (and hence salary costs) between outputs.
- The accurate allocation of staff and non-staff costs between outputs is based wholly on information supplied for the primary outputs as delivered by the area and functional departments. Time spent on non-primary, i.e., support activities both by these departments and the support departments is allocated on a broad pro-rating basis.

The accurate allocation of staff costs among primary, intermediate and governance activities is being addressed by staff as part of the overall budget reform process. A revised time reporting system could be available in time for the FY 2005 budget. Work is also underway on an activity based cost allocation. Both reforms depend on successful implementation of related IT systems in FY 2005.

22. As between FY 2002 and the projected FY 2003 outturn, the data suggest the following.

(i) **The share of resources on policy development, research, and operation of the international monetary system (1) rises marginally**, reflecting a number of important changes. These include more developmental work on the SDRM; the creation of a comprehensive data base for use in vulnerability exercises; and the introduction of the Global Financial Stability Reports.

(ii) **The share of resources going to standard setting (2) work falls slightly between the two years.**

(iii) **There is a small increase in the share of resources devoted to bilateral and regional surveillance (3)**. The increased surveillance work reflects the greater emphasis now being placed on vulnerability analyses; crisis prevention and resolution measures in several countries; and a small increase in the number of new ROSCs and FSAPs undertaken.[2]

(iv) **A reduction in the share going to the use of Fund resources (UFR) (4) is expected**. The fall in the share of the UFR output reflects the smaller number of programs now likely to be in place (62 projected for FY 2003, against 70 in FY 2002).

(v) **The share of resources going to capacity building (5) shows a small rise**; this reflects a planned increase in the overall delivery of technical assistance, despite the delay in opening the West AFRITAC. However, there remains considerable uncertainty on technical assistance delivery in the final quarter of FY 2003: the postponement of some technical assistance (TA) missions and withdrawal of some resident experts from mid-February could still lead to overall underdelivery against the original projections for FY 2003.

Inputs

23. An analysis of the variations between the FY 2003 budget and projected administrative expenditures in terms of inputs is shown in Table 4.

Table 4. Administrative Expenditures: Inputs, FY 2003
(In millions of U.S. dollars, unless otherwise stated)

	Budget	Estimated Outturn	Variance Amount	Variance Percent
I. Personnel	**539.1**	**532.1**	**-7.0**	**-1.3**
Salary	343.2	338.7	-4.5	-1.3
Other	195.9	193.4	-2.5	-1.3
II. Travel	**91.1**	**84.7**	**-6.4**	**-7.0**
III. Other expenses	163.2	161.5	-1.7	-1.0
IV. Contingency reserve	1.0	0.0		
Gross Expenditures	**794.3**	**778.3**	**-16.0**	**-2.0**
Less: Reimbursements	-47.9	-43.4	**4.5**	**-9.4**
Net Expenditures	**746.4**	**734.9**	**-11.5**	**-1.5**

Sources: Office of Budget and Planning and Treasurer's Department.
Note: Totals may not add due to rounding.

[2] The number of new ROSCs expected to be completed is projected to rise from 106 in FY 2002 to 127 in FY 2003.

24. **Personnel expenditures** are projected at $532.1 million, some $7 million below the budget provision. Since the central allocation (to cater for fewer than projected vacancies and for the costs of replacing temporary contractuals with open/limited-term staff) has not been used, the underspend is in effect $3 million, i.e., around 0.5 percent. The main developments are as follows:

(i) The average salary cost for open-ended and limited-term staff is expected to be close to the budget assumption. The standard cost concept has been introduced without major problems (see Box 2 for an explanation).

(ii) Gross vacancies, at 5.0 percent in FY 2003, are expected to be a little above the budget assumption of 4.6 percent. However, this outturn is a considerable reduction on the FY 2002 gross vacancy figure of 6.7 percent and is one of the lowest vacancy rates since records were first kept in the 1980s—see Table 5. The net vacancy rate is projected at around 1.3 percent. Given labor market conditions in FY 2003, many departments have been able to catch up in hiring against their Full-Time Staffing (FTS)[3] positions. Total Full-Time Equivalents (FTEs), i.e., actual staff years, are expected to increase by about 2 percent in FY 2003—a combination of the new staff positions approved by the Board last year and lower vacancies.

(iii) This increase in actual staff years, combined with improved prioritization of activities, has contributed to an easing in stress indicators. In absolute terms, the figures remain high: but unpaid overtime is down across almost all departments; the number of days of sick leave taken is down; and the level of annual leave is broadly unchanged. Some pockets of particular strain remain, nonetheless, including, for example, for those working on some new policy initiatives and on countries requiring intensive surveillance or program work.

(iv) There has been modest progress in reducing the number of contractuals hired against staff vacancies. In FY 2004, the incentives to replace contractuals, hired against staff vacancies, by open-ended and limited-term staff will be further strengthened.

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[3] The concept of full-time staffing is the same as that of regular staff complement used in last year's budget paper. The new name reflects Human Resources Department (HRD) changes from the concept of "regular" to "open-ended and limited-term" staff.

Box 2. The Calculation of Standard Costs

- Until FY 2002, staff costs for open-ended and limited-term positions were budgeted for in terms of staff years per department—not dollars. All personnel costs were paid out of centrally held accounts.

- In FY 2003, OBP introduced the concept of a standard cost for personnel into the dollar budgets of departments.

- The calculation of standard costs involved two steps: (i) determination of the average salary for each of the three grade groups (B1-B5, A9-A15, and A1-A8); and (ii) determination of average benefits.

- The average salary was calculated by taking the total salary paid to each grade group, and dividing it by the total number of open-ended and limited-term staff in each grade group.

- The average benefit was calculated by aggregating all benefit expenses, which included items such as Medical Benefit Plan contributions, Staff Retirement Plan contributions, Group Life Insurance, home leave, education allowance, tax allowance, spouse and child allowance, etc. This figure was divided by the total salary for open-ended and limited-term staff, to yield a Fund-wide salary-to-benefit ratio.

- The standard cost for each grade group is equal to the average salary for the group plus average benefits (obtained by multiplying the respective average salary by the Fund-wide salary-to-benefit ratio).[1]

- This ensures that, at every grade, departments have no financial incentive to select between staff on the basis of salary level, gender, nationality or benefit entitlement.

[1] This formulation rests on the broad stability in the ratio of staff among the three grade groups.

Table 5. Vacancy Rates, FY 1988–FY 2003
(Outturns in percent)

	Gross Vacancies Full-Time Staffing 1/	Net Vacancies: 2/ Total Staff and Other Personnel 3/
FY 1988	5.8	4.5
FY 1989	5.4	3.0
FY 1990	5.1	3.4
FY 1991	4.6	3.5
FY 1992	6.9	5.9
FY 1993	8.5	6.9
FY 1994	7.9	6.5
FY 1995	7.1	5.2
FY 1996	5.3	4.2
FY 1997	6.3	5.2
FY 1998	5.9	3.3
FY 1999	6.6	2.7
FY 2000	7.2	3.3
FY 2001	7.3	4.5
FY 2002	6.7	1.1
FY 2003 (budget)	4.6	1.0
FY 2003 (estimate)	5.0	1.3

Source: Office of Budget and Planning.

1/ Open-ended and limited-term staff only.
2/ Net vacancies count open-ended and limited-term staff positions occupied by temporary contractuals as "filled" and are hence always lower than gross vacancies.
3/ Open-ended and limited-term staff plus experts, consultants and contractual employees.

25. **Travel expenditures** are projected to be within the budget provision.

- Until mid-February, the volume of business travel in several departments was slightly higher than over the same period last year (partly a reflection of the September 11 effect on travel in FY 2002). A few departments sought small supplements to their travel provision for critical mission work. Some other departments were asked to (and did) reduce planned travel to keep within their budget constraint. The decision to hold back on non-essential travel from mid-February is now expected to lead to an underrun on travel expenditures and no use of the contingency reserve for this (or any other) purpose.

- Airfares to most regions continue to increase; an average rise in excess of 10 percent is now likely against the 6 percent allowed for in the budget. The consequent pressure on the provision for travel within departmental budgets has been mitigated, however, by generally lower than expected hotel prices.

26. **Other expenditures** are also expected to be held within budget, notwithstanding higher lease costs for the I Square building (because of a rise in property taxes and insurance premia), higher communication costs for mail-related accounts, and additional expenditures on cafeteria services to prepare for the elimination of the subsidy in FY 2004.

27. **Reimbursements** are estimated to be about 9 percent below budget because of:

(i) lower revenue from the sale of Fund publications: this reflects both lower overall demand and the introduction of lower prices for some titles (differentiated pricing);

(ii) lower revenue from the Concordia apartments because asbestos removal has prevented full usage; and

(iii) some delays in the receipt of external finance from donors.

28. The above data reflect some changes to the economic categorization of administrative expenditures. In FY 2003, the Fund introduced the new PeopleSoft Financials software for the processing of its expenditures. In drawing up the detailed Chart of Accounts consistent with the new financial information system, some classification changes were made. First, benefit travel was transferred from travel expenditures to the other personnel, i.e., staff benefits category. Second, some small changes were made to the other expenses category. Third, the opportunity was taken to make explicit the Contingency Reserve—which had previously been held centrally as an unallocated amount within the overall provision for travel expenditures. These changes do not of course affect total expenditures, only their allocation by economic category of spending. Table 6 shows both the old and the new classification for the FY 2003 administrative budget.

Table 6. Administrative Budget: Changes in Classification of Expenditures by Economic Category, FY 2003
(In millions of U.S. dollars)

Expenditure category		FY 2003 Budget (Old)	FY 2003 Budget (New)	Change
I. Salaries and other personnel		521.9	539.1	17.2
II. Travel		112.9	91.1	-21.8
III. Other expenses		159.5	163.1	3.6
IV. Contingency reserve			1.0	1.0
Total gross expenditures	1/	**794.3**	**794.3**	0.0
V. Reimbursements		-47.9	-47.9	0.0
Total net expenditures	1/	**746.4**	**746.4**	0.0

Source: Office of Budget and Planning.

1/ Gross and net budget totals are the same as approved by the Board.

II. FY 2004 Administrative Budget and the Medium-Term Framework

A. Overview

29. Under the present budget procedures, the Board is asked to approve the following aggregates:

(i) a gross dollar budget for FY 2004; and, taking account of projected reimbursements,

(ii) a net budget for FY 2004; plus

(iii) a limit on full-time staffing (i.e., open-ended and limited-term staff positions).

The relevant aggregates are shown in Table 7 and the draft decisions required to approve these aggregates are set out in Section V.

Table 7. Proposed Administrative Budget, FY 2004
(In millions of U.S. dollars and staff years)

	FY 2003 Budget	FY 2004 Revised Proposal	Variance	
			Amount	Percent
Gross expenditures	794.3	837.5	43.2	5.4
Of which: contingency reserve	1.0	2.0		
Net expenditures	746.4	785.5	39.1	5.2
Staffing (in staff years) 1/	2,788.0	2,799.5	11.5	0.4
Vacancy rate (in percent)				
Gross 2/	4.6	3.3		

Source: Office of Budget and Planning.

1/ Full-time staff positions (FTS), i.e., the total number of open-ended and limited-term staff positions.
2/ Gross vacancies are the difference between FTS and FTE.

30. The administrative budget proposed for FY 2004 has been prepared against a background of greater than usual uncertainty. First, the advent of war in the Middle East (which began as this paper was being written) may well disrupt a number of Fund activities in the next few months. Second, there may be indirect consequences of the war—both economic (oil prices, financial markets and disruption to trade patterns) and practical (for example, further restrictions on air travel, higher insurance costs), which could have a more prolonged impact on Fund activities. Some redeployment and reprioritization of resources may well be necessary: additional demands cannot be excluded. Third, policy decisions made at the Spring Meetings could have an impact on administrative expenditures in the FY 2004 budget.

31. Two steps are proposed to provide greater flexibility in the management of the budget in FY 2004. First, the estimates shown in Table 7 include an explicit contingency reserve of $2 million. This has been generated—within the proposed budget aggregate—by keeping the allocations to departments lower than they otherwise would have been. Second, once the budget is approved, the final budget notification sent to departments will emphasize that the resources allocated are subject to review and reprioritization as the year progresses. In turn, this will require departments to be more flexible in their planning and to improve their capacity to respond to changing needs.

B. The Budget Aggregate for FY 2004

32. The starting point for the preparation of the FY 2004 administrative budget is the MTE figure presented at the time of the last budget—shown as Step 1 in Table 8. This MTE was based on a continuation of existing policies but also allowed for the full-year effect of the two regional technical assistance centers in Africa (AFRITAC) and the (then) estimated additional costs of conducting the Annual Meetings outside Washington.

33. The MTE has subsequently been updated. At the initial discussion on the FY 2004 administrative budget by the Board's Committee on the Budget (COB) on February 27, 2003, staff proposed adjustments to:

(i) **take account of new policies and savings already agreed in the period up to end-February 2003**. These comprised the addition for the AML/CFT pilot initiative; and the savings from eliminating the subsidy to the Fund's cafeteria and from restructuring the Offices in Europe (leading to a net reduction of $700,000).

(ii) **reflect revised cost assumptions:** the price increase for other (nontravel) items of expenditure was reduced from 3.5 percent to 3 percent, given the slowing in inflation on goods and service prices in the United States (leading to a net reduction of $800,000).[4]

(iii) **allow for higher than originally estimated costs of holding the Annual Meetings outside Washington** (an increase of $2 million) and the Spring Meetings ($100,000 for additional security).

(iv) **incorporate the revised IEO budget of $3.7 million approved by the Board for FY 2004**; this represented an increase of $200,000 relative to the projection for this item embedded in the MTE.

In total, these adjustments added $0.8 million to the MTE—this is shown as Step 2 in Table 8.

[4] This assumption reflects a broad based view of price trends for purchases by the Fund (which are closer to those for a private sector service industry than to the consumer price index).

Table 8. Proposed Administrative Budget: Derivation of Aggregate, FY 2004 1/
(In millions of U.S. dollars)

		Proposed Budget Gross	Cumulative Change	Change compared to FY 2003 gross budget Percent	Proposed Budget Net	Cumulative Change	Change compared to FY 2003 net budget Percent
	FY 2003 budget	794.3			746.4		
Step 1.	**FY 2004 budget (cost of existing policies in MTE)**	**832.1**		4.8	**783.1**		4.9
	Policy changes:						
	Plus: AML/CFT	*1.5*			*1.5*		
	Less: Elimination of food subsidy	*-2.0*			*-2.0*		
	Restructuring Offices in Europe	*-0.2*			*-0.2*		
	Subtotal	-0.7			-0.7		
	Cost changes:						
	Plus: Increased costs of overseas Annual Meetings	*2.0*			*2.0*		
	Increased costs of Spring Meetings	*0.1*			*0.1*		
	Change in IEO's assumed budget	*0.2*			*0.2*		
	Less: Reduction in cost escalation assumption for other expenses	*-0.8*			*-0.8*		
	Subtotal	1.5			1.5		
Step 2.	**Preliminary proposal FY 2004 budget**	**832.9**		4.9	**783.9**		5.0
	Difference from MTE		**0.8**			**0.8**	
	Donor financed TA and other activities 2/	*3.0*			*0.0*		
	Subtotal	3.0			0.0		
	Cost changes:						
	Less: Overseas Annual Meetings	*-0.5*			*-0.5*		
	Net change in wage assumption from MTE	*-1.2*			*-1.2*		
	Subtotal	-1.7			-1.7		
Step 3.	**Adjusted proposal for FY 2004 budget**	**834.2**		5.0	**782.2**		4.8
	Difference from MTE		**2.1**			**-0.9**	
	Policy changes:						
	Plus: Expansion in Offices of Executive Directors	*1.5*			*1.5*		
	Business continuity planning	*1.4*			*1.4*		
	Office of the Managing Director	*0.4*			*0.4*		
	Subtotal	3.3			3.3		
Step 4.	**FY 2004 proposed budget**	**837.5**		**5.4**	**785.5**		**5.2**
	Difference from MTE		**5.4**			**2.4**	

Source: Office of Budget and Planning.

1/ Includes the Executive Board and Independent Evaluation Office.
2/ Higher reimbursements add to gross expenditures but do not have an impact on net expenditures.

34. Subsequent developments led to some further adjustments to the estimated costs of existing policies:

(i) **Revised estimates of total reimbursements to the budget, including the Office of Technical Assistance Management's (OTM) latest assessment of likely donor contributions, indicate that reimbursements are likely to be $3 million above the figure assumed in the MTE**. These additional funds for technical assistance and external training add the corresponding amount to the gross budget but have no impact on the net budget.

(ii) Although the cost of the Annual Meetings is still under discussion, **the proposed provision for the Annual Meetings in FY 2004 will be held to $0.5 million lower than the earlier estimates provided to the COB**.

(iii) **The Board's decision on the staff compensation package of March 26 will affect personnel costs**. As explained in Box 3, for a given total number of staff, the year-on-year change in the merit pay envelope is determined by the 4.0 percent structural salary increase approved by the Board and the "comparatio," set at 1.8 percent for FY 2004. Changes to the composition of the staff during the budget year (for example, as retirees are replaced by new or promoted staff) lead to a "recovery rate," that keeps the average salary increase below the increases in the merit pay envelope: the recovery rate for FY 2004 is estimated at 1.6 percent. The net impact of the salary change is thus estimated at 4.2 percent. This will reduce the salary bill, for a given number of staff, by $1.2 million relative to the figure in the MTE.

Taken together these revised pricing/cost assumptions reduce the MTE by $1.7 million. This is shown as Step 3 in Table 8; their cumulative effect is to reduce the MTE figure by $0.9 million below the original MTE.

Box 3. The Impact of the Board's Decision on Staff Compensation on the Salary Bill

The Board has determined that the increase in the Fund's salary structure for staff should be 4.0 percent in FY 2004. The increase will apply from May 1, 2003.

Several steps are necessary to translate this figure into the estimated increase, for a given number of staff, in the Fund's overall average staff salary.

- The starting point is the **structural increase** of 4.0 percent.
- The **comparatio adjustment** was set at 1.8 percent. This adjustment is based on HRD's calculation of the increase in the wage bill needed to maintain salaries of staff, on average, at the midpoint of their salary ranges. It allows for the month to month decrease in average salaries during the past year due to retirements, separations, new appointments, etc.
- An offsetting **recovery rate** is applied by OBP to allow for projected retirements, separations, appointments, etc. in the staff that will occur during the year. If the pattern of staff changes during the past year were the same as the pattern anticipated for the coming year, the comparatio adjustment and the recovery rate would fully offset each other. For FY 2004, the recovery rate is set at 1.6 percent.
- Taken together, these determine the average overall increase in the salaries bill of 4.2 percent, for a given number of open-ended and limited-term staff.

35. Board approval is sought, however, for three additional expenditures:

(i) As foreshadowed at the February 27 COB meeting, **a further strengthening of the Fund's Business Continuity Plan (BCP) is envisaged**. As explained in Box 4, the additional steps would include measures designed, in the event of an emergency, to preserve the Fund's information base; facilitate e-mail contact; and use a temporary location for key Fund staff. The estimated cost of these measures is $1.4 million.

(ii) As part of the Board's initiative to improve the voice and participation of developing countries in the Fund, **the Committee on Executive Board Administrative Matters will consider a recommendation that the Board approve an increase in staff resources in the offices of the two Executive Directors for sub-Saharan Africa**. That would involve estimated additional expenditure in a full year of $1.8 million. On the basis of some likely lag in recruitment of staff to fill these new positions, an additional expenditure of $1.5 million is proposed for FY 2004.

Box 4. Business Continuity Planning

The primary objective of a Business Continuity Plan (BCP) is to preserve the economic, financial and administrative data of the institution, and to secure staff access to these data as soon after an emergency as possible. After September 11, 2001, like most other private and public sector institutions in Washington, the Fund reviewed and then revised its BCP. The current plan includes:

- a backup facility, through a private company to recover critical computer systems (e.g., Treasurer's, PeopleSoft HR & Financials, e-mail, document management, file servers and remote access systems) within 72 hours;
- under the same contract, emergency accommodation for 200 staff (100 fixed, 100 mobile);
- communications links from the Fund's offices and properties into the private company network; and
- provision for the emergency shipment of 400 computer workstations to an IMF designated location.

A further review conducted in March reaffirmed the basic strategy under which, for a limited period after an emergency, most staff would work from home, while key staff only are relocated to other facilities. But the review also recommended additional measures to strengthen business continuity capacity:

- **E-mail system backup:** a duplicate e-mail system would reduce the maximum amount of e-mail data lost, and the maximum period to reconnect to e-mail, to less than 30 minutes;
- **Electronic vaulting:** the daily backing up of all critical Fund data to an external facility: this would reduce the maximum data loss to 1 day and allow for the restoring of all critical computer systems within 48 hours;
- **Emergency relocation:** the addition of 250 mobile workstations (for a total of 350) to be located at another site in an emergency, as well as the necessary communications links to the external backup network facility;
- **Cyber Café access:** expansion of capacity to enable 1,000 concurrent users to connect to the Fund's e-mail (with eventual access to files) from any Web browser; and
- **Home Computing/Connectivity:** resources to help ensure staff can connect to the Fund's system from their homes.

The total cost of this package is estimated at $1.4 million in FY 2004.

(iii) **Additional resources are sought for the Office of the Managing Director to establish, on an experimental basis, an Alumni Group.** This initiative aims to strengthen the transfer of institutional memory; to tap the expertise of those who have served the Fund in senior positions on staff or on the Executive Board; and to help with effective outreach. A budget of $400,000 is proposed for FY 2004 to cover the costs of this initiative.

36. Taking account of:

(i) the changes to the MTE for FY 2004 in the COB paper;

(ii) the subsequent further cost adjustments; and

(iii) the proposed expenditures on security/business continuity, on Executive Directors' offices and on the Office of the Managing Director,

the proposed administrative budget for FY 2004 is $837.5 million (a net budget of $785.5 million). This is shown as Step 4 in Table 8. The proposed net administrative budget is $2.4 million (0.3 percent) above the original MTE for FY 2004.

37. Attention is also drawn to the proposed handling of the Fund's contribution to the Staff Retirement Plan (SRP) in next year's budget. In FY 2004, the amount required to bridge the gap between the value of the SRP's assets and the projected liabilities has been assessed by the Plan's actuaries at 8.82 percent of gross SRP remuneration. This amounts to $45.5 million (see Box 5), against the $25.8 million implicit in the MTE. The Board has a longstanding policy that the Fund should pay to the SRP the full annual amount recommended by the actuaries. However, this sum does not have to come fully from the administrative budget. Part can be met from the reserves that have been built up through voluntary Fund contributions to the SRP over the last 5 years. The Pension Committee has recommended that the amount to be transferred to the SRP in FY 2004 should be financed in part through a contribution by the administrative budget ($25.8 million) and in part from the reserves (about $19.7 million). Arrangements for the financing of future Fund contributions to the SRP are discussed below.

Box 5. The Staff Retirement Plan (SRP)

- The Fund provides a defined benefit retirement plan for staff and members of the Executive Board. In line with similar plans in both the private and public sectors, the participants' contribution rate does not change from year to year, but the amount paid in by the Fund varies according to each year's actuarially assessed value of the assets and projected liabilities.

- These assessments are made on the basis of actuarial methods and assumptions that are intended to ensure the longer-run viability of the Plan. The assumptions are reviewed and approved by the Pension Committee at five-year intervals (most recently in 2001) and are applied in the following five annual valuations. Under 1987-1988 decisions of the Executive Board, the contribution rate calculated by the Plan's Actuary on the basis of the established assumptions is put into effect automatically, unless the Pension Committee recommends, and the Executive Board approves, a different rate.

- For more than 25 years, the participants' contribution rate has been fixed at 7 percent of gross SRP remuneration. During this period, on average, the Fund has contributed about 14 percent of gross remuneration, which is in accordance with the 2:1 sharing ratio that is regarded as normal for the SRP. In individual past years, the Fund's contribution from the budget has varied from 0 percent to over 25 percent.

- As the result of strong investment returns during the 1990s, the SRP contributions required from the Fund were well below the 14 percent level. Over the last five years, the amount required was, in fact, zero, but in each of these years the administrative budget included a voluntary contribution equivalent to 5 or 7 percent of SRP gross remuneration. These contributions were accumulated in a separate reserve within the pension fund as pre-payments against future contributions; this reserve will amount to about $120 million at the end of FY 2003.

- As a consequence of the fall in asset market values since 2000, this year's actuarial valuation has determined that a contribution is again required on the part of the Fund in FY 2004. The actuarially determined rate is 8.82 percent, equivalent to about $45.5 million.

- There are two sources of funding for the Plan—the administrative budget and the accumulated reserves. For FY 2004, the proposed budget assumes that $25.8 million will be financed from the administrative budget and $19.7 million from reserves. This is in line with the draft staff recommendation to the Pension Committee. The balance between the use of each will be a matter for future year-to-year consideration by management, the Pension Committee, and the Board.

- Based on actuarial projections, contributions are also expected to be required of the Fund each year over the medium term. Because the Plan's assets are valued on a five-year moving average basis, even renewed growth in the SRP portfolio at the 7.5 percent annual rate assumed in the valuations could result in a funding requirement estimated at some $70 million (12 percent of gross remuneration) in FY 2005 and some $90 million (15 percent of gross remuneration) in FY 2006.

C. FY 2004 Administrative Budget by Output

38. Progress is being made on budget reform. First, and most importantly, comprehensive business plans are now provided to the Board showing the dollar cost of the resources allocated to each department and the broad allocation by outputs of those dollars. Second, the Board is also now presented with information on the full dollar costs (including overheads) of every new policy proposal. Third, this approach has been extended to Board reviews of existing policies and programs, through the application of costing techniques that draw together the full cost of specific programs. The discussions of FSAPs and the Fund's work on international standards and codes are recent examples. Even where a policy review focuses less on resource issues than on the effectiveness of the approach followed (such as the external communications review and the prolonged use of Fund resources), information on resource costs is included in the Board paper, and in the subsequent summing up of the Board's discussion.

39. Important though these developments are, the reforms to the present budget system do not yet enable a holistic view on the allocation of resources by output. Three technical improvements are required:

(i) an accurate measure of the costs of outputs—as discussed in Box 1—which, in turn, requires development of improved time reporting and activity based costing systems;

(ii) further development of the medium-term estimates framework to facilitate consideration of the pattern of desired outputs; and

(iii) information on performance both on primary outputs and intermediate and governance activities performed by support departments.

Work by staff on all of these is underway, with the aim of putting forward proposals that could be introduced—if the supporting IT software developments are ready—in FY 2005.

40. As noted, the business plans are the mechanism through which departments set out their plans for the delivery of outputs. On the one hand, they reflect the cumulative effect of Board decisions on new policy initiatives and guidance on the conduct of various existing policies—e.g., surveillance. On the other, they also reflect management and departmental judgments on priorities and on the scope for the more efficient allocation of resources—see Section D. Table 9 indicates the projected shares of resources devoted to the five outputs, based on the present business plans of departments.

Table 9. Proposed Administrative Budget: Outputs, FY 2004

Output Groups	Resource Shares (In percent)
1. Policy Development, Research and Operation of the International Monetary System	9.5
2. Standard-Setter/Provider of Standardized Information	4.0
3. Bilateral and Regional Surveillance	30.0
4. Use of Fund Resources	34.0
5. Capacity Building Services 1/	22.5
Total	100.0

Source: Office of Budget and Planning.

1/ These numbers refer only to the net administrative budget; donor financed capacity building is excluded.

41. In aggregate, the business plans show relatively little change in pattern from FY 2003, given the absence of major new initiatives. But, as the business plans emphasize, they are also subject to an unusual degree of uncertainty.

- **A broadly unchanged share of resources devoted to policy development, research, and operation of the international monetary system (1) is envisaged**. However, within this, new activities will include additional work on trade and capital account issues, as well as macroeconomic issues facing low income countries. Lower priority research work will be cut back or eliminated.

- **A further reduction in the share of resources allocated to the standards setting output (2) is expected:** this reflects relatively less developmental work on standards.

- **A further increase is projected in the share of resources devoted to bilateral and regional surveillance (3).** The main developments projected are as follows:

    - The small increase largely reflects further work on vulnerability assessments and financial abuse including money laundering, and increased attention to regional surveillance initiatives.

- Additional resources will also be allocated within this output to enable a fresh perspective on country strategies in Fund surveillance work.
- As determined by the Board, the resources devoted to FSAPs and ROSCs will be broadly maintained at the level projected for FY 2003. While the number of new ROSCs and FSAPs undertaken will fall a little, the numbers of updates and reassessments will rise.

- **The use of Fund resources (4) is especially difficult to project**, given the uncertainty on the implications of the war in the Middle East. Departments' business plans reflect this uncertainty but allow for a slightly rising number of Fund programs.

- **A small reduction in the share going to capacity building (comprising TA and external training) from the net budget is projected**. However, the relative share of the capacity building output (5) would increase substantially, if externally financed capacity building were taken into account.[5] In FY 2004, the total dollar resources devoted to capacity building would be nearly 20 percent higher if projected donor financed activity were included. This would increase the relative share of this output by 2.5 percentage points with compensating reductions in the share of the other outputs.

Given the small increase in total staff resources becoming available (principally because vacancy rates are again expected to fall), even a constant share will imply an increase in absolute activity. Some broad physical indicators of output are provided in Table 10.

[5] Because departments have to submit business plans before information is available on the projected availability of donor financing, the share of resources has to be estimated using the net budget.

Table 10. Proposed Administrative Budget: Output Indicators, FY 2004

	Actual FY 2002	Projected FY 2003	Planned FY 2004
Number of Article IV consultations	130	131	133
Number of UFR programs	70	62	63-66
Number of FSAPs	22	21	17-19
Number of ROSCs	106	127	113-120
Technical assistance provided			
In staff years	368	385	389
Of which: Fund financed	287	293	293
Number of external training courses offered	109	114	117

Source: Office of Budget and Planning (from various internal sources).

D. Reallocations and Reductions

42. As part of the FY 2004 budget, and reflecting the priorities that emerged in budget discussions with departments, a significant reallocation of staff and dollar resources is envisaged. The proposed allocations by type of department are shown in Table 11.

Table 11. Proposed Administrative Budget: Allocations by Departmental Groups, FY 2004 1/

	FY 2003 Budget	FY 2004 Proposed	FY 2003 to FY 2004 Change (FTS)	FY 2003 Budget	FY 2004 Proposed	FY 2003 to FY 2004 Change (in millions)	FY 2003 to FY 2004 Change (percent)
	Full Time Staffing (FTS)			Dollars (net) (in millions)			
Area Departments	843.5	839.5	-4.0	177.2	186.1	8.9	5.0
Functional and Special Service Departments	1,152.5	1,162.5	10.0	235.3	248.0	12.7	5.4
Information, Liaison, and Support Departments (including the Office of the Managing Director) 2/	792.0	777.0	-15.0	281.1	294.6	13.5	4.8
Categories of Employment		20.5	20.5		n.a.	n.a.	
Subtotal	2,788.0	2,799.5	11.5	693.6	728.7	35.1	5.1
Board/Independent Evaluation Office	253.0	262.0	9.0	52.8	56.8	4.0	7.6
FY 2004 proposed budget (net)				746.4	785.5	39.1	5.2

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.
1/ Staffing numbers are for open-ended and limited-term staff only.
2/ Includes the secretarial support pool and other centrally held resources.

43. Some departments will be gainers—for example, those undertaking new policies or able to demonstrate unacceptably high work pressures on their staff. Other departments have relinquished resources. In some instances, this has involved efficiency gains (e.g., from computerization of clerical tasks or reduced travel through greater use of video conferencing). In other cases, activities have been dropped altogether (e.g., the subsidy to the Fund cafeteria and certain activities of the Offices in Europe). And in others (mainly in support services) service standards have been streamlined. Table 12 provides examples of the reductions secured.

Table 12. Examples of Elimination of Activities,
Efficiency Gains, and Streamlining of Service Levels, FY 2004

Elimination of Activities	
TGS	● Until HQ2 is completed, no renovations of public spaces in HQ1 1/
	● No confidential trash pick-up from individual departments; shredding to be done by departments
	● Removal of cafeteria food subsidy
	● Staff offices will be repainted only when associated with major office renovations
EUO 2/	● Outside the World Trade Organization (WTO), staff will attend fewer meetings of other international organizations in Geneva.
Efficiency Gains	
TRE	● Staff reductions because of new computer systems
AFR and WHD	● Increased use of video teleconferencing in lieu of travel
INS 3/	● Lower airfare entitlements for participants in training at Fund headquarters
OBP	● Elimination of hard copy Organizational Handbook
Streamlining of Service Levels	
TGS	● Use of internal special delivery limited, except to OMD and Executive Directors' offices
	● Electrical/mechanical maintenance schedule lengthened by 50 percent
	● Carpet cleaning twice weekly, instead of daily
	● Longer response time for lock and key services, except in emergency
	● Purchase of new information materials (Joint Library) reduced by 15 percent

Source: Compiled by the Office of Budget and Planning from departmental business plans.

1/ HQ1 is located at 700 19th Street NW.
2/ Offices in Europe.
3/ IMF Institute.

44. In discussion of resource reallocation with departments, the following objectives have been pursued:

- **A shift of personnel and other resources from departments performing mainly intermediate and governance activities to those producing the primary outputs of the Fund.** Staff positions will be relinquished by TGS and TRE, while area and the other functional departments gain.

- **A further reduction in the numbers of clerical, administrative or support staff (-20 positions) partly offset by an increase in economist and specialized career stream staff (for example lawyers for AML/CFT work) in area and functional departments (+11 positions).**

- **A reallocation of staff resources from area departments experiencing reduced demand for program and/or surveillance work (such as EU2) to those experiencing rising work pressures (African Department (AFR), Middle Eastern Department (MED) and WHD).** In total, there will be a small reduction in total area department staff: the number of resident representative positions will fall (mainly in EU2); but the number of economists at headquarters will rise.

- **A strengthening of analytical and management capacity in functional departments responsible for new initiatives.** PDR will devote more resources, through added staff and internal reallocations, to surveillance, and crisis prevention and resolution work. The Research Department (RES) will undertake additional research on trade and capital account issues, as well as macroeconomic issues facing low income countries. Additional staff for the Monetary and Exchange Affairs Department (MAE) will support the department's work on bilateral and regional surveillance; supervise the undertaking of the pilot AML/CFT exercise; and strengthen departmental management (in light of the recommendations from the external and internal reviews). The Legal Department (LEG) will employ a small number of additional staff for AML/CFT work.

- **In aggregate, these changes reduced the number of open-ended and limited-term staff positions by 9.** However, the need to include the 20.5 new limited-term staff positions under the Categories of Employment exercise (see Box 6) will lead to a marginal increase of 11.5 FTS positions next year—see Table 13.

Box 6. Categories of Employment Phase II

- On July 31, 2000, the Board approved management's recommendation to reclassify a number of positions, so as to bring employment practices at the Fund in line with the employment framework adopted by the Board.
- The Board also endorsed the streamlining of outsourcing arrangements and elimination of indirect vendor arrangements under which vendor personnel reported to Fund staff for much of their work.
- The first phase of the Categories of Employment exercise converted 215 contractual and vendor appointments to staff positions.
- Under Phase II beginning in FY 2002, HRD and OBP reviewed a further 32 IT related positions in TGS and HRD. In FY 2003, a further (and final) 11 contractual positions in the Joint Library were reviewed.
- The review concluded that 20.5 (14 TGS IT, 1 HRD IT and 5.5 TGS Joint Library) positions should be converted to limited-term appointments beginning in FY 2004.
- The conversion of these posts from contractuals and vendors to staff status will add up to $650,000 to the FY 2004 salary and benefits bill.

Table 13. Proposed Administrative Budget:
Summary of Staffing Resources, FY 2004
(In staff years)

	FY 2003	Proposed FY 2004
FTS 1/	2,788.0	2,799.5
Budgeted FTEs 2/	2,661	2,708
Outturn FTEs	2,648	

Source: Office of Budget and Planning.

1/ Full-Time Staff positions (FTS) are the total number of open-ended and limited-term staff positions.
2/ Full-Time Equivalents (FTE) are the number of staff years delivered.

E. FY 2004 Administrative Budget by Input

45. The proposed budget makes provision for a budget-to-budget increase of 5 percent in personnel expenses, 9.3 percent for travel, 4.2 percent for other expenditures, and 8.6 percent for reimbursements (Table 14).

Table 14. Proposed Administrative Budget: Inputs, FY 2004
(In millions of U.S. dollars)

Expenditure category	FY 2003 Approved Budget	FY 2004 Revised Proposal	FY 2004 budget compared to FY 2003 approved budget (In percent)
I. Personnel expenses	539.1	565.8	5.0
II. Travel expenses	91.1	99.6	9.3 1/
III. Other expenses	163.2	170.1	4.2
IV. Contingency reserve	1.0	2.0	
Total gross expenditure	794.3	837.5	5.4
V. Reimbursements	-47.9	-52.0	8.6
Net administrative budget	746.4	785.5	5.2

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.
1/ See Box 8.

- The 5 percent projected increase in personnel expenditures in FY 2004 reflects the following volume and price considerations.
    - Average salaries are projected to rise by 4.2 percent for staff and by 4.0 percent for consultants, contractuals and experts.
    - A further fall in the vacancy rate for Full-Time Staffing is projected that will add just over 50 open-ended and limited-term staff.

   - Some of these staff posts were previously vacant—and the full cost of each open-ended and limited-term appointment adds directly to personnel expenditures.

   - In other instances, a contractual had previously been hired against the vacancy; thus, personnel expenditures will rise to the extent that temporary contractuals are replaced by more expensive open-ended and limited-term staff.

   - The completion of the Categories of Employment (see Box 6) exercise will augment personnel spending for the same reason—the replacement of contractuals or vendors by more expensive limited-term staff.

   - However, the number of experts, consultants and contractuals is also projected to fall by around 50.

- As in FY 2003, a central allocation will be retained within the total provision for salaries and benefits. This is set at $3 million as against $4 million in FY 2003. The central allocation will be used only to the extent that there are even lower than projected gross vacancies (assumed to fall from the outturn 5 percent this year to 3.3 percent next year) and/or greater than projected replacement of temporary contractuals by open-ended and limited-term staff. As noted, in FY 2003 this central allocation is not expected to be used.

- For **travel expenditures**, the proposed provision will increase by 9.3 percent in FY 2004. This is based on existing travel policies and assumes a 6 percent increase in airfares and a 3 percent rise in hotel costs and subsistence, plus the additional travel costs for the Annual Meetings. Box 7 examines the gap between the provision for travel in FY 2004 and the budget and projected outturn for travel expenditures in FY 2003.

- As already indicated to the COB, a Working Group is examining travel cost trends and Fund practices on the purchase of air tickets—within the existing provision that staff should travel on business at one level above economy. Work has been temporarily suspended—given the difficulties of discussing any changes both with staff and the airlines, against the backdrop of events in the Middle East—but will recommence early in FY 2004.

- **Other expenditures** are projected to grow by 4.2 percent with a considerable variance among different expenditure items.

- The estimated increase in **reimbursements** at 8.6 percent principally reflects higher anticipated donor financing for technical assistance projects and other activities. Sales from publications are expected to remain broadly flat.

Box 7. Travel Expenditures, FY 2003–FY 2004

	FY 2003		FY 2004	Percent change from FY 2003	
	Budget	Outturn	Proposed	Budget	Outturn
	(In millions of U.S. dollars)			(In percent)	
Total travel expenditure	**91.1**	**84.7**	**99.6**	*9.3*	*17.6*
Excluding Annual Meetings	**88.9**	**82.8**	**93.4**	*5.0*	*12.8*

The key points are:

- The increase in the travel budget from FY 2003 to FY 2004 of 9.3 percent allows for the additional costs of holding the Annual Meetings outside Washington. If the costs of Annual Meetings were excluded from the two budgets, the increase is 5 percent.
- The travel budget for FY 2004 shows an increase of over 17 percent above the projected outturn for FY 2003 (and nearly 13 percent, excluding the expenditure on the Annual Meetings). These increases reflect the underrun on travel expenditures in FY 2003.
- The large projected underrun in FY 2003 principally reflects the curtailment of travel by departments in response to the security situation, especially in the last quarter. Travel plans have been sharply cut back in some cases. Up to early February, the monthly rate of expenditures indicated that the budget for business travel would be fully utilized.
- OBP has taken the pre-war FY 2003 planned expenditures as the basis for the FY 2004 travel provision. As noted earlier, this allocation may need to be adjusted as the year unfolds.

F. The Medium-Term Framework

46. The Board is also asked to take note of revised MTEs on the basis of existing policies for administrative expenditures for FY 2005 and FY 2006.

47. An amended format for the MTE framework is proposed. This format, which is set out in Table 15, seeks to narrow the coverage of the MTE, relative to the existing definition. The present MTE includes the contribution from the Fund's budget to the SRP. The volatility of this contribution poses problems: the amount needed to bridge the gap between the actuarially assessed value of the assets and projected liabilities fluctuates from year to year, depending mainly on movements in financial and other asset markets. Moreover, the required

amount can be financed wholly from the administrative budget or, in part, from the drawdown of accumulated reserves. Variations in the Fund's contribution from the budget can thus be substantial from year to year and can mask the underlying trend in administrative expenses.

Table 15. Medium-Term Framework, FY 2004–FY 2006
(In millions of U.S. dollars)

Expenditure category	FY 2004 Proposed Budget	FY 2005 Estimate	Percent Change	FY 2006 Estimate	Percent Change
Salaries and other personnel (excluding SRP contributions)	540.0	562.7	4.2	586.3	4.2
Travel	100.6	106.6	6.0	113.0	6.0
Other expenditures	171.1	176.2	3.0	181.5	3.0
Adjustments:					
Return of Annual Meetings to Washington, D.C.		-3.5		-3.5	
Total expenditure	**811.7**	**842.0**	3.7	**877.4**	4.2
Reimbursements	-52.0	-53.3	2.5	-54.6	2.5
MTE Concept	**759.7**	**788.7**	3.8	**822.7**	4.3
Budget contribution to the SRP 1/	25.8				
Total net administrative budget	**785.5**				

Source: Office of Budget and Planning.

1/ The FY 2004 figure excludes the $19.7 million contribution from the SRP reserve.

48. The revised MTE would exclude the contribution from the Fund's administrative budget to the SRP: changes between the budget of one year and the MTE would thus directly reflect the impact of resource decisions taken by the Board to meet approved output objectives. The annual budget, as distinct from the MTE, would, however, as now, include whatever contribution the Board decided should be financed from the Fund's administrative expenses. Correspondingly, any resources drawn down from the SRP reserves to help fund the Plan would (as now) be excluded from the annual administrative budget.

49. Also, in preparing a revised MTE for FY 2005 and the estimate for FY 2006, the assumption on the salaries bill has been revised down from 4.5 percent to 4.2 percent to take account of the Board's decision on staff salaries of March 26, 2003. As a result, the revised MTE increases at an underlying rate of 4.3 percent over the period to FY 2006. After allowance for timing factors, including the return of the Annual Meetings to Washington in FY 2005 and FY 2006, the MTE is projected to increase by 3.8 percent in FY 2005 and 4.3 percent in FY 2006.

50. Two potential developments could have a net favorable impact on the FY 2006 administrative and capital budgets: given uncertainty on timing, however, they were not taken into account in preparing the above figures.

- First, in FY 2006, the HQ2 building should be completed and staff will move out of I Square and G Street leased space and into the new building. The opening of HQ2 will reduce the administrative budget, because the higher utility and occupancy costs in HQ2 will be more than offset by rental income from HQ2 and by the elimination of leasing costs in I Square and G Street.

- Second, substantial investment in IT is greatly enhancing the Fund's economic, administrative and financial systems. The cost of maintaining these new systems will be some $4 million higher each year, than for the systems replaced, and will fall wholly on the administrative budget, starting in FY 2006. But, as discussed in Section III, IT capital expenditures are expected to decline over the medium term, because all main systems will have been replaced.

51. One other likely medium-term development should be noted. As shown in Box 5, the projections for the SRP indicate the likely need (although there is considerable uncertainty) for much higher contributions to match the value of the SRP assets to the projected liabilities in FY 2005, FY 2006, and beyond. It will be for the Board, on advice from the Pension Committee, to determine both the amount to go into the SRP (in the past always in line with the actuaries' recommendation); how far it should be financed through the Fund contribution from the administrative budget; and how far it should come from the accumulated reserves. But the projections in Box 5 would indicate that higher contributions from the administrative budget are likely to be required over the next few years. For budget smoothing reasons, as set out in the recent report to the Pension Committee, it could well be desirable from FY 2005 to begin raising the amount contributed from the administrative budget closer to the historical average of 14 percent.

III. FY 2004 Capital Budget and the Medium-Term Capital Plan

A. Overview

52. Since FY 1988, the Executive Board has been asked each year to approve a separate capital budget, in addition to the administrative budget. The capital budget is presented as a list of programs and projects for the consideration of the Executive Board. This section:

(i) describes the main categories of project within the capital budget;

(ii) reviews capital budgeting procedures and expenditures under capital budgets approved in previous years;

(iii) sets out, within the context of the medium-term capital plan, the proposed appropriation for the FY 2004 capital budget; and

(iv) presents information on actual and planned annual capital expenditures for the period FY 2000–FY 2006.

The draft decision on the capital budget is contained in Section V.

B. Categories of Capital Project

53. The Fund's capital projects are divided into three broad categories:

(i) Major Building Works;

(ii) Building Facilities; and

(iii) Information Technology.

54. **Major building works** in excess of $100 million are put forward individually for Executive Board consideration. The Headquarters II (HQ2) construction project (at $149.3 million) is the only current and planned project in this category.[6] It was approved in FY 2000 and the final component of its budget was appropriated in FY 2003.

55. **Building facility** projects are of one or more of the following types:

(i) **Regulatory projects are driven by new building codes and industry regulations or guidelines**. For example, the fire control sprinkler system project, initiated in FY 1995, was undertaken to meet new government regulations in public buildings. The most recent appropriation in this category was for the heightened security project.

(ii) **Replacement projects account for the large majority of building facility capital expenditures**. Typically they involve the replacement of mechanical or electrical equipment that has either reached the end of its useful life, or is experiencing a serious decline in function. In many instances, there will be an element of upgrade—for example, to meet advisory rather than mandatory standards or to take advantage of new technology or equipment, that will

[6] The HQ2 building project remains within the budget approved by the Board on April 26, 2002 ($149.3 million) and is on track as regards the revised project schedule. The schedule envisages a final move-in date of May 2005. Quarterly progress report #3 will be issued to the Executive Board in May 2003.

extend the life cycle of mechanical/electrical systems. (With a 30-year old building, “pure” replacement is rare.)

(iii) **New facility projects provide new functions or capacity within the existing building**. A recent example was the reconfiguration of office and cafeteria space for a child care center. Any such project with a cost in excess of $0.5 million is subject to cost-benefit analysis, before it is submitted to the Board. No such projects are included in the FY 2004 capital budget or in the medium-term capital plan.

56. **IT capital projects** have been included in the capital budget since 1988. Initially, the budget covered only the purchase of IT equipment (desktop computers, monitors, and printers, and network infrastructure such as servers). From FY 2000, the cost of major software development projects (with budgets greater than $500,000) was also incorporated in the capital budget. This is in line with standard public and private sector practice.

57. The IT capital budget has been guided by a series of IT Strategic Plans, developed with the assistance of industry experts. The most recent plan was presented for information to the Executive Board last year. Each project in this IT Strategic Plan is subject not just to a rigorous cost benefit analysis but also to risk assessment analysis and prioritization, before it can be included in the IT capital budget (see Box 8). There are three component programs within the IT strategic plan:

(i) The **Enterprise Information Program** covers projects directed at the core work of the Fund, such as economic time series data, document management and production, publications, and information services. It also includes projects that facilitate communications and transfer of data with member countries.

(ii) The **Administrative and Financial Information Program** comprises projects that enhance the Fund’s administrative, financial and human resource systems. Such investments aim to automate and streamline labor-intensive administrative work and provide capacity for further financial and administrative reforms.

(iii) The **Infrastructure and Connectivity Program** provides for projects that develop secure, universally accessible, and reliable IT infrastructure to support Fund work. Such projects are designed to sustain and improve the Fund’s network, remote access and overseas IT connectivity. This program also covers the purchase of desktop and network computing equipment and associated communications links.

Box 8. Information Technology—Capital Budget Formulation

The Information Technology Policy Committee (ITPC) is responsible for the development of a medium-term IT strategic plan and specifies the capital projects to achieve that strategy. The ITPC has engaged external consultants to advise on the development of the plan.

The selection of IT projects within the strategy is undertaken in three phases:

- **Phase 1 Completeness and Quality Review:** All project proposals are examined to ensure they include: well articulated business needs and objectives; full estimates of the cost of the project; cost benefit analysis; cash flow projections; ongoing operational costs upon project completion; project milestones; and major deliverables.

- **Phase 2 Evaluation and Prioritization:** For each of the three program areas, an interdepartmental review team evaluates every project's business value and determines their priority relative to other project requests. Key factors considered in this phase of the evaluation are: (i) strategic value to the organization; (ii) cost-benefit analysis; and (iii) risk assessment.

- **Phase 3 Budget Formulation:** The medium-term IT capital budget prioritizes projects within available resources, while ensuring a balanced portfolio of IT projects across business purposes.

Setting an appropriate resource limit for overall IT expenditures is difficult. [1] Practices vary widely across the public (and private) sectors. Surveys of financial institutions showed that in 2000 IT spending constituted approximately 12 percent of their total budgets but this has since dropped to around 11 percent (2002). The Fund's IT expenditures have, at their peak, only approached 10 percent of total budgets–even with the high capital investment over the past three years.

Given the replacement of most major systems during this period, the IT capital budget is expected to decline through and beyond the medium term. Further work on benchmarking Fund IT expenditures is planned to ensure an appropriate budget constraint is maintained.

[1] For building facilities, the resource constraint is set by keeping to a broadly fixed percentage of the building asset value for annual capital expenditure, measured over a period of years.

C. Review of Capital Budgeting Procedures and Previous Capital Budgets

58. Under the previous budget regime (up to FY 2002), the Board was asked each year to approve annual expenditures on a list of new and ongoing projects. In most cases, information was provided on the total costs of individual projects in a separate capital plan, but the annual appropriation typically covered only a part of the overall project cost.

59. Starting with the FY 2003 budget, to ensure full transparency, Board members are made fully aware of the total expected cost of a capital project, when an appropriation for it is first sought. This enables the Board to appropriate (for all but the largest projects) the full amount of the project in the year in which it starts. That requires a full costing to be done at the outset; gives some flexibility on the timing of expenditures over the project period; and can help prevent escalation of cost over the construction or acquisition period.

60. Table 16 summarizes actual and planned capital expenditure on projects approved under previous capital budgets.

(i) annual capital expenditures for FY 2000–FY 2002;

(ii) the estimated outturn expenditure for FY 2003; and

(iii) the projected expenditures on all projects already in progress for FY 2004–FY 2005.

Table 16. Actual and Projected Capital Expenditures for Ongoing Projects, FY 2000–FY 2005 1/
(In millions of U.S. dollars)

	Actual			Estimated	Projected	
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Building Facilities	12.4	15.9	22.9	14.6	27.8	16.9
Information Technology	18.6	15.8	30.7	20.8	17.5	7.8
Total	**31.0**	**31.7**	**53.6**	**35.4**	**45.3**	**24.7**

Source: Office of Budget and Planning.

1/ Does not include major building works.

D. FY 2004 Capital Budget and the Medium-Term Capital Plan

61. As in the past, the capital budget for FY 2004 has been drawn from the medium-term capital plan, as set out in Table 17. The Capital Plan envisages projects totalling $115 million over the next three fiscal years.

- For building facilities, projects expenditures would amount to $45.6 million: $13.2 million for projects starting in FY 2004; $6.5 million for projects beginning in FY 2005; and $25.8 million for projects that will start in FY 2006.

- For information technology projects, expenditures would amount to $69.5 million; $26.4 million for projects starting in FY 2004; $22.9 million for projects beginning in FY 2005; and $20.2 million for projects that will start in FY 2006.

Table 17. Medium-Term Capital Plan, FY 2004–FY 2006
(In millions of U.S. dollars)

	Medium-Term Proposed Plan			
	2004	2005	2006	Total
Building Facilities	13	7	26	**46**
Information Technology	26	23	20	**70**
Total	**40**	**29**	**46**	**115**

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

62. **Within this capital plan, approval is sought for all new projects beginning in FY 2004—a total of $39.6 million in expenditures over the next three years**. Table 18 provides a list by program and by major project, as well as estimated budgets and completion dates.

63. For **building facilities**, approval is sought for capital projects amounting to $13.2 million.

- The Heightened Security project was appropriated for in FY 2003. Following external advice, however, the scope of the project will be enhanced to upgrade security at the existing HQ1 facility, to the extent possible, to meet the Class C security category, applied to HQ2. The additional cost is estimated at $4 million. This project is driven by the desire to meet new government security guidelines (matching the security level similar to that of major U.S. government buildings in Washington, D.C.) and to ensure consistency in security provision between the HQ1 and HQ2 buildings.

Table 18. Proposed Capital Budget Appropriations for Projects, FY 2004
(In thousands of U.S. dollars)

	Project Budget Estimates	Estimated Completion
Building facilities 1/	**13,240**	
HQ1 Heightened Security Improvements	4,000	FY 2005
Electronic Printer Life Cycle Replacement	2,700	FY 2006
Long-term Capital Improvements (Mechanical/Electrical)	2,600	FY 2006
Elevator Modernization (Phase I)	2,500	FY 2005
Fitness Center Expansion 2/	770	FY 2006
Audio Visual Operations Equipment Replacement	670	FY 2004
Information Technology	**26,380**	
Enterprise Information Program	*8,930*	FY 2006
Economic Information Systems Replacement	2,400	FY 2005
Single Entry Access to Fund Systems (Enterprise Information Portal)	2,300	FY 2006
Information Management Strategy and Architecture	1,640	FY 2006
Document Request and Delivery	900	FY 2005
Statistical Publications System	800	FY 2006
Other Minor Projects	890	FY 2006
Administrative and Financial Information Program	*11,400*	FY 2006
TRE Renewal of Financial Information Systems	3,600	FY 2005
PeopleSoft Financials: Accounting System Enhancements	1,900	FY 2005
PeopleSoft Financials: Budget Planning and Execution	1,900	FY 2005
PeopleSoft Financials: Technical Assistance Projects Module	1,200	FY 2006
Annual Meetings Information System Replacement	1,000	FY 2006
Integration of Fund's Financial and Administrative Information Systems	1,000	FY 2006
Other Minor Projects	800	FY 2006
Infrastructure and Connectivity Program	*6,050*	FY 2006
Telecommunication Engineering	1,300	FY 2006
Desktop and Network Equipment	2,300	FY 2005
Software Distribution	900	FY 2005
Directory Services Initiative	600	FY 2005
Other Minor Projects	950	FY 2006
FY 2004 Capital Budget Total	**39,620**	

Sources: Office of Budget and Planning and Technology and General Services Department.

1/ Heightened security is an example of a project under the regulatory program; the remainder of the proposed building facilities projects falls under the replacement program.

2/ This is required to accommodate staff who will work in the HQ2 building.

- Several replacement projects are scheduled ($9.2 million). They include the replacement of the Fund's central electronic printers; the modernization of elevators in the Phase I portion of HQ1; and expenditures to replace electrical and mechanical systems at the end of their normal replacement cycle.

64. For **IT capital expenditures**, approval is sought for projects amounting to $26.4 million. The main projects within each program are identified below.

- The projects proposed under the **Enterprise Information Program** ($8.9 million) will improve the creation, sharing, dissemination and management of economic data and information. The largest projects are the final phase of the new Economic Data Facility [7] and the Information Portal project.

- The **Administrative and Financial Information Program** ($11.4 million) constitutes the largest investment in the IT area. The projects will continue the replacement of outdated and inefficient systems in order to provide timely, more accurate, and better integrated financial and administrative information. The final stages of the TRE financial information system will be completed and the system will become fully operational next year.[7] Once the new PeopleSoft Financials software facility is fully in place for the Fund's accounting systems, new budget formulation, cost accounting and technical assistance project modules can be developed.

- The capital projects within the **Infrastructure and Connectivity Program** ($6.1 million) will develop a secure and reliable IT infrastructure that supports the work requirements of Fund staff at headquarters, on mission and in overseas offices. Upgrades to the Fund's telecommunication system, as well as to the network capabilities, are included in this program. The largest expense in this category, however, is the scheduled replacement of computer peripherals and network equipment.

E. Actual and Projected Capital Expenditures, FY 2000–FY 2006

65. Table 19 integrates actual and planned capital expenditures under previous capital budgets, with the capital budget proposals for FY 2004 and the Capital Plan for FY 2005 and FY 2006. This provides a perspective on total actual and planned capital spending each year. Four trends can be seen in capital expenditures over this period:

(i) Building facility expenditures are on a general upward trend through FY 2004 and FY 2005. The slight downturn in FY 2003 can be attributed to a slow start on several newly approved projects in FY 2003. The peaking of expenditures

[7] As these projects began under the previous capital budgeting regime, the appropriations in earlier years covered only part of their costs.

in FY 2004 and FY 2005 largely reflects the expanded heightened security project for HQ1.

(ii) A major focus of the current IT Strategic Plan has been the replacement of nearly all the Fund's major financial and administrative information systems. Thus, IT expenditures are also expected to peak in FY 2004 and FY 2005. As these systems are completed, and ongoing maintenance and production expenses pass to the administrative budget, capital expenditures are expected to decline. However, the need to maintain the newly acquired systems (and avoid the major expenses involved in replacing whole systems in the future) will involve significant expenditures to purchase upgrades.

(iii) Taking the two capital budget categories together—building facilities and IT—the next two years will see a peaking of capital spending. It is expected, however, that capital spending will fall back in FY 2006 and will stay at broadly that level for the next several years.

(iv) Aggregating all capital expenditures—major buildings, building facilities and IT—the same time pattern is projected. High expenditures will be incurred in FY 2004, falling sharply over the subsequent two years.

Table 19. Actual and Projected Capital Expenditures, FY 2000–FY 2006
(In millions of U.S. dollars)

	Actual			Estimated	Projected		
Major Program Area	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Building Facilities	**12.4**	**15.9**	**22.9**	**14.6**	**31.2**	**28.1**	**17.3**
Budgets approved prior to FY 2004	12.4	15.9	22.9	14.6	27.8	16.9	
FY 2004 Budget					3.4	6.6	3.2
Medium-term FY 2005-FY 2006 Plan						4.6	14.1
Information Technology (IT)	**18.6**	**15.8**	**30.7**	**20.8**	**27.6**	**25.1**	**21.5**
Budgets approved prior to FY 2004	18.6	15.8	30.7	20.8	17.5	7.8	
FY 2004 Budget					10.1	8.8	7.5
Medium-term FY 2005-FY 2006 Plan						8.5	14.0
Total Building Facilities and IT	**31.0**	**31.7**	**53.6**	**35.4**	**58.8**	**53.2**	**38.8**
Major Building	**8.5**	**3.0**	**7.9**	**21.7**	**72.0**	**44.4**	**2.6**
Budgets approved prior to FY 2004	8.5	3.0	7.9	21.7	72.0	44.4	2.6
FY 2004 Budget					0.0	0.0	0.0
Total Capital Expenditures	**39.5**	**34.7**	**61.5**	**57.1**	**130.8**	**97.6**	**41.4**

Source: Office of Budget and Planning.

IV. The Effect of the Budget on The Fund's Net Income Position

A. Impact of the Proposed Budget on the Rate of Charge

66. The impact of the FY 2004 administrative and capital budgets on the Fund's projected net income and the rate of charge depends on a number of factors, including the level of outstanding use of Fund credit, members' remunerated positions, the timing of disbursements, and the U.S. dollar/SDR exchange rate.

67. For the administrative budget, an increase of $10 million will require, at the margin and on an annual basis, an increase in the rate of charge of approximately one basis point. For capital projects, which are depreciated over different periods reflecting the different useful lives of the assets, each $100 million expensed on building projects will result in about $0.33 million in annual depreciation expense, which in turn will affect the rate of charge.[8] For IT equipment, asset lives are much shorter (3-5 years), while software development projects are fully expensed in the year in which they are undertaken.

68. The impact of the FY 2004 Administrative and Capital Budgets on net income and the rate of charge is discussed further in a separate paper which reviews the Fund's income position.

B. Expense Reimbursements

SDR Department

69. Under the Articles of Agreement, the SDR Department is required to reimburse the General Resources Account (GRA) for the expenses incurred in conducting its business. The expenses are estimated through a survey of departmental staff time spent on SDR Department business; that enables a levy of assessments on all participants in the SDR Department. The estimated cost for FY 2003 is SDR 1.6 million, and the proposed assessment levied on each member's net cumulative allocation of SDRs is 0.00746501.

PRGF Trust

70. Under the relevant Trust Fund agreement, the GRA is to be reimbursed for the expenses it incurs in administering the Poverty Reduction and Growth Facility (PRGF) Trust. Since FY 1998, however, the Fund has decided to forego such reimbursements and instead transfer the equivalent resources to finance the Fund's participation in the Heavily Indebted Poor Countries (HIPC) Initiative.[9] Thus, the costs of administering the PRGF Trust are now

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[8] The HQ2 project under construction will not be depreciated until it is completed and occupied in FY 2006. Until then the construction costs are classified as construction in progress (an asset) on the Fund's balance sheet.

[9] See Decision No. 12065-(99/130) PRGF.

borne by the GRA. The estimated outturn of these costs for FY 2003 is SDR 64 million, compared with the budget estimate of SDR 66.9 million. For FY 2004, the cost of administering the PRGF Trust is projected to be about SDR 71.3 million.

V. Draft Decisions

The following draft decisions on the Administrative and Capital Budgets for FY 2004, and an assessment of the expenses of the SDR department, are proposed for adoption by the Executive Board.

Decision No. 1 sets out both a gross and net budget ceiling on administrative expenditures that cannot be exceeded without Executive Board approval, and a total for full-time staffing that also cannot be exceeded. Expenditures by the Executive Board and the Independent Evaluation Office, for which estimates are included in the budget, will be monitored and reported by OBP. Also, as approved by the Executive Board, the decision includes authority for management to approve commitments that exceed the gross administrative budget, when such additional expenditures are fully financed externally from administered and other resources pursuant to Article V, Section 2 (b) of the Articles of Agreement.[10]

Decision No 1.

Draft Decision Relating to the Administrative Budget for Financial Year FY 2004

1. Appropriations for administrative expenditures for FY 2004 are approved in the total amount of $837,500,000 (or $785,500,000, net of estimated reimbursements) of which an estimated $32,700,000 is to be provided by external donors for capacity enhancement. The staff limit of 2,799.5 full-time staffing positions is approved.

2. Any commitment going beyond this total will be submitted to the Executive Board for approval, except that management may approve additional expenditures that are fully financed externally from additional administered and other resources pursuant to Article V, Section 2 (b) of the Articles of Agreement.

[10] Externally financed technical assistance.

Decision No 2.

Draft Decision Relating to the Capital Budget for Projects Beginning in Financial Year 2004

1. Appropriations for capital projects beginning in FY 2004 are approved in the total amount of $39,620,000, and are applied to the following project categories.

I. Building facilities	$13,240,000
II. Information Technology	$26,380,000

2. Commitments may be made for Categories I and II, up to the amount indicated above. Any commitment going beyond these amounts must be submitted to the Executive Board for approval.

Decision No. 3

Draft Decision Relating to an Assessment Under Article XX Section 4 Financial Year 2003

Pursuant to Article XVI, Section2, and Article XX, Section 4, of the Articles of Agreement and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

(i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR department for the period from May 1, 2002 through April 30, 2003; and

(ii) An assessment shall be levied on all participants in the SDR department. The special drawing rights holdings accounts of participants shall be debited on April 30, 2003 with an amount equal to 0.00746501 of their net cumulative allocations of special drawings rights. The total assessment shall be paid into the General Department.