INTERNATIONAL MONETARY FUND

The FY 2005 Budget and the Medium-Term Expenditure Framework

Prepared by the Office of Budget and Planning

Approved by Barry H. Potter

April 1, 2004

Contents Page

Acronyms 3

Executive Summary 4

I. FY 2004 Administrative Budget and Projected Outturn....................................10
- A. Overview..10
- B. Outputs..11
- C. Expenditures by Input Categories..16
- D. Reimbursements..23
- E. In-Year Adjustments, Redeployment, and Savings..23

II. FY 2005 Administrative Budget and the Medium-Term Expenditure Framework 25
- A. The Top-Down Constraint..25
- B. Priorities and Plans..29
- C. FY 2005 Administrative Budget by Output..31
- D. FY 2005 Administrative Budget by Input..38
- E. Risks..42
- F. The FY 2005 Administrative Budget Proposal..43
- G. The Medium-Term Expenditure Framework..44

III. FY 2005 Capital Budget and the Medium-Term Capital Plan....................................47
- A. Overview..47
- B. A Longer-Term Perspective on the Capital Budget..47
- C. The Medium-Term Capital Plan and Expenditures..52
- D. The FY 2005 Capital Budget..54

IV. The Effect of the Budget on the Fund’s Net Income Position....................................57
- A. Impact of the Proposed Budget on the Rate of Charge..57
- B. Expense Reimbursements..57

V. Draft Decisions..59

Contents Page

Tables
1. Administrative Budget and Outturn Expenditures, FY 1998–FY 2004.................10
2. Net Administrative Budget by Output, FY 2004–FY 2005..................................12
3. Departmental Business Plans: Selected Activity Indicators, FY 2004–FY 2005..14
4. Net Administrative Budget by Inputs, FY 2004..16
5. Staff Vacancy Rates, FY 1988–FY 2004..18
6. Selected Indicators of Work Pressure: FY 2001–FY 2004...................................20
7. Gross Administrative Budget: Reconciliation with MTEF, FY 2005...................26
8. Departments' Proposed Adjustment Measures, FY 2005......................................35
9. Planned Staff Redeployment and Additions in FY 2005......................................39
10. Net Administrative Budget by Inputs, FY 2005..41
11. Net Administrative Budget: Medium-Term Expenditure Framework (MTEF), FY 2005–FY 2007...46
12. Medium-Term Capital Expenditure Plans, FY 2004–FY 2007.............................52
13. Actual and Projected Capital Expenditures, FY 2000–FY 2007...........................54
14. Capital Budget Projects Beginning in FY 2005..55

Figure
Building Facilities and IT Expenditures, FY 1994–FY 2010................................50

Boxes
1. Further Budget Reforms..15
2. The Impact of the Board's Decision on Staff Compensation on the Salary Bill....19
3. Monitoring Travel Volumes and Prices..22
4. Area Department Restructuring..24
5. The Impact of the Expanded AML/CFT Initiative on the FY 2005 Budget..........28
6. The Fund's Mission Statement..30
7. The Reorganization of the African Department..32
8. Alignment of Departmental Business Plans to Fund's FY 2005 Priorities............33
9. "Ready Reckoners" for Illustrative Changes in Primary Outputs..........................36
10. Administrative Reviews..43
11. HQ2 Project...48
12. The Fund's Capital Budget: An Overview..49

ACRONYMS

AFR	African Department
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BRS	Budget Reporting System
CAS	Cost Allocation System
CBA	Cost Benefit Analysis
COB	Executive Board Committee on the Budget
EU1	European Department 1
EUR	European Department
FAD	Fiscal Affairs Department
FSAP	Financial Sector Assessment Program
FTE	Full-Time Equivalent (measure of person years of employment)
FTS	Full-Time Staff (measure of regular and fixed-term staff positions)
HQ2	Headquarters 2 Building
HRD	Human Resources Department
ICM	International Capital Markets Department
IEO	Independent Evaluation Office
INS	IMF Institute
IT	Information Technology
ITPC	Information Technology Policy Committee
LEG	Legal Department
LIC	Low-Income Countries
MAE	Monetary and Exchange Affairs Department
MCD	Middle East and Central Asia Department
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MED	Middle Eastern Department
METAC	Middle Eastern Technical Assistance Center
MFD	Monetary and Financial Systems Department
MTEF	Medium-Term Expenditure Framework
PDR	Policy Development and Review Department
RES	Research Department
SBM	Senior Budget Managers
SPM	Senior Personnel Managers
SRP	Staff Retirement Plan
STA	Statistics Department
TA	Technical Assistance
TGS	Technology and General Services Department
TRS	Time Reporting System
UFR	Use of Fund Resources
WHD	Western Hemisphere Department

EXECUTIVE SUMMARY

1. **This paper sets out proposals for the Fund's administrative and capital budgets for FY 2005, and the medium-term framework for both administrative and capital expenditures.** The proposals take account of discussions in the Executive Board Committee on the Budget (COB) (February 26, 2004); in the Pension Committee on the size of the contribution to the Staff Retirement Plan (SRP) (March 23, 2004); and in the Board on the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) program (March 24, 2004).[1] The proposals also incorporate the Board's decision on the staff salary adjustment of March 22, 2004.

2. **On the basis of ten months data, net administrative expenditures are projected to be some 3.3 percent below the approved FY 2004 net budget**. On a gross basis, administrative expenditures are estimated at $811.2 million for FY 2004, or 3.1 percent below budget. Reimbursements are expected to be in line with the budget—thus, the underrun is expected to be slightly lower, in percentage terms, on a gross basis.

3. **The projected budget underrun for FY 2004 reflects a combination of lower than planned outputs, efficiency gains (reduced inputs for given output), and lower than projected input costs.** Under the present budget information systems, the measurement of outputs is driven principally by the allocation of staff time to primary, intermediate or governance activities. Thus, in FY 2004, total measured outputs are projected to be lower than budgeted, because staff vacancies will be higher (and thus effective staff resources lower) than expected when departments drew up their business plans. (This, in turn, partly reflects the impact of departmental reorganizations, including the restructuring of the Monetary and Financial Systems Department (MFD)).

4. **The differences between budgeted and projected outturn were largest for three outputs—surveillance, use of Fund resources (UFR) and capacity building (principally technical assistance (TA)).**

- The lower than planned figure for surveillance reflects fewer than expected bilateral surveillance missions (which includes staff visits); postponed Article IV consultations; and a small projected underrun on the number of Reports of the Observance of Standards and Codes (ROSCs) undertaken by the Statistics (STA) and Fiscal Affairs Departments (FAD).

- The lower UFR output reflects the fact that 7 fewer countries will have Fund programs this year than anticipated in area departments' business plans.

[1] "Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessment—Joint Report on the Review of the Pilot Program," March 11, 2004, available on the IMF external website www.imf.org.

- The lower level of TA is, in part, accounted for by the greater use of short-term, rather than long-term experts, a shift aimed at strengthening the effectiveness of Fund capacity building.

5. **While these lower measured outputs have their counterparts in lower expenditures—not just for staff, but also for experts and for travel—both efficiency gains and lower input costs are also contributing to the projected underrun.** Efficiency gains are being secured (lower inputs for given outputs), for example, lower travel expenditures associated with shorter missions, for area, and in particular, functional department work. Two factors are holding down input costs: a change in U.S. tax provisions (after the budget was approved by the Board) is restraining the growth in staff benefit expenditures; and the levels of contingency reserves proved to be unnecessarily high; are not being used; and will be reduced in the FY 2005 budget.

6. **The preliminary proposals for the FY 2005 administrative budget, presented to the COB in February, were drawn up on the basis of the existing budgetary policy of "maintaining the institution at broadly its present size" and were consistent with the existing medium-term expenditure framework (MTEF) figure for FY 2005.** The COB paper proposed a figure for the gross budget of $838.6 million—excluding the budgetary contribution to the SRP. This allowed for revised (downward) price projections for FY 2005, compared to the MTEF figure (which also excluded the contribution to the SRP) of $842.0 million for FY 2005.[2] The COB paper indicated that, within the resultant budget envelope, there would be room to accommodate certain new policies, (although the paper did not allow for any expansion of AML/CFT work), and to relieve areas of excessive pressure, through redeployment of resources from lower priority areas and efficiency savings generated principally in support activities. However, at the COB meeting, several Directors supported a tighter budget stance, so as to deliver a zero real increase (budget to budget) for FY 2005.

7. **The proposals in this paper on the net administrative budget for FY 2005 have been further revised downward, relative to the preliminary proposals presented to the COB in February.** Under the proposed FY 2005 budget:

- The provision for personnel expenditures reflects the 3.6 percent structural salary increase approved by the Executive Board on March 22, 2004, as against the 4.0 percent figure assumed in the COB paper.

- The provision for nonpersonnel, that is travel and other expenditures, has been further reduced and will fall slightly in nominal terms relative to the FY 2004 budgeted level.

---

[2] "The FY 2004 Budget and Medium-Term Framework," April 1, 2003, available on the IMF external website www.imf.org.

- The overall staff ceiling will rise by 3 positions. At the February COB meeting, a freeze on staff positions had been envisaged. The small addition now proposed allows for half the staff positions needed for the expanded AML/CFT program. In addition, three other staff positions will be redeployed from other activities to AML/CFT work.

- On this basis, the gross administrative budget (excluding the contribution to the SRP) would be $831.1 million, representing a 2.4 percent budget-to-budget increase.

- Given the projected increase in reimbursements, the net administrative budget would be $775.6 million (excluding the contribution to the SRP), representing a 2.1 percent budget-to-budget increase.

8. **The proposed administrative budget is designed to provide the financial resources for the Fund to deliver its principal strategic objectives (as reflected in the Acting Managing Director's statement for the Spring Meetings).** These are: strengthening surveillance as a crisis prevention tool; advancing the work on the low-income policy agenda; and enhancing member countries' institutional capacity and ability to resolve crises. These objectives for FY 2005 underline the emphasis the Fund places: on strengthening the framework for surveillance and crisis prevention, (as well as on devising effective crisis resolution strategies); and on assisting low-income countries achieve the high and sustainable growth needed to reduce poverty and make decisive progress toward the Millennium Development Goals (MDGs).

9. **Although the allocation of resources among the Fund's primary outputs is not expected to change substantially in FY 2005 (relative to the FY 2004 projected outturn), a considerable redeployment of resources is planned to help meet the objectives identified above.**

- An additional 12 staff positions will be created in the African Department (AFR) to help strengthen the work on Africa, and on low-income countries more generally. A new unit will assist area departments in integrating Poverty and Social Impact Analysis (PSIA) into the Fund's work on low-income countries.

- A Middle East Technical Assistance Center (METAC) is also proposed to augment the Fund's capacity building work in that geographical region.

- Two policy initiatives, aimed at further strengthening surveillance, are envisaged: enhanced work on regional surveillance; and, in line with the Independent Evaluation Office (IEO) recommendations, ex post assessments of country cases involving the prolonged use of Fund resources.

- Finally, an expanded program of AML/CFT work (which will substantially augment the resources allocated to such work) is also planned, that will both strengthen financial surveillance and enhance capacity building efforts in this area.

10. **Within the overall budget constraint, the above initiatives (excluding the expanded AML/CFT work) will be wholly accommodated through redeployment within the current staff ceiling.** Twenty-three staff positions will be redeployed: 10 from efficiency savings in support activities; a further 9, as a result of streamlining the Fund's work in Europe and Asia, principally following from the reorganization of the area departments; and the remainder from efficiency savings and the reduction or elimination of lower priority activities, following scrutiny of departmental business plans. Considerable redeployment of nonstaff resources is also incorporated in the proposed administrative budget.

11. **In terms of input costs, the proposed FY 2005 administrative budget takes account of lower projected price increases for FY 2005 and incorporates a squeeze on volumes.** Relative to the FY 2004 budget:

- The provision for total salaries will rise by 3.9 percent. This allows for the 3.6 percent structural salary increase for staff; a 1.5 percent comparatio adjustment; a 1.3 percent assumed recovery rate; and a small further addition to staff numbers as vacancies are further reduced. The provision for nonstaff salaries (for consultants and contractual employees) will be held broadly constant in nominal terms.

- The provision for benefits (excluding the budgetary contribution to the SRP) will increase by 3.1 percent.

- The provision for travel in area departments reflects downward revisions to the projected price increases for airfares, from 6 percent to 3 percent. For travel in most functional and support departments, and for seminars and other travel, however, the provision for FY 2005 is frozen at, or reduced from, the FY 2004 level. In total, the provision for travel will fall by 3.0 percent.

- For other expenditures (nonpersonnel, nontravel items), the provision will increase by 1.6 percent.

- Taken together, the provision for all nonpersonnel (travel plus other) expenditures in FY 2005 will fall slightly in nominal terms relative to the FY 2004 budget.

12. **The proposed budget will include a contribution to the Staff Retirement Plan (SRP) equivalent to 14 percent of gross remuneration.** The COB and the Pension Committee agreed that, from FY 2005, the annual budgetary contribution to the SRP should be normalized at this rate of 14 percent of gross remuneration, with drawings from, or additions to reserves, to be made depending on the actuarial assessment of the required contribution rate. For FY 2005, the recommendation of the Fund's actuary, endorsed by the Pension Committee, is to set the contribution at 15.15 percent of gross remuneration, equivalent to $80 million. The budgetary contribution will be $74 million (14 percent of gross remuneration) with $6 million drawn from the reserve.

13. **Finally, contingency provisions for FY 2005 will be limited to $3 million, rather than the $5 million built into the FY 2004 budget.** As budget reforms are now better established and staff vacancies are at a lower level (with less downside risk), a smaller central allocation for personnel is warranted.

14. **Thus, Board approval is sought for:**

- a gross administrative budget of $905.1 million, including a $74 million budgetary contribution to the SRP;
- projected reimbursements of $55.5 million, leading to a net (of reimbursements) budget for FY 2005 of $849.6 million; and
- a ceiling of 2,802 on staff positions.

15. **The proposed net administrative budget, excluding the contribution to the Fund's pension scheme, represents a budget-to-budget increase of 2.1 percent.** This increase is well below the 3.7 percent increase built into the current MTEF. Including the budgetary contribution to the SRP, the proposed budget-to-budget increase is 8.2 percent.

16. **The MTEF estimates for FY 2006 and FY 2007 (presented for information) represent annual budget to budget increases of 3.6 percent and 3.8 percent, respectively.** As in previous years, the MTEF assumes a continuation of all existing policies; the same price increases for the personnel, travel and other categories as the assumptions underlying the proposed FY 2005 budget; and an unchanged ceiling for staff positions. It also allows for the impact of the opening of the new Headquarters 2 building (HQ2), the changing patterns of information technology (IT) costs and the location of the Annual Meetings (Washington in FY 2006 and Singapore in FY 2007).

17. **Board approval is also sought for a capital budget of $31.8 million** for expenditures over the next three years on building facilities, including security related upgrades, and IT capital projects that will start in FY 2005.

18. **Total capital spending in FY 2004 will be within budget, with the main project—the HQ2 building—expected to be completed on time and within the overall $149.3 million budget.** The three-year Capital Plan for the period FY 2005 to FY 2007, which underpins the proposed capital budget, will increase from $115 million (the medium-term capital plan approved in FY 2004) to $123 million (the proposed medium-term capital plan in FY 2005). This increase is more than accounted for by additional security related projects ($11.1 million) under building facilities; some of the extra costs have been absorbed by reductions or delays in other capital maintenance works. Within the overall capital plan, the provision for IT projects will fall. A review of the Fund's IT policies and management will be undertaken later this year.

19. **The remainder of this paper is structured as follows**:

- Section I sets out the projected outturn for the administrative budget for FY 2004; examines the main developments in terms of outputs; and reports on the main variations in inputs between budgeted and projected expenditures.

- Section II describes the derivation of the overall FY 2005 budget envelope; discusses the main objectives and priorities for the upcoming financial year; and outlines how resources will be deployed to deliver the planned objectives. It also sets out the proposed appropriation for the FY 2005 gross administrative budget by input and identifies the main uncertainties. The MTEF for FY 2006 and FY 2007 is also presented.

- Section III provides a longer-term perspective on the capital budget; its key components—the new HQ2 building, building facilities (including, since 2001, heightened security projects) and information technology; and its interaction with the administrative budget. It presents the medium-term Capital Plan for the period FY 2005–FY 2007; and then sets out the proposed appropriation under the capital budget, for those projects that will start in FY 2005.

- Section IV describes how the Fund's administrative and capital expenditures affect 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 2004 Administrative Budget and Projected Outturn

A. Overview

20. **On the basis of ten months data, net administrative expenditures in FY 2004 are projected to be some $26 million, that is 3.3 percent, below the approved budget** (Table 1). Based on this estimated outturn, the year-on-year increase in net administrative expenses for FY 2004 will be 5.5 percent—the lowest since FY 1999. As reimbursements are expected to be in line with the budget, the underrun is projected to be slightly lower in percentage terms on a gross basis, at 3.1 percent. The corresponding gap between budget and actual outturn on the gross expenditures was 3.8 percent in FY 2003.

Table 1. Administrative Budget and Outturn Expenditures, FY 1998–FY 2004
(In millions of U.S. dollars)

Financial Year	Budget	Outturn	Variance		Budget to Budget Increase		Outturn to Outturn Increase	
			Amount	Percent	Amount	Percent	Amount	Percent
			A. Gross Budget					
1998	545.2	531.1	-14.1	-2.6	18.7	3.6	20.2	4.0
1999 1/	561.7	561.1	-0.6	-0.1	16.5	3.0	30.0	5.6
2000	626.4	624.3	-2.1	-0.3	64.7	11.5	63.2	11.3
2001	689.9	675.5	-14.4	-2.1	63.5	10.1	51.2	8.2
2002	736.9	721.3	-15.6	-2.1	47.0	6.8	45.8	6.8
2003	794.3	764.0	-30.3	-3.8	57.4	7.8	42.7	5.9
2004	837.5	811.2 2/	-26.3	-3.1	43.2	5.4	47.2	6.2
			B. Net Budget					
1998	503.7	495.3	-8.4	-1.7	13.2	2.7	23.8	5.0
1999	519.6	520.6	1.0	0.2	15.9	3.2	25.3	5.1
2000	585.1	583.0	-2.1	-0.4	65.5	12.6	62.4	12.0
2001	650.9	638.0	-12.9	-2.0	65.8	11.2	55.0	9.4
2002	695.4	676.7	-18.7	-2.7	44.5	6.8	38.7	6.1
2003	746.4	719.9	-26.5	-3.6	51.0	7.3	43.2	6.4
2004	785.5	759.2 2/	-26.3	-3.3	39.1	5.2	39.3	5.5

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

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

B. Outputs

21. **In FY 2004, a small further shift of resources from intermediate and governance activities to the Fund's core work on primary outputs is projected.**[3] This shift was built into the budget plans and mainly reflected productivity gains in the Technology and General Services (TGS) and Finance Departments (FIN). These gains led to the closing of some staff positions, and were made possible by the introduction of new IT systems and associated internal reorganizations.

22. **Total measured outputs are expected to be below planned levels—a reflection, in part, of higher staff vacancies than anticipated when departmental business plans were drawn up.** The present budget information systems measure outputs principally through the allocation of staff time to primary, intermediate or governance activities.[4] Some other costs, such as travel, can also be directly linked to the staff or experts concerned (and thus be allocated directly to outputs). Other nonstaff, nontravel costs are essentially allocated to outputs on a pro rata basis. Because allocating staff time is critical to measuring outputs, it follows that total measured outputs will be lower than budgeted, whenever staff vacancies are higher (and thus effective staff resources lower) than assumed when departments prepare business plans. In FY 2004, actual staffing was some 35 persons below the budgeted level. Departmental reorganizations seem to have contributed to this undershooting: such factors are not expected to constrain the delivery of services to member countries in FY 2005.

23. **Within total outputs, a small underdelivery is projected in the resources devoted to bilateral and regional surveillance, use of Fund resources (UFR), and capacity building (Table 2).** For the other two primary outputs—policy development, research and operation of the international monetary system work and standard setting—output levels are expected to be closer to departments' aggregate business plans.

---

[3] This assessment is based on information drawn from the Fund's Budget Reporting System (BRS) for allocating staff time to activities and outputs. The BRS has a number of limitations, including its complexity (which hinders accuracy and compliance); ambiguity (so that some activities can be reasonably recorded under more than one code); and unreliability (in part because staff face neither incentive, nor penalty for failing, to fill out the forms accurately).

[4] The Fund's five primary outputs are: (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.

Table 2. Net Administrative Budget by Output, FY 2004–FY 2005

	1 Operation of the International Monetary System	2 Standard Setter	3 Bilateral/Regional Surveillance	4 Use of Fund Resources	5 Capacity Building	Total Outputs
Budget FY 2004						
(In millions of U.S. dollars)	68.9	34.2	242.8	264.3	175.4	785.5
(Percentage share)	8.8	4.3	30.9	33.6	22.3	100.0
Projected Outcome FY 2004						
(In millions of U.S. dollars)	67.8	33.1	232.8	258.0	167.4	759.2
(Percentage share)	8.9	4.4	30.7	34.0	22.1	100.0
Budget FY 2005						
(In millions of U.S. dollars)	77.5	37.2	258.6	285.3	191.0	849.6
(Percentage share)	9.1	4.4	30.4	33.6	22.5	100.0

Source: Office of Budget and Planning estimates based on departmental business plans.

Note: Totals may not add due to rounding.

- The lower than budgeted figure for surveillance reflects fewer than planned bilateral surveillance missions, including some postponement of Article IV exercises; and a small underrun on STA and FAD ROSCs.

- There are expected to be 7 fewer Fund-supported programs this year than anticipated by departments in their business plans.[5] It may be difficult for area departments to assess objectively (up to some 15 months in advance), the likelihood of a program being successfully negotiated, when they are committed to achieving that outcome.

- As departments seek to strengthen TA effectiveness, there has been a move in recent years towards a more strategic (upstream) focus in TA delivery, with a related shift away from long-term resident experts to more short-term assignments. This, in part,

[5] In other words, unless a program is in place, (e.g., it is formally approved by the Board) all work leading to a program and immediately following the formal expiration of a program is currently classified under surveillance. Ongoing work on departmental business plans on the new TRS is trying to address this anomaly.

reflects a view that the prolonged presence of long-term advisors may in some cases compromise the development of local capacity. On the one hand, the shift requires leaving more detailed implementation of reforms to the Multilateral Development Banks (MDBs) and bilateral donors, which typically have greater financial and technical resources to support these activities through long-term projects and resident advisors. On the other hand, functional departments are making increasing use of short-term or peripatetic experts, often utilized on a regional basis.[6] This movement has gone further in FY 2004 than anticipated, when the departmental business plans were prepared, and will lead to lower measured TA field delivery.

24. **The lower than planned delivery (as measured from recorded inputs) is confirmed by the activity indicators presented in Table 3 below**. These indicators are derived from information now provided by departments with their business plans and budget submissions.[7] The selection and definition of activity indicators, and their tracking, are evolving as experience is gained with the business plan concept. As budget reforms proceed, they will be gradually augmented by other quantitative and qualitative performance indicators over the next few years. (Box 1 provides a status report of ongoing budget reforms.) The main points are as follows:

- Activity indicators provided for surveillance work help explain why the outturn is projected to be a little below departmental business plans. While the number of regional and multilateral surveillance missions is expected to be above, the number of bilateral surveillance missions (including staff visits) will be slightly below plan. The number of Financial Sector Assessment Programs (FSAPs) completed is likely to be higher than planned because much of the substantive work on some of these had been undertaken in FY 2003. The number of STA and FAD ROSC modules is expected to be slightly fewer than budgeted.

- As noted, there are likely to be 65 countries with Fund programs in FY 2004, as against aggregate plans of 72.

- On capacity building, while there is still considerable uncertainty, the projected outturn (350 person years) in the delivery of TA is a little below the budget plans of 356 person years. The information available on the likely outturn seems to confirm the continuing trend away from the use of long-term to short-term experts for technical assistance, as well as a growing utilization of external financing (which rose from 94 person years in FY 2003 to an expected 107 person years in FY 2004).

---

[6] A fuller discussion of these aspects can be found in "Review of Technical Assistance," February 17, 2004, available on the IMF website www.imf.org.

[7] Some indicators have to be treated with caution; for example, bilateral surveillance mission work, although more predictable, can be classified in different ways depending on the size and duration of missions, and whether they are combined with UFR missions.

- Partly offsetting the lower than planned activity on TA within capacity building, the number of IMF Institute (INS) external training courses provided is projected at 120, just a little above the budget plans.

Table 3. Departmental Business Plans: Selected Activity Indicators, FY 2004–FY 2005

Output	FY 2004 Planned	FY 2004 Projected	FY 2005 Planned
Bilateral and regional surveillance			
Number of bilateral surveillance missions	212	205	208
Number of regional\multilateral surveillance missions	8	10	16
Number intensive surveillance countries	...	16	10
Number near program countries	...	37	40
Number of FSAPs 1/	15	20	19
STA ROSCs	15	14	16
FAD ROSCs	20	18	17
Use of Fund resources			
Number of UFR programs	72	65	73
Capacity building			
(i) Technical assistance provided in staff years	356	350	352
Of which:			
Externally financed	94	107	111
Field delivered	196	180	188
Short-term experts	68	64	71
Long-term experts	91	80	76
Number of TA reports	252	224	221
(ii) External Training			
Of which:			
Area department workshops/seminars	41	44	55
Functional department workshops/seminars	89	92	102
Number of INS external training courses offered	118	120	126

Source: Departmental business plans.

1/ Each FSAP contains on average 3 to 4 ROSCS.

Box 1. Further Budget Reforms

Further budget reforms are underway in three areas—time reporting, cost allocation, and performance indicators.

A new time reporting system (TRS) is being developed to replace the Budget Reporting System (BRS). It aims to reduce the number of activity codes; adapt the codes to better match the Fund's five primary outputs; and decrease the number of staff required to report. This will reduce compliance costs, and should improve the reliability and accuracy of time reporting. The proposed TRS codes will be tested in a few departments in parallel with the existing BRS during FY 2005, with a view to system-wide implementation in FY 2006.

A cost allocation system (CAS) is being developed along with the TRS to allocate staff and nonstaff costs to outputs. The allocation of staff costs to outputs will be embedded in the new TRS and is relatively straightforward, to the extent that departmental activities and outputs are identifiable. For nonstaff costs, there are more difficult conceptual issues in the allocation of intermediate costs (e.g., translation, legal services provided to the Human Resources Department (HRD), etc.) to primary outputs. Plans call for the CAS to be deployed for primary and intermediate activities during FY 2005, and for more detailed specifications to be incorporated in the CAS (and TRS) at the beginning of FY 2006.

A task force on performance indicators recommended that the Fund develop a system of performance indicators (PIs), emphasizing that, to be successful, the system should be developed with adequate time, ownership, and resources to support it. The COB supported the work, with some COB members seeking early implementation. Key recommendations are:

- the adoption of a hierarchical framework for recording performance information that relates outcome to strategies, and outputs to outcomes;
- the formation of an interdepartmental committee to guide the development of PIs; and,
- the adoption of an indicative timeline:

  (i) in FY 2005, the development and introduction of a first set of performance indicators;

  (ii) in FY 2006, broadened coverage of indicators;

  (iii) in FY 2007, test of a full system of PIs in-house and evaluation by an outside consultant; and,

  (iv) in FY 2008, operation of a full system, including setting performance targets in departmental business plans.

Technology and General Services Department (TGS) is introducing a balanced scorecard approach in FY 2005 to develop and implement a performance management framework that will help improve its operations. This will assess performance on an ongoing basis using industry performance indicators or benchmarks of efficiency and cost effectiveness. Each of TGS's core services, (administrative, IT, and languages) will have established service standards in terms of volume, cost, quality, and customer satisfaction.

The above reforms will be supported by a determined **effort to improve computerized management information systems**, under the guidance of the interdepartmental Information Technology Policy Committee (ITPC). A large part of this work has been outsourced.

C. Expenditures by Input Categories

25. **The small underdelivery of primary outputs has a counterpart in lower than budgeted expenditures by input categories—in the staff, experts, travel and other expenditures categories. But efficiency gains (lower inputs for given output), notably on travel, as well as lower than projected input costs, also helped restrain administrative expenditures.** Personnel (including the contribution to the SRP) and travel expenditures, (which combined account for some 80 percent of the FY 2004 approved administrative budget), are projected to be $19.3 million below budget, while the underrun on other expenditures is expected to be of the order of $7 million (Table 4).[8]

Table 4. Net Administrative Budget by Inputs, FY 2004
(In millions of U.S. dollars)

		FY 2004		Change from Budget	
	Object of Expense Category	Approved Budget	Projected Expenses 1/	Amount	Percent
I.	Personnel expenses (excludes SRP contribution)	540.0	529.3	-10.7	-2.0
	Salary	359.7	350.5	-9.2	-2.6
	Other Personnel Costs	180.3	178.8	-1.5	-0.8
II.	Travel expenses	99.6	92.8	-6.8	-6.8
III.	Other expenses	170.1	164.1	-6.0	-3.5
IV.	Contingency reserve	2.0	0.0	-2.0	-100.0
V.	SRP Contribution	25.8	25.0	-0.8	-3.1
	Total gross expenditure	837.5	811.2	-26.3	-3.1
IV.	Reimbursements	-52.0	-52.0	0.0	0.0
	Net administrative budget	785.5	759.2	-26.3	-3.3

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

1/ Preliminary estimate based on ten months of data, i.e., through February 28, 2004.

[8] These data take into account the nonutilization of the travel ($1 million) and other expenditures ($1 million) contingency reserves.

Personnel

26. **The lower than budgeted personnel costs—about a 2 percent gap—are mainly the result of four factors: an overall higher vacancy rate for staff positions; no (consequential) utilization of the central staff allocation; lower expenditure on experts; and changes to the U.S. tax code.**

- The vacancy rate projected for staff positions this year is higher than assumed in formulating the FY 2004 budget—around 4.4 percent against the budget figure of 3.3 percent (Table 5).[9] One contributing factor is the departmental reorganizations: delays in senior appointments led to more junior posts being left vacant, until the new managers were assigned. There is, however, considerable variation across departments and grades: vacancy rates are running at their lowest historical level in area departments—some departments as low as 2 percent. They are slightly higher than expected in functional departments, while vacancies are substantially above expectation in support departments. These higher vacancy rates reflect the greater reliance on the external labor market, when filling vacant posts in functional, and to an even greater degree, support departments. By grade level, the highest vacancies are in the A9-A15 category.

- Because of the higher than projected vacancy rates, the central allocation for staff salaries has not been, nor is expected to be, utilized. This $3 million provision was set aside to accommodate the potential costs of a lower than projected vacancy rate, or a greater than projected replacement of temporary contractuals by staff. Neither will occur this year.

- Total expenditure on the remuneration of experts is expected to be some 10 percent lower than budgeted: this reflects both the relative shift from long- to short-term expert assignments mentioned above, the expected overall shortfall in TA field delivery, as well as smaller FSAP teams, and some underdelivery on ROSC modules.

- The reduction in income tax rates under the U.S. Jobs and Growth Tax Relief Reconciliation Act of 2003, which was passed after the Fund's FY 2004 budget was approved, will result in some $2 million less expenditure on tax allowances than projected in the budget.

[9] The vacancy rate is defined as the gap between Full-Time Staff (FTS) positions in each department and their estimated usage or Full-Time Equivalents (FTEs).

Table 5. Staff Vacancy Rates, FY 1988–FY 2004
(Outturns in percent)

	Vacancies Full-Time Staffing 1/
FY 1988	5.8
FY 1989	5.4
FY 1990	5.1
FY 1991	4.6
FY 1992	6.9
FY 1993	8.5
FY 1994	7.9
FY 1995	7.1
FY 1996	5.3
FY 1997	6.3
FY 1998	5.9
FY 1999	6.6
FY 2000	7.2
FY 2001	7.3
FY 2002	6.7
FY 2003	5.7
FY 2004 (budget)	3.3
FY 2004 (estimate)	4.4

Source: Office of Budget and Planning.

1/ Open-ended and limited-term staff positions.

27. **However, the downward impact of the above factors on total personnel expenditures is expected to be partly mitigated by a lower than projected recovery rate on staff salaries (Box 2).** The FY 2004 salary structural award of 4.0 percent was combined with a comparatio adjustment of 1.8 percent. The assumed recovery rate was set at 1.6 percent, indicating that average staff salaries were likely to increase by some 4.2 percent. Over the last six years, the recovery rate has been on average about 0.2 percent below the comparatio rate—this was the basis for the assumption adopted for FY 2004. But there is considerable year-to-year variation, and in FY 2004 the recovery rate now seems likely to be lower than assumed.

Box 2. 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 3.6 percent in FY 2005. The increase will apply from May 1, 2004.

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 3.6 percent.
- The **comparatio adjustment** is set at 1.5 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 98.6 percent of 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 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 2005, the recovery rate is set at 1.3 percent—that is, 0.2 percent less than the comparatio, consistent with the average experience over the last six years.
- Taken together, these determine the overall increase in average staff salaries of 3.8 percent, for a given number and grade distribution of staff.

28. **The projected increase of 35 staff (Full-Time Equivalents (FTEs) within the overall staff ceiling) over FY 2004, and a careful prioritization of activities, is contributing to a further easing of staff stress indicators**. With the usual caveat on the reliability of BRS data, unpaid overtime appears to be falling across most departments. However absolute levels differ, with area departments reporting the highest amounts, and support and liaison departments the lowest (Table 6). Moreover, within the overall pattern, there remains pressure in some areas, for example, in the Western Hemisphere Department (WHD) and the Middle East and Central Asia Department (MCD) (the latter could, in part, reflect catch up of work delayed by the Iraq war at the end of FY 2003). By grade, unpaid overtime remains highest among B-level staff (some 17.5 percent of their time) and lowest for support staff, even allowing for the fact that about 85 percent of support staff's overtime is compensated. Further, the level of annual leave is increasing, while, overall, the number of days of sick leave taken is declining.

Table 6. Selected Indicators of Work Pressure: FY 2001–FY 2004

(In percent of regular time, in staff years)

	FY 2001	FY 2002	FY 2003	FY 2004 1/
Overtime				
By Grade	**11.7**	**10.2**	**9.7**	**9.4**
B-level	20.8	19.0	18.4	17.4
Professional level	13.0	11.4	10.6	10.4
Support level	5.1	4.1	3.8	3.5
By Department	**11.7**	**10.2**	**9.7**	**9.4**
Area Departments	14.9	12.6	12.2	12.4
Functional Departments	11.5	10.6	9.7	9.3
Support and Information Liaison Departments	7.2	6.2	6.0	5.8
Other 2/	14.3	12.8	12.7	11.2
Annual Leave 3/				
By Grade	**8.9**	**9.0**	**9.2**	**9.3**
B-level	9.4	9.9	10.0	9.8
Professional level	8.4	8.4	8.8	8.9
Support level	9.5	9.6	9.6	10.0
By Department	**8.9**	**9.0**	**9.2**	**9.3**
Area Departments	8.6	8.7	8.8	8.8
Functional Departments	9.0	8.9	9.1	9.4
Support and Information Liaison Departments	9.0	9.4	9.7	9.9
Other 2/	8.6	9.4	9.2	10.0
Sick Leave 4/				
By Grade	**9.2**	**8.9**	**8.8**	**8.1**
B-level	7.6	7.4	7.3	6.9
Professional level	9.1	8.8	8.6	8.0
Support level	10.3	9.9	9.8	8.9
By Department	**9.2**	**8.9**	**8.8**	**8.1**
Area Departments	8.9	8.8	8.5	8.0
Functional Departments	9.2	8.5	8.7	7.9
Support and Information Liaison Departments	10.1	10.0	9.4	8.7
Other 2/	7.3	7.1	8.0	8.0

Source: Budget Reporting System (BRS).

1/ Annualized projections based on nine months of actual data.
2/ Includes offices.
3/ Includes annual and home leave.
4/ Includes sick, official holidays, home leave travel days, and other paid leave.

Travel

29. **Total travel expenditures are projected to be around 6.8 percent below budget**. Volume factors are contributing most to this underrun. While the overall number of missions is projected to increase slightly over last year's levels, the average length of missions is expected to decline. Box 3 describes how travel volumes and costs are defined, measured, and monitored.

- Travel volumes, measured by the total number of person/nights, are projected to fall relative to FY 2003. Higher travel volumes in some area departments (e.g., WHD and MCD) are being more than offset by lower volumes in some functional departments, partly linked to the developments in field technical assistance and partly to FSAP/ROSC work.

- Volumes are also being held down by departmental reorganizations (see below), as well as by a smaller than budgeted number of Fund-financed seminars and conferences, and by the lower than expected turnover in staff (which leads to less settlement and recruitment travel).

- Within a slight Fund-wide increase (less than one percent) in the average size of mission, the average number of persons on both Article IV and functional departments' missions is falling in FY 2004.

- Moreover, the average length of missions is declining by about 3 percent, with functional departments showing a decline of more than 9 percent (equivalent to about one day per mission). The average size and duration of FSAP missions is being reduced in FY 2004, as planned by MFD.

- Available data indicate that airfares have (to date) increased broadly in line with the 6 percent price increase assumed in setting the FY 2004 budget—although there is considerable regional variation. In recent months, however, airlines are not only restraining further airfare increases, but moving more aggressively in providing discounts and rebates—see Box 3.

Box 3. Monitoring Travel Volumes and Prices

- The Fund has two information systems that monitor planned and actual expenditures under the travel budget: the financial accounting database (FACTS) (now in its second year of operation) and the travel planning system (TIMS).

- Data available from the systems are being used to compute price indices for travel costs. Much work remains to be done to further refine the indices, which will then enable comparisons to be made between Fund costs and outside benchmarks.

Volumes

- Travel volumes are monitored through three indicators: (i) number of missions; (ii) number of persons traveling; and (iii) total person nights (sum of the total nights for each person on mission).

- To help facilitate comparisons of travel volumes across departments, a standardized measure of a mission as a travel event lasting ten-person days or longer has been used by all departments in drafting their business plans.

Prices

- The gross airfares paid by the Fund are determined by the Fund’s travel agent on a case by case basis. But the Fund has agreements with 10 airlines for substantial percentage discounts or rebates, as well as nominal discounts with many other airlines. The net cost of transportation is thus less than the gross.

- In FY 2004, these various discounts and rebates led to an estimated difference between gross fares (as reflected in travel expenditures) and net (taking into account the rebates as recorded under reimbursements) of some 10 percent.

- The Fund also negotiates favorable rates with selected hotels (or chains) and determines the hotel allowances paid to staff based on this information.

- Finally, the per diem allowances paid to staff reflect the rates used by three comparators—the World Bank, the UN, and the U.S. State Department.

30. **Other expenditures are projected to be some 3.5 percent below budget**. Building occupancy costs are running higher than budgeted, driven by large property tax increases and renovations expenditures in headquarters—see paragraph 33. But these additional costs are being more than offset mainly by underruns in information technology costs and telecommunications. The savings being achieved in telecommunication costs reflect both lower than expected prices, and a shift from higher to lower priced means of communication (e.g., from telephone calls and faxes to greater use of e-mail). The consolidation of vendor companies providing IT services, from some thirty to three, has led to efficiency savings of just under $1 million, as a result of revised contracts. While some transfers have taken place among budget line items in the other expenditures category, the $1 million contingency provision will not be used.

D. Reimbursements

31. **Overall, reimbursements are estimated to be at about the level of the FY 2004 approved budget ($52 million)**. However, the projected outturn on the main components of this category—travel rebates, external finance from donors and other revenues—differ from the budget estimates.

- Travel rebates from airlines are now projected to be more than double the amount budgeted at close to $5 million. This, in part, reflects the active pursuit of rebates and discounts in negotiating airfares, as described in Box 3 above.

- While external financing for TA grew from $27 million in FY 2003 to about $32 million in FY 2004, the outturn figure for this year is still projected to be lower than budgeted by perhaps $1 million. This, in part, reflects the expected small underdelivery of TA and the shift toward greater use of short-term experts discussed earlier. However, there is still considerable uncertainty on the final outcome, as TA field delivery traditionally picks up in the last quarter of the year.

- Other revenues from the Concordia apartments (where INS course participants are accommodated) and from publications are also projected to be nearly $1 million below the budget estimates.[10]

E. In-Year Adjustments, Redeployment, and Savings

32. **As last year, a number of in-year adjustments were made to "working budgets" during FY 2004 to accommodate unanticipated work pressure in one area department and because of organizational changes.** [11]

[10] Revenue from the Concordia apartments was lower because of unforeseen delays in refurbishment. The small expected gap on publications revenue is the result of slightly fewer publications going on sale than expected.

[11] All departments operate with working budgets which can be altered for minor classification changes as the year progresses. Such changes are always contained within the overall budget parameters approved by the Board.

- To facilitate work on Iraq, early in the fiscal year, two full-time economist positions (FTS) were transferred, on a temporary basis, to MCD (MED at the time) from other departments. These loans will be reversed at the start of FY 2005; but a revised staffing level for MCD has been set for the FY 2005 budget, taking into account a rising workload on Iraq.

- Effective September 1, 2003, the Monetary and Exchange Affairs Department (MAE) was restructured and renamed the Monetary and Financial Systems Department (MFD). This reorganization temporarily increased staff vacancies and reduced travel expenses, particularly in the first half of the fiscal year.

- In November, the European II Department (EU2) was closed and the country responsibilities and staff reassigned to the European I Department (EU1) and the Middle East Department (MED) to form the new European Department (EUR) and MCD, respectively. Overall, this consolidation of area departments led to a small reduction in staff positions (FTS). Box 4 provides further detail.

Box 4. Area Department Restructuring

- On July 30, 2003, management announced a consolidation of the Fund's area departments, to become effective on November 1, 2003.

- The EU2 department was closed with staff positions of the two existing departments, European 1 (EU1) and Middle East Department (MED), reassigned to the new European Department (EUR) and Middle East and Central Asia Department (MCD), respectively. This reduces the number of area departments from six to five.

- Of the fifteen countries formerly in EU2, the responsibility for seven (Belarus, Estonia, Latvia, Lithuania, Moldova, Russia, and Ukraine) was assigned to EUR, and for the other eight (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan) to MCD.

- In terms of staffing, the reorganization resulted in the reduction of six FTS positions for FY 2005 (two B-level, one A9-A15, and three A1-A8 staff).

33. **The reorganization of three area departments required office moves for over 500 staff in late December-early January**. This unanticipated expense is being met within the existing FY 2004 budget, through offsetting savings realized elsewhere in the other expenditures category.

34. **The contingency provisions—the central staff allocation ($3 million), the $1 million reserve for travel and $1 million reserve for other expenditures—that were**

included in last year's budget will not be utilized. The contingency provisions in FY 2004 reflected greater than usual uncertainty about the levels of "underlying" expenditures because exogenous events had seriously disrupted personnel and travel expenditures in FY 2002 and FY 2003. A revision to the budget and staff position control systems also increased uncertainty and suggested the need for prudent contingencies. As budget reforms are now well consolidated, the need for large contingencies is diminished and smaller contingencies are envisaged for FY 2005.

II. FY 2005 Administrative Budget and the Medium-Term Expenditure Framework

A. The Top-Down Constraint

35. **The starting point, in determining the top-down budget constraint for the forthcoming financial year, was the estimated cost of existing policies, under the medium-term expenditure framework (MTEF).** This MTEF projection for FY 2005 gross expenditures was set at $842 million (excluding the contribution to the SRP) and represented a 3.7 percentage increase on the FY 2004 budget. It allowed for projected price increases in the main input components—4.2 percent on salaries and benefits; 6.0 percent on travel expenditures; and 3.0 percent on other expenditures—and an unchanged staff ceiling of 2,799.5 positions.[12]

36. **The preliminary FY 2005 administrative budget plans, presented to the COB on February 26, 2004, were drawn up on the basis of "maintaining the institution at broadly its present size" and derived from the MTEF figure (Table 7)**. This preliminary budget proposal retained the standard assumption on salary costs (which replicated the FY 2004 salary settlement).[13] But the price assumptions on travel were lowered from a 6 percent to a 3 percent increase, while the assumed price increase for the other expenditures category was reduced from 3.0 percent to 2.75 percent. On that basis, the preliminary gross budget was estimated at $838.6 million, representing a 3.3 percent increase (again excluding the contribution to the SRP). Within this budget envelope and unchanged staff ceiling, there would be room to accommodate certain new policies (although the enhanced AML/CFT program was not taken into account at that stage), and to alleviate particularly hard pressed areas of work, largely through redeployment from areas where efficiency savings were being generated.

---

[12] The MTEF figure also took account of the lower spending as between the two years on the Annual Meetings, because they will be held in Washington this year.

[13] This consisted of a 4.0 percent structural salary increase; a comparatio of 1.8 percent; and a recovery rate of 1.6 percent leading to an overall increase of 4.2 percent.

Table 7. Gross Administrative Budget: Reconciliation with MTEF, FY 2005
(In millions of U.S. dollars)

	Budget Estimate		Change compared to FY 2004 Approved Budget	
	Including SRP Amount	Excluding SRP Amount	Including SRP Percent	Excluding SRP Percent
FY 2004 Gross Budget	837.5	811.7		
FY 2005 Gross Budget starting point 1/	**869.0**	**842.0**	3.8	3.7
Less: Reduction in costs 2/	-3.4	-3.4		
FY 2005 Gross Budget adjusted for cost changes	**865.6**	**838.6**	3.4	3.3
Plus: Policy Changes				
Creation of METAC	0.7	0.7		
Follow up of IEO recommendations on Prolonged UFR	0.3	0.3		
Development of PSIA Indicators	0.6	0.6		
Enhanced Regional Surveillance	0.2	0.2		
Less: Realized savings at COB stage	-1.8	-1.8		
Subtotal	0.0	0.0		
Plus: Additional SRP costs	47.0	...		
Preliminary proposal to COB for FY 2005 gross budget	**912.6**	**838.6**	9.0	3.3
Less: Impact of 3.6 percent wage decision	-1.9	-1.9		
Less: Additional savings identified during budget negotiations	-7.9	-7.9		
COB proposal adjusted for cost changes and additional savings	**902.8**	**828.8**	7.8	2.1
Plus: Policy measures				
Additional AML/CFT funded by Fund	1.3	1.3		
Additional AML/CFT funded by donors	1.1	1.1		
Subtotal	2.4	2.4		
Final budget proposal for FY 2005 gross budget	**905.1**	**831.1**	8.1	2.4

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

1/ For FY 2005, the MTEF SRP contribution was assumed to be 5 percent of gross remuneration or about $27 million at the time of the FY 2004 MTEF.
2/ The cost escalation for travel was reduced from 6 percent to 3 percent and that for other expenditures was reduced from 3 percent to 2.75 percent.

37. At the February COB meeting, there was support for a stricter interpretation of the Fund's existing budgetary policy in setting the FY 2005 budget. Many Directors supported a zero real growth budget, with zero real being defined against an appropriate deflator of the Fund's cost structure. The proposals on the administrative budget for FY 2005 were subsequently further revised downwards:

- to take account of the lower than assumed structural salary adjustment (3.6 percent versus 4.0 percent);
- to reflect lower projections of benefit expenditures (in part because of the lower salary adjustment); and, critically,
- to take account of a nominal freeze (budget to budget) applied to non-staff salaries, travel and other expenditures—that is all administrative expenditures, that are not determined by the salary adjustment or are demand-led entitlements under existing benefit programs.

38. **Thus, the proposed FY 2005 gross budget was revised down from $842 million in the MTEF to $828.8 million.** This figure represented a year-on-year budget increase of 2.1 percent—vis-à-vis 3.3 percent. It must be emphasized, however, that this figure excluded the contribution to the SRP (which, as discussed below, will add a substantial sum to the total budget) and made no allowance for an expanded AML/CFT program.

39. **On March 24, 2004, the Executive Board approved an expanded program of AML/CFT that will both strengthen financial surveillance and enhance capacity building efforts in this area.**[14] In view of the success of the AML/CFT pilot program and importance of the work, Directors concluded that it should continue to be a regular part of the Fund and Bank's activities, with the Fund and Bank becoming fully accountable for all aspects of assessments and technical assistance, including the work of independent AML/CFT experts (IAEs). For FY 2005, the additional costs, covering both 7 assessments and further technical assistance are estimated at $3.5 million. Some $1 million will be sought from additional external finance to meet salary costs for TA experts. Some $1.25 million will be found from redeployment within the FY 2005 budget: as Box 5 indicates, even allowing for some improvement in overall efficiency, there will be an impact on the delivery of primary outputs. MFD will likely deliver one less completed FSAP, while LEG will delay TA delivery in areas other than AML/CFT.

---

[14] In the summer of 2002, the Boards of the Fund and the Bank approved a pilot program of assessments under anti-money laundering and combating the financing of terrorism (AML/CFT). AML/CFT assessments have been conducted for 41 jurisdictions; they are included in all new FSAPs and OFC assessments. An important element of the AML/CFT program is the provision of related technical assistance (TA); over the past two years, there have been 85 assistance projects. Resources devoted to AML/CFT in MFD and LEG, for assessments and TA, currently comprise about 23 FTS, close to $1 million for experts and contractuals, and an additional $1 million for travel. See "Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessment—Joint Report on the Review of the Pilot Program," March 11, 2004, available on the IMF external website www.imf.org.

Box 5. The Impact of the Expanded AML/CFT Initiative on the FY 2005 Budget

The total cost of the additional AML/CFT work in FY 2005 for seven assessments and associated technical assistance is estimated to be $3.5 million as follows:

- the initiative requires 19 personnel, including 6 staff (FTS positions), 3 headquarters-based consultants, and 8 short-term expert years (mainly to provide TA), and 2 contractual assistants (total $3 million); and
- an additional $0.5 million is projected for the associated travel and for recruitment costs.

This additional $3.5 million expenditure will be financed as follows:

- some $1 million by seeking additional external finance;
- the remaining $2.5 million will be financed evenly by an increase to the FY 2005 administrative budget and through redeployment from lower priority activities within the budget;
- as a result, the net administrative budget will be higher by some $1.25 million, and the number of Fund-wide staff positions will increase by three;
- MFD and LEG will redeploy two and one staff positions, respectively, within their staff allocations to AML/CFT work;
- as a result, MFD expects to deliver one fewer FSAP, and LEG will delay TA delivery in areas other than AML/CFT.

40. An addition of $1.25 million to the net administrative budget (relative to the plans emerging prior to March 24, 2004), and an increase of 3 positions in the staff ceiling, are therefore also proposed to help finance the expanded AML/CFT program. Thus, the final proposed gross budget for FY 2005 is $831.1 million, representing a 2.4 percent increase (excluding the budgetary contribution to the SRP), with a staff ceiling of 2,802 positions. (It is proposed that, to provide a round number, the Board agrees to the elimination of the 0.5 position.)

B. Priorities and Plans

41. Within this overall top-down constraint, the priorities and plans laid out in the Managing Director's statement on the work program last October provide the policy backdrop to the formulation of the FY 2005 budget. Consistent with the Fund's mission statement—see Box 6—these plans have been further refined in the draft Acting Managing Director's statement for the Spring Meetings,[15] which highlights strengthening surveillance as a crisis prevention tool; advancing the work on the low-income policy agenda; and enhancing member countries' institutional capacity and ability to resolve crises, as principal objectives for the Fund's work in the year ahead.

42. **Management concluded that additional resources will be needed for some areas of work to deliver these objectives effectively.** To further strengthen the Fund's work on low-income countries:

- (i) A new unit will assist area departments in integrating PSIAs in the Fund's work on Low-income Countries (LICs), including PRGF program design; and
- (ii) a Middle East Technical Assistance Center (METAC) will be established to augment the Fund's capacity building work in that region.

To further strengthen surveillance:

- (i) an enhanced work program on regional surveillance will be developed in MCD and in WHD, building on similar initiatives in other geographical areas;
- (ii) in line with the IEO's recommendations, ex post assessments will be carried out for country cases of prolonged use of Fund resources; and
- (iii) the enhanced AML/CFT assessment program will be implemented (the associated technical assistance will contribute to capacity building).

---

[15] Statement by the Acting Managing Director of the International Monetary Fund, (DC2004-0007, 4/22/04).

Box 6. The Fund's Mission Statement

As indicated in its Articles of Agreement, the purposes of the Fund are:

- to promote international monetary cooperation through consultation and collaboration;
- to contribute to the maintenance of high levels of employment and real incomes, and to economic development of all members;
- to promote exchange rate stability, to maintain orderly exchange arrangements and to avoid competitive depreciation;
- to help establish a multilateral system of payments for current transactions and to eliminate exchange restrictions that hamper the growth of world trade; and
- to shorten the duration and lessen the degree of disequilibrium in the balance of payments of members, by making Fund resources temporarily available under adequate safeguards.

The IMF pursues these objectives through three main kinds of activity:

- Monitoring and assessing macroeconomic and financial developments and prospects, observance of standards and codes, and providing advice on policies at the country, regional, and global levels. *(Mainly under primary outputs: Surveillance, Research/Policy Development, and Standards).*
- Financial assistance to members with temporary and/or structural balance of payments problems, normally tied to adoption of agreed adjustment and reform measures aimed at correcting the underlying problems. *(Under primary output: UFR).*
- Technical assistance and training in its areas of expertise to strengthen members' capacity for the design and implementation of macroeconomic and financial policies. *(Under primary output: Capacity Building).*

Through the above activities, the Fund helps its members achieve the following six outcomes:

- viable external financing positions and orderly exchange arrangements;
- durable economic growth with high employment and poverty reduction;
- reasonable price stability;
- sustainable public finances;
- healthy financial sectors; and
- open and fair access to goods and capital markets.

43. **Management also concluded that there is a need to strengthen existing work on LICs, particularly in Africa, following the recommendations of the Task Force on the Organization and Management of the African Department (AFR).** The Task force concluded that the department was significantly understaffed, with adverse effects on the delivery of its services to member countries. It recommended a thorough reorganization of the department and the assignment of 24 additional staff positions to AFR over a two-year period. Management endorsed the broad findings of the task force: as a result 12 staff positions will be redeployed to AFR within the overall staff ceiling. Box 7 describes the new organization of AFR.

C. FY 2005 Administrative Budget by Output

44. **Even though a considerable redeployment of staff and other resources is planned to help meet the above objectives, the overall pattern of outputs is not expected to change substantially in FY 2005, relative to the FY 2004 projected outturn—see Table 2**. Nonetheless, within the aggregate figures, there are important and substantial changes to priorities and work plans at the departmental level, designed to help deliver these objectives over the year ahead.

- Area departments, as a group, plan to increase the share of their resources directed to surveillance by a further 0.5 percent from the projected 46 percent in the FY 2004 outturn. This is in line with the Fund's emphasis on improving country and regional surveillance. Functional and support departments, however, plan to devote a lower share of available resources to surveillance activities. This reflects a judgment that their highest priority contribution should be increased support for UFR work in low-income countries.

- The overall resources devoted to primary output 1 (policy development, research and operation of the international monetary system) will increase a little: some departments intend to further strengthen research work on crisis prevention and the international financial architecture.

- The capacity building figures reflect a determination to reverse the small slippage in technical assistance delivery that occurred in FY 2004. There will also be some increase in resources devoted to TA in some area departments, particularly those where there are regional TA centers.

- Other actions are being taken by departments to give greater priority to work on low-income countries, to strengthen surveillance (particularly on a regional basis), and to enhance member countries' institutional capacity and ability to resolve crises. Box 8 summarizes some of these actions, as they emerged from the departmental business plans.

Box 7. The Reorganization of the African Department

- As indicated in the Managing Director's statement of February 19, 2004, following the report of the **Task Force on the Organization and Management of the African Department**, the department is being reorganized.
- The changes, to become effective on May 1, 2004, entail the setting up of three wings in the front office: operations, policy, and resource management, each headed by a Deputy Director.
- In support of these changes, 12 additional staff positions will be assigned to AFR in FY 2005 to bring the total full staff positions to 234. It is expected that a further additional 12 economist positions will be deployed to AFR in FY 2006.
- **The operations wing** will be the main contact group for member countries. This wing will be responsible for mission work and the preparation of country papers for the Executive Board. At the senior level, under the Deputy Director, it will include seven country reviewers, who will take full responsibility for reviewing surveillance and program activities in countries assigned to them, and drawn from different divisions.
- **The policy wing** in the Immediate Office will have responsibility for operationally oriented cross-country research, including helping define the Fund-wide research agenda for LICs. It will head up work on regional issues and participate actively in the development of Fund policies on LICs, in close coordination with other departments involved. The unit will comprise three senior staff, four economists, and one research assistant.
- **The resource management wing** will be headed by a Deputy Director, who will also serve as Senior Personnel Manager (SPM) and Senior Budget Manager (SBM). This post will be responsible for strategic planning on personnel, budget, and technical assistance coordination as well as such issues as language requirements, resident representatives, communications, and data quality and management. He/she will be assisted by three senior staff serving as Deputy SPM, Deputy SBM, and technical assistance coordinator.
- The **divisions** will also be restructured to spread the work load more evenly and to comprise a mix of countries in each division with different language requirements. This should improve staff mobility and provide greater flexibility in staffing missions.

Box 8. Alignment of Departmental Business Plans to Fund's FY 2005 Priorities

The FY 2005 business plans indicate a slight increase (half a percentage point) in the resources to be devoted to the Fund's surveillance output compared to the FY 2004 outturn. MCD and WHD, in particular, will increase their regional surveillance operations. PDR has identified "enhancing the quality and effectiveness of surveillance, including regional surveillance, as a priority for the period ahead" and is planning to increase the proportion of resources allocated to surveillance work from 20 to 21 percent. MFD expects to raise the share of resources for surveillance (by about 1 percent) in order to work even more closely than before with area departments.

Several departments will redirect resources in FY 2005 in support of the Fund's efforts to strengthen its operations in low-income countries and Africa. The following summarizes actions planned by departments, other than AFR, to give greater priority to low-income country work:

- APD expects to add three further (to its three existing) PRGF programs before the end of FY 2004, and expects to have a seventh approved during FY 2005.
- MCD expects to increase the number of PRGF programs from eight to eleven during FY 2005; and, through METAC, to facilitate the delivery of increased technical assistance and training to low-income countries in the region.
- WHD's PRGF programs are expected to rise from four to six in FY 2005. Increasing attention will be paid to poverty reducing policies and social impact analysis for these programs.
- FAD and PDR will both devote more resources to monitoring progress towards the MDGs; to tracking progress under the PRSP and HIPC initiatives; and to support research and analysis on low-income country issues. FAD will be responsible for the work on PSIA.
- External financing is expected to help INS and STA increase their capacity building activities for Africa, and will support a RES conference on "Macro-Analytical Issues in Low-Income Countries."

45. **Activity indicators provided as part of departmental business plans confirm a planned relative shift of resources toward work on regional surveillance and on low-income countries (Table 3).**

- While the number of bilateral surveillance missions is planned to be broadly in line with the FY 2004 projected outturn, the number of regional and multilateral surveillance missions is projected to increase.

- UFR activity, measured by the number of programs in place, is expected to rise by up to 10 percent over the FY 2004 outturn. While the plans have been carefully scrutinized, there may be a greater downside than upside risk on this figure—for the reasons set out in paragraph 23.

- The total volume of technical assistance to be delivered in FY 2005 is expected to remain broadly flat—budget to budget—implying, relative to the FY 2004 outturn, a small increase—much of which will go to low-income countries. Externally financed technical assistance will continue to expand.

- Training activities provided by INS and other departments are expected to rise in FY 2005, reflecting the continuing high priority attached to capacity building in low-income countries.

46. **In their business plans, departments also identify lower priority activities, both in terms of outputs and inputs, so as to facilitate possible further resource redeployment in the course of the financial year.** While more detailed information is contained in the individual departments' business plans, Table 8 provides an overview of specific activities that departments would reduce (augment), if their resources were to be decreased (increased) by one percent. Some "ready reckoners" on the relative costs of the Fund's major outputs are presented in Box 9.

Table 8. Departments' Proposed Adjustment Measures, FY 2005

	One Percent Decrease		
Area Departments	**Proposed Measure**	Outputs	(In thousands of U.S. dollars)
AFR	Close two resident representative posts and reduce, and combine, Article IV/UFR missions	3, 4	557
APD	One fewer economist position; no short-term scholar, and reduce mission size	3, 4	303
EUR	Two fewer economist positions, with less Article IV work and related documentation and research	3	413
MCD	One fewer economist position and less travel for regional and bilateral surveillance	3	343
WHD	Reduction in regional surveillance and research		340
Total			1,956
Functional Departments			
FAD	One less staff year for TA and one less staff year for UFR	4, 5	410
ICM	Less research, external collaboration and fewer capital markets missions	1, 3	124
INS	One less two week French language headquarters courses and one less regional course	5	271
LEG	Less TA, seminars and contractual services	1–5	138
MFD	One less FSAP	3	543
PDR	Fewer economists assigned to area department missions and less outreach	1–5	319
RES	One fewer economist for surveillance and research	1	185
STA	Less resources assigned to TA, Balance of Payment Manual, and methodological manuals.	2,5	331
Total			2,321
Total			**4,277**
	One Percent Increase		
Area Departments	**Proposed Measures**	Outputs	(In thousands of U.S. dollars)
AFR	Three additional economists for surveillance and UFR work	3, 4	557
APD	One additional economist, and more resources for resident representative offices	3, 4	303
EUR	Two additional economists to strengthen Balkan country teams and ex post assessments	3, 4	413
MCD	One additional economist and related travel for regional and bilateral surveillance	3	343
WHD	Greater work on regional surveillance and research, and two additional resident representative posts	3, 4	340
Total			1,956
Functional Departments			
FAD	One additional economist for UFR work and and one additional expert for TA, largely for Africa	4, 5	410
ICM	One additional front-office staff assistant, and greater travel for TA and conferences	1,5	124
INS	One extra French-language distance learning financial programming course	5	271
LEG	More resources for seminars, contractual services and travel	1–5	138
MFD	Increase in general policy work	1	543
PDR	Greater outreach and additional consultants	1–5	319
RES	One senior staff position to strengthen research program.	1	185
STA	Faster processing of GDDS metadata, data logs for TA, and more work on FSIs follow-up.	2,5	331
Total			2,321
Total			**4,277**

Source: Departmental business plans.

Box 9. "Ready Reckoners" for Illustrative Changes in Primary Outputs

The table below illustrates the effects of a 1 percent ($4.3 million) change in three primary outputs:

- FSAPs and ROSCs within Surveillance;
- technical assistance and external training within Capacity Building; and
- research within Policy Development, Research and Operation of the International Monetary System.

For FSAPs and ROSCs, the change is equivalent to roughly 7 FSAPs or 25 ROSC modules. If the change were allocated as per the pattern of ROSCs expected for FY 2004, this would amount to 4 FAD ROSCs, 9 STA ROSCs, and 12 MFD ROSCs (or 3-4 FSAPs).

For capacity building, the change is equivalent to 19 person years of TA delivered. This represents some 25 standard (4 person, 2 week) TA missions; if distributed according to FY 2004 patterns, it would imply changes equivalent to 8-9 missions in FAD, 11-12 in MFD, and 5-6 for STA. Alternatively, this would represent 5-6 standard (35-40 participant, 8 week) INS training courses in Washington.

For research, it is more difficult to specify a single indicator of activity. The output is more heterogeneous—some papers are "spin-offs " of work done on other outputs, like surveillance or TA. Others are major original research, requiring considerable investment of staff resources. Thus the impact on numbers of research papers, books, seminars, and conferences would vary, depending on the mix selected in response to a change in resource availability. As a broad indicator, an estimated change of 1 percent in resources is equivalent to the cost of about 25 economist staff years.

Effect of 1 Percent Change in Resource Use on Primary Outputs in FY 2005

	FSAPs/ROSCs	Capacity Building	Research
Estimated change in indicator	25 ROSCs or 7 FSAPs	19 field experts or 25 TA missions or 5-6 INS courses	25 economist staff years

Source: OBP estimates.

47. **In aggregate, the business plans indicate that area and functional departments see the scope for either augmenting or reducing their work as mainly arising on three**

primary outputs—regional and bilateral surveillance; capacity building; and research activities.[16, 17] Area departments target their adjustments mainly on surveillance, especially regional surveillance initiatives, and background research and information on UFR cases. Functional departments would spread any adjustments across all five primary outputs, but they see less scope for adjustment in capacity building, than for research and surveillance. In terms of specific measures and/or modalities of adjustment, departments indicate the following.

- Area departments would direct any increase in resources mostly to improving the quality of surveillance and UFR operations, including in some cases by augmenting resources in resident representative offices. Reductions would fall mainly on surveillance and research activities.

- For their surveillance work, area departments would reduce (strengthen) bilateral surveillance by lengthening (shortening) periods between Article IV consultations, by placing more (fewer) countries on a 24-month cycle, and by reducing (increasing) the size and duration of missions. The volume of supporting documentation provided to the Board would also be affected. Regional surveillance initiatives would also be slowed (accelerated).

- Functional departments acknowledge that the volume of capacity building work (which has a higher degree of variable costs than most other activities) can be changed at the margin. Nonetheless, they see the scope for such changes as being less than that for their work on surveillance. This reflects a relatively high level of ongoing initiatives and contractual commitments, e.g., for the regional TA centers, but also the perceived critical role of TA in capacity building for the low-income countries. MFD, which is the single largest provider of technical assistance in the Fund, would exempt capacity building from its adjustments, opting instead to focus any marginal changes on surveillance output (FSAPs) and policy work.

- Functional departments also indicate scope for symmetrical adjustments in research activities (mainly the International Capital Markets Department (ICM), Policy Development and Review Department (PDR), and Research Department (RES), training and seminars (INS and LEG), and support to area departments for UFR (FAD).

D. FY 2005 Administrative Budget by Input

48. **Within the overall budget constraint and the existing staff ceiling, the new initiatives (except for their work on AML/CFT), and the assignment of additional staff to work in AFR, are wholly accommodated through redeployment (Table 9)**. Prior to the

---

[16] The size of a department's budget obviously affects the manner in which it proposes to make adjustments; the larger the department the more likely it is that the cuts would be reflected in staff positions. The smaller the department the more likely it is that cuts/increases will be spread over other inputs.

[17] Area departments score almost all their research activities under the surveillance or UFR outputs.

Board's approval for an expanded AML/CFT work program, 23 staff positions were redeployed: 10 from efficiency savings in support activities; a further 9 as a result of streamlining the Fund's work in Europe and Asia, principally following from the reorganization of the area departments; and the remainder from efficiency savings and the reduction or elimination of lower priority activities, following scrutiny of departmental business plans. Nor will there be any expansion under the proposed FY 2005 budget in the use of temporary contractual personnel resources. The provision for non-staff personnel is being held constant in nominal terms, for most departments, although greater use of experts financed externally for capacity building work (which has a zero impact on the net budget) is allowed for, as are increases in local salaries in resident representative and other regional offices.

49. For personnel expenditures, therefore, the budget proposals are as follows (Table 10).

- For staff positions, the vacancy rate is projected at 3.3 percent, somewhat lower than observed in FY 2004. The vacancy rates in area departments are already close to what could be seen as a minimum, purely frictional, rate in FY 2004. Functional and support departments, however, are becoming more effective in identifying earlier external potential candidates: as a result, staff positions are likely to be filled faster than in FY 2004. Finally, the uncertainties surrounding departmental reorganizations, which added to vacancy rates in FY 2004, are not expected to be repeated next year. Overall, therefore, a small increase in FTEs for staff is projected from an estimated 2,676 in FY 2004 to 2,709 in FY 2005.

- The projected average increase in staff salary costs is, as usual, a little higher than the salary award. Average salaries are projected to rise by 3.8 percent—that is the combined effect of the 3.6 percent structural salary increase, a comparatio of 1.5 percent and an assumed recovery rate of 1.3 percent.

- The salary provision for all non-staff personnel categories is held constant in nominal terms for most departments. However, allowance is made for a greater availability of external financing for experts (thus the gross, but not the net, figure rises).

- Local salaries in resident representative and other offices (many set in non-dollar currencies) are projected to increase by 12 percent.

Table 9. Planned Staff Redeployment and Additions in FY 2005

	FY 2004 Approved Budget FTS:	**2,799.5**	1/
	A. Redeployment		
To:	**Purpose**	**FTS**	
AFR	Task Force Recommendations	12.0	
MCD	Work on Iraq	2.0	
MCD	Work in METAC and for enhanced regional surveillance	2.0	
FAD	Poverty and Social Impact Analysis (PSIA) 2/	2.0	
FAD	Work on prolonged UFR as per IEO recommendation	1.0	
PDR	Work on prolonged UFR as per IEO recommendation	1.0	
LEG	Expanded AML/CFT 3/	1.0	
MFD	Expanded AML/CFT 3/	2.0	
Total		**23.0**	
From:	**Purpose**	**FTS**	
EU1, EU2, and MED	Savings reflecting departmental reorganization	6.0	
EUR	Efficiency savings	3.0	
FIN	Efficiency savings	3.0	
PDR	Efficiency savings	1.0	
TGS	Efficiency savings	7.0	
LEG	Internal redeployment toward expanded AML/CFT	1.0	
MFD	Internal redeployment toward expanded AML/CFT	2.0	
Total		**23.0**	
	B. Additions		
To:	**Purpose**		
LEG	Expanded AML/CFT	1.0	
MFD	Expanded AML/CFT	2.0	
Total		**3.0**	
Proposed "Rounding" Adjustment		**-0.5**	
	FY 2005 Proposed Budget FTS:	**2,802.0**	

Source: Office of Budget and Planning.

1/ OBP has removed a 0.5 FTS to round the overall total.
2/ In addition, FAD will employ two contractual employees for PSIA.
3/ MFD and LEG will also employ 2 contractual employees for the expanded AML/CFT.

- In aggregate, therefore, salary expenditures are projected to rise by around 3.9 percent in FY 2005.

- Benefit expenditures, excluding the SRP, are projected to increase by about 3.1 percent over the FY 2004 budget. While salaries-related benefit costs will move at a rate very close to the structural salary award, expenditures on other benefits are projected to increase at varying rates.

- The beneficial impact of the U.S. tax cuts on tax allowance expenditures will be carried forward into the next financial year, so that budget-on-budget the provision for tax allowances will fall by some 8 percent (around $3 million). Expenditures on health benefits are expected to rise only modestly (less than 1 percent). More substantial increases are projected in expenditures on home leave and children's education allowances, reflecting an increasing number of beneficiaries and rising education costs.

- In aggregate, therefore, personnel costs (salaries and benefits, excluding the contribution to the SRP) are projected to rise by 3.6 percent, budget to budget in FY 2005.

50. The provision for all non-personnel expenditures will fall slightly in FY 2005. The provision for travel expenditures will decrease by 3 percent as a result of the following.

- Travel provisions will be held constant or reduced in nominal terms for functional and support departments and offices. All area departments will receive a 3.0 percent increase.

- The overall provision for seminars and conferences will be frozen at the FY 2004 dollar amount. The provision for seminars and conferences is being set on a standard basis, in fixed dollar amounts, across all area departments.

- A projected reduction of $4 million in travel expenditures because the Annual Meetings will be held in Washington this year is incorporated in the budget provision.

51. **The provision for other expenditures will be limited to an increase of 1.6 percent in FY 2005, despite rather higher price increases estimated for many items in this category.** Some of these items are expensed, or priced, in euros or other currencies that have appreciated substantially against the dollar.

- For building occupancy costs, the expected price increases range from 5 percent for the lease at International Square (the largest component) to 25 percent for insurance.

Table 10. Net Administrative Budget by Inputs, FY 2005
(In millions of U.S. dollars)

	Object of Expense Category	FY 2004 Approved Budget	FY 2005 Estimate	Change on FY 2004 Approved Budget	
				Amount	Percent
I.	Personnel expenses 1/ (excluding SRP contributions)	540.0	559.7	19.7	3.6
	Salary	359.7	373.8	14.1	3.9
	Other personnel costs	180.3	185.9	5.6	3.1
II.	Travel expenses	99.6	96.6	-3.0	-3.0
III.	Other expenses	170.1	172.8	2.7	1.6
V.	Contingency reserve	2.0	2.0	0.0	0.0
VI.	SRP contribution	25.8	74.0	48.2	186.8
	Total gross expenditure	837.5	905.1	67.6	8.1
	(Total gross expenditure excluding SRP)	811.7	831.1	19.4	2.4
IV.	Reimbursements	-52.0	-55.5	-3.5	6.7
	Net administrative budget	785.5	849.6	64.1	8.2
	(Net administrative expenditure excluding SRP)	759.7	775.6	15.9	2.1

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

1/ This includes a central staff allocation of $1 million (as compared to $3 million in FY 2005).

- The cost of other items is also rising much faster than inflation, including subscription rates for information services (at 15-20 percent); and office costs for some regional offices (up by nearly 20 percent in Paris).
- To some extent, these rising costs are being offset by more favorable price developments elsewhere, such as on communication costs, which continue to decline.
- Cost pressures are also being alleviated by improved efficiency in certain areas: for example, in information technology, the Fund will continue to reap benefits from the consolidation of vendor companies and revised tighter contracts.
- Nonetheless, to hold the increase in the provision to 1.6 percent also requires action on volumes: thus the amounts allocated for contractual printing, postage and freight, and supplies and equipment will decline in real terms.

52. **Reimbursements are projected at $55.5 million, some 6.7 percent higher than in FY 2004**. Travel rebates from the airlines are estimated to double from the levels budgeted in FY 2004. After a small shortfall against the budgeted use of external finance in FY 2004, a substantial increase in both the availability and use of externally financed TA is projected for next year. The first full year of the new AFRITAC West, the establishment of the METAC and the expanded AML/CFT work program are all expected to attract sizeable additional external monies.

53. **The proposed budget will include a contribution to the Staff Retirement Plan (SRP), equivalent to 14 percent of staff gross remuneration, in line with the policy of moving to a normalized annual budgetary contribution to the SRP.** The COB and the Pension Committee agreed that the annual budgetary contribution to the SRP should in future years be normalized at the rate of 14 percent of gross remuneration, that is, on the basis of a 2:1 ratio relative to staff's own contributions, consistent with the long-term historical average. (The norm figure would be reviewed every five years.) Drawings from, or additions to, reserves would also be made depending on the actuarial assessment of the required contribution rate in any particular year. The recommendation of the Fund's actuary, endorsed by the Pension Committee, for FY 2005 is to set the contribution at 15.15 percent of gross remuneration, equivalent to $80 million. The budgetary contribution in FY 2005 will therefore be $74 million (14 percent of gross remuneration), with $6 million drawn from the reserve.

E. Risks

54. **There are a number of administrative reviews underway that may have an impact on administrative expenditures both in FY 2005 and beyond**. These reviews, which are summarized in Box 10, could result in some savings over the medium term, but could also require some restructuring in the short term. As the experience of the past two years suggests, such reorganizations may have a short-term impact on activity. There are also a large number of policy review items on the Board agenda over the next few months. No allowance for the resource consequences of either the findings of administrative reviews, or the adoption of new or revised policies, have been built into the budget. Thus, to the extent that any such further changes are proposed for FY 2005, they will have to be contained within the limited scope for in year changes to departmental business plans, and the overall top-down constraint of the budget.

55. **Contingency provisions in the proposed FY 2005 administrative budget are held to $3 million, rather than the $5 million built into the FY 2004 budget**. As indicated above the contingencies set aside in the FY 2004 budget, comprising a $3 million central allocation for personnel and the $2 million formal contingency reserves, will not be utilized. As budget reforms are now better established and staff vacancies are at a lower level (with less downside risk) in FY 2005, a smaller central allocation of $1 million for personnel is warranted. There will also be contingency reserves of $1 million each for travel and for other expenditures as last year. Finally, OBP also plans to maintain an undistributed allocation of $750,000 within the overall travel provision (in addition to the $1 million travel contingency reserve), on which departments could draw toward the end of the financial year, where fully justified need can be demonstrated.

Box 10. Administrative Reviews

Departmental (Zero-Based) Reviews

As part of the budget reforms adopted by the Board in 2001, the Fund has begun undertaking **reviews** of departments, which incorporate a zero-based approach. The reviews, which are led by the Office of Internal Audit and Inspection (OIA) with the participation of OBP, include the identification of activities that are of lower priority in meeting the goals of the Fund; as such, these activities may offer scope for resource reallocation to higher priority areas. In addition, like the earlier OIA exercises, the reviews assess the effectiveness of departmental management in achieving the department's mission and goals.

The aim is to undertake two such reviews per year. A review of STA is completed and the report is with the department. The review of HRD is expected to be completed within the next few months. Summaries of the recommendations from the reviews will be provided to the Committee on the Budget. The departments to be chosen for review in FY 2005 will be determined as part of OIA's work program.

Travel

Based on the recommendations from a staff working group, management has authorized further investigative work on a **designated airlines program** (within the current class of travel policy), whereby Fund staff would normally be asked to use one of several designated airlines for the transoceanic stage of their mission trip.

Management also agreed that a system should be put in place to ensure departmental travel managers take into account the availability of fare discounts and rebates in drawing up travel plans. This should also contribute to more cost-effective travel.

The review of the resident representatives program is examining the size, scope, and cost effectiveness of the program. The review is scheduled to be completed over the next two to three months.

In addition, a further review of the arrangements for IT support is planned. The review, which will include external consultants, is scheduled to begin later in the financial year.

F. The FY 2005 Administrative Budget Proposal

56. **Board approval is therefore sought for:**

- a gross administrative budget of $905.1 million, including $74 million for the budgetary contribution to the SRP;
- projected reimbursements of $55.5 million, leading to a net (of reimbursements) budget for FY 2005 of $849.6 million; and
- a ceiling of 2,802 on staff positions.

G. The Medium-Term Expenditure Framework

57. **As in previous years, the Board is also asked to take note of the MTEF figures for FY 2006 and FY 2007**. The MTEF reflects the costs of all existing policies, including new initiatives described in this paper, and also takes into account:

- the return of the Annual Meetings to Washington in CY 2005, and an amount of $5 million to cover the additional cost of holding the Annual Meetings in Singapore in CY 2006;
- the costs arising from the provision of SRP service credit for periods of past contractual and temporary employment, which will affect contribution rates from FY 2006;
- the opening of the HQ2 building (including the short-term move costs, the savings in lease and property costs on the International Square and G Street offices; and the operating costs of the new building); and
- the shift of some IT costs from development (and thus the capital budget) to operational (and thus the administrative budget).

58. **The revised MTEF assumes the same price deflators for personnel, travel costs and other expenditures as those underlying the proposed FY 2005 budget, and an unchanged staff ceiling.** These are:

- personnel costs are projected to increase by 3.8 percent;
- travel expenditures are projected to rise by 3.0 percent;
- the other expenditures category is projected to rise by 2.75 percent; and
- reimbursements are projected to increase by 2.5 percent each year (a rate below the exceptional FY 2005 projection, and more in line with past experience).

59. **As noted in paragraph 57, in addition to the above cost adjustments, the administrative budget will also be affected by the opening of the HQ2 building and the additional cost of maintaining new IT software**. A net saving as a result of these two developments of some $11 million per annum is expected by FY 2007.

- The opening of the HQ2 building is expected to result in net savings to the Fund of close to $16 million per annum by the end of FY 2007 from the combined effect of:

  (i) the elimination of lease expenditures for International Square and G Street rental space (some $24 million by FY 2007);

  (ii) the additional revenue generated from the leasing of space for two tenants in HQ2 (the eventual full-year effect will be on the order of $1 million by FY 2007); and

(iii) the additional costs of about $8.5 million related to HQ2 building operations (including security, maintenance and repairs, and janitorial), utilities, insurance and other contractual services.

- New production and maintenance costs and additional software are expected to increase IT administrative expenditures by approximately $5 million by FY 2007 ($3.6 million in FY 2006 and $1.4 million in FY 2007). [18] During this same period, IT related development costs will decline. These figures will be scrutinized further during FY 2005, and updated when the FY 2006 budget is presented next year, after the review of IT is completed.

60. **As a result of the above assumptions and adjustments, the MTEF indicates that the Fund's net administrative expenditures will increase by 3.6 percent in FY 2006 and 3.8 percent in FY 2007**. Table 11 presents the MTEF, showing changes also for FY 2006 from the extant MTEF figure.

61. **With the MTEF concept now more firmly established, it is proposed that departments should begin to develop their own medium-term business plans during the forthcoming financial year.** As departments further refine the business plan concept, they will extend their time horizon to cover the MTEF period. Departments will be asked to develop medium-term forward estimates, which will have to be consistent with the overall top-down policy stance.

[18] About $2.7 million in IT maintenance and software costs have been absorbed by TGS in FY 2004 and FY 2005, as a result of contract arrangements with vendor companies and through efficiency gains from organizational restructuring and on-going IT operations.

Table 11. Net Administrative Budget: Medium-Term Expenditure Framework (MTEF), FY 2005–FY 2007
(In millions of U.S. dollars)

Expenditure Category	FY 2005 Estimate	FY 2006 Preliminary Estimate	Percent Change	FY 2007 Preliminary Estimate	Percent Change
Personnel costs (excluding SRP contributions)	559.7	581.0	3.8	603.0	3.8
Travel 1/	97.6	100.5	3.0	103.5	3.0
Other expenditures 1/	173.8	178.6	2.8	183.5	2.8
SRP contributions	74.0	77.0	4.1	80.0	3.9
Additional Items		0.0		2.2	
Annual Meetings to be held in Singapore		0.0		5.0	
Net impact of capital budget developments		-4.0		-6.8	
o/w HQ2 building completion 2/		-7.6		-8.2	
o/w Ongoing production for IT systems 3/		3.6		1.4	
Provision of SRP service credit for past contractual and temporary employment 4/		4.0		4.0	
Gross Administrative Budget	905.1	937.1	3.5	972.3	3.8
Reimbursements	-55.5	-56.9	2.5	-58.3	2.5
Net Administrative Budget	849.6	880.2	3.6	914.0	3.8

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

1/ Figures for travel and other expenditures include a contingency allowance of $1 million each.
2/ Net affect of the completion of HQ2. Includes reduction in lease expenditures and increases in maintenance, security, utilities, etc. It also assumes revenue on leased space.
3/ The ongoing production costs following the completion of several large IT capital projects will require additional administrative resources.
4/ The preliminary estimates shown here are calculated on a 7-year amortization period basis and may range between $3 and $4 million. The Fund is not committed to a 7-year amortization period and management is authorized to extend it to 10 years.

III. FY 2005 CAPITAL BUDGET AND THE MEDIUM-TERM CAPITAL PLAN

A. Overview

62. **Executive Board approval is sought for an appropriation of $31.8 million for capital projects beginning in FY 2005.**[19] The proposed appropriation covers expenditures over the next three years of $8.1 million for building facilities, including security related upgrades, and $23.7 million on IT capital projects.

63. **The medium-term capital plan sets out the costs of all new capital projects, that are scheduled to start in each of the next three years: the plan for FY 2005-FY 2007 represents an increase from that presented in FY 2004—from $115 million to some $122.9 million.** The increase is more than accounted for by additional security related projects (the extra cost has been partially offset by delaying or rephasing other capital maintenance projects).

64. **Expenditures on all capital projects underway in FY 2004 are expected to remain within budget, and the projects are expected to be completed on schedule.** Quarterly reports are provided separately to the Board on the only major building project, the construction of the HQ2 building: a summary of progress to date is provided in Box 11.

B. A Longer-Term Perspective on the Capital Budget

65. **The Fund's capital budget—excluding new buildings—grew modestly (measured in constant dollar terms) from FY 1994 to FY 2002**. This growth mainly reflected additions to the value of the Fund's physical assets, with the completion of the HQ Phase III building, and major upgrading of the main software systems in more recent years. Box 12 summarizes the main features of the capital budget (its composition and main procedures), while historical trends are presented in the figure. More detailed information will be provided in the supplementary paper.

[19] The draft decision on the FY 2005 capital budget is contained in Section V.

Box 11. HQ2 Project

The HQ2 building project remains within the $149.3 million budget approved by the Executive Board on April 26, 2002. The current schedule envisages a final move-in date by end-June 2005. The key developments are the following.

- The concrete structure of the building has now been completed. In addition, the pre-cast concrete slabs, which form part of the building's façade, are being installed on the Pennsylvania Avenue side of the building. Mechanical and electrical work has begun on the lower floors.

- All major design drawings have been completed and issued to the general contractor, the Clark Construction Group, Inc. (Clark). On March 12, 2004, with management's approval, Clark was directed to proceed with the final design of the Office Fit-Out.

- Furniture selection is in progress for all areas of the HQ2 building.

- The Fund entered into an agreement with the real estate brokerage firm and agent, TransWestern Commercial Services (TCS), to assist in contracting suitable tenants for restaurant/retail spaces at the corners of 19th Street and Pennsylvania Avenue and 20th Street and Pennsylvania Avenue.

Box 12. The Fund's Capital Budget: An Overview

The capital budget comprises projects under three categories: major building works; building facilities; and information technology.

- The only **major building works** underway or planned for the medium-term is the construction of the Headquarters 2 (HQ2) building.

- **Building facilities comprise regulatory, replacement, and new projects**. **Regulatory projects** are mandated by changes to building codes or industry regulations (e.g., changes in the fire code for office buildings and new heightened security projects). **Replacement projects** provide for the replacement of building related equipment that is at the end of its useful life. Facility projects providing **new functions** or capacity within the existing headquarters building are less frequent (the most recent example was the FY 2002 reconfiguration of office and cafeteria space for the child care center).

- The purchase of **IT microcomputers, servers and other infrastructure equipment** has been a part of the capital budget since FY 1988. Some other large IT projects (e.g., introduction of word processing) were also included. Since FY 2000, the Board approved the inclusion of major software development projects in the capital budget, in line with standard public and private sector practice.

The IT program in the Fund is overseen by the Information Technology Policy Committee (ITPC) which has developed a series of IT strategic plans focusing on the following three components:

- Projects in the **Enterprise Information Program** are dedicated to the core work of the Fund, such as economic time series, document management and production, publications and information services, including communications and transfer information with member countries are also included.

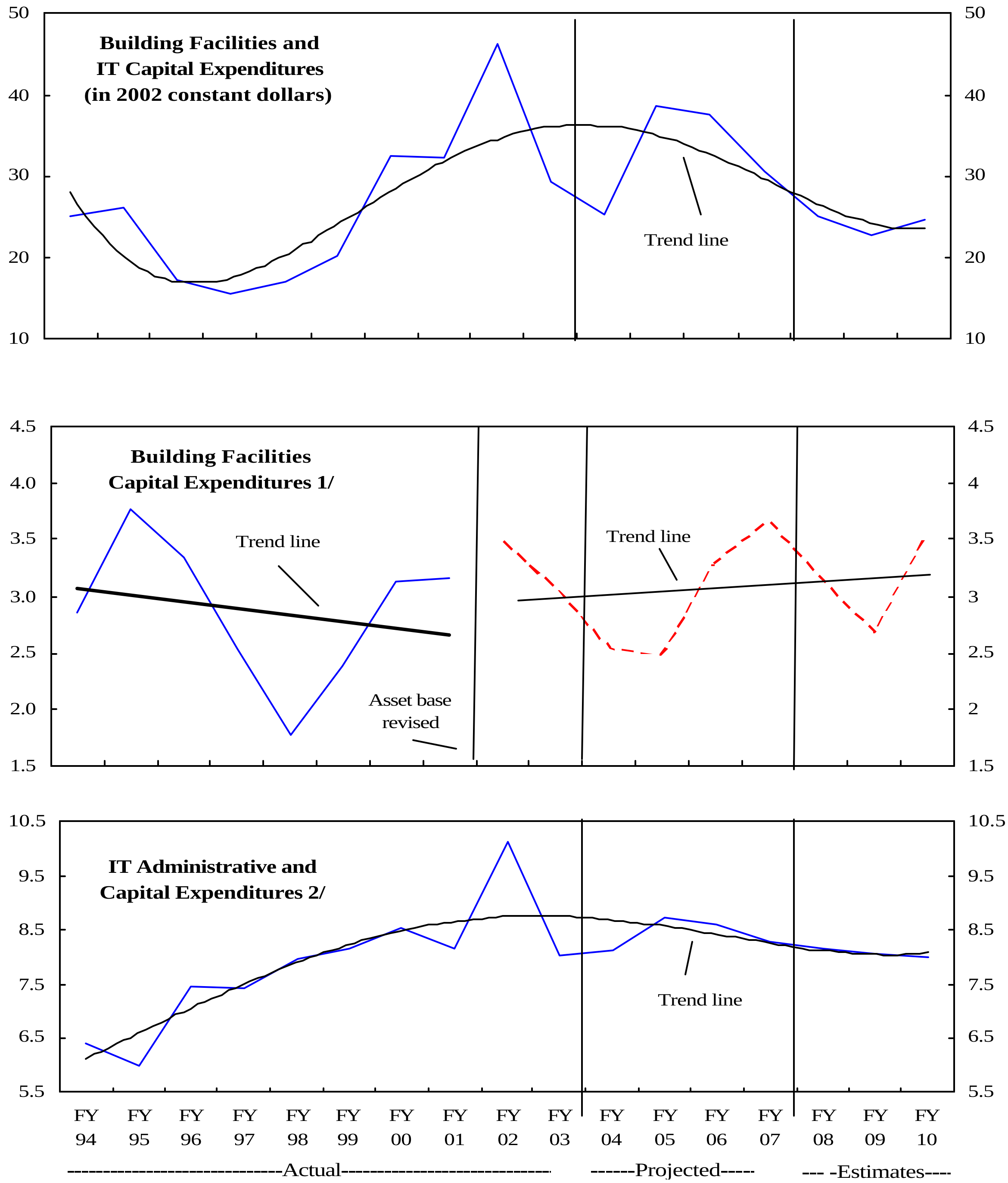
- The **Administrative and Financial Information Program** comprises projects that enhance the Fund's administrative, financial and human resource application systems.

- Underpinning both of the above programs is the **Infrastructure and Connectivity Program**. Projects in this program are designed to sustain and improve the Fund's network, remote access capabilities and overseas IT connectivity. This program also covers the purchase of new and replacement desktop and network computing equipment and communications links.

The current capital budget procedures have remained unchanged since the last reforms in FY 2003. In brief, Board members are informed of the total expected cost of a capital project when an appropriation is first sought; project duration and funds are limited to three years; any funds not spent within this time-frame lapse. However, with proper justification, unspent funds may be reappropriated by the Board for that project; and for projects that extend longer than three years, it is necessary to make separate appropriations. For these projects, information on their full cost is provided to the Board when requests are first presented for appropriation.

Different approaches are applied when appraising the case for varying types of capital projects. Cost benefit analysis (CBA) and other related requirements are applied to both major building works and major IT system development projects (with a value in excess of $500,000). Even if projects qualify as eligible capital expenditures and have been satisfactorily appraised under a CBA and other tests, they are only included in the capital plan to the extent that the resource envelopes allow.

Building Facilities and IT Expenditures, FY 1994 -FY 2010



Source: Office of Budget and Planning.

1/ Three-year moving average as a ratio to physical assets. Starting in FY 2001 asset base increased to include Phase III.

2/ As a ratio of total IT administrative and capital expenditures to net administrative and capital budgets.

66. The resource envelopes for the three components of the Fund's capital budget—major building works, building facilities and Information Technology (IT)—are derived as follows.

- **For major buildings**, each project is treated as one-off: budgets are approved by the Board and regular progress reports of expenditures against the budget profile are provided. The Phase III building (FY 1994–FY 2001) was completed on time and within budget; the HQ2 project is also expected to be completed on time and within budget.

- **For building facilities**, annual capital expenditures, calculated as a three-year moving average, have been kept on average to some 3 percent (the middle panel of the figure) of the replacement value of the building. The ratio has increased a little since the addition of the Phase III building, after a period of decline. An external review of the condition, and need for upgrade/maintenance of the buildings, is undertaken from time to time to ensure that the level of what are fundamentally capital maintenance expenditures is adequate. The most recent such inventory and condition assessment of HQ1 was carried out in FY 2002; it rated HQ1 as in good condition; and this assessment provides the basis for the Fund's present mechanical replacement and upgrade program.

- Since the events of September 11, 2001, heightened security projects have increased the size of the building facilities capital budget. In the five-year period, FY 2003-FY 2007 approved and envisioned heightened security projects will total $24.6 million, just over 21 percent of the entire building facilities portion of the capital budget over that period.

- Excluding expenditures on heightened security projects, capital spending on building facilities is projected to remain at about 3 percent of the HQ1 asset value over the next 3-5 years, broadly in line with the historical average. However, because HQ2 is not expected to require significant capital maintenance until FY 2010, the Fund's ratio of building facilities expenditures to total physical asset value can be expected to fall substantially over the next five to six years.

- **For IT,** total expenditures (capital plus administrative) have been held to under 10 percent of the total administrative and capital budgets (excluding the HQ2 building project) (the third panel of the figure). This implicit benchmark has been drawn from various industry-wide surveys, that have examined variations in the amounts (relative to size) that organizations (public and private sectors) spend on IT. Surveys of financial institutions showed that in 2002 IT spending constituted approximately 11 percent of their total budgets. The Fund's IT expenditures approached 10 percent of the total administrative and capital budget in 2001–2002, reflecting the high investment in new systems of recent years. But IT expenditures are projected to fall up to FY 2007, and then level off, although at a higher ratio than in the 1990s. However as noted in Section II, a review of the Fund's IT program, to begin later this year, will provide further input on the appropriate levels for IT expenditures.

C. The Medium-Term Capital Plan and Expenditures

67. **The medium-term capital plan for FY 2005-FY 2007 shows a small increase from the current plan approved in FY 2004 ($115 million) to $122.9 million (Table 12)**. The increase is more than accounted for by new heightened security related projects estimated at $11.1 million. Part of the extra costs have been absorbed by making reductions in the scope of other projects, and delaying some capital maintenance works. (The proposed figure is lower than that presented earlier this year to the February meeting of the COB). No major building works are planned over the medium term.

Table 12. Medium-Term Capital Expenditure Plans, FY 2004–FY 2007

(In millions of U.S. dollars)

	Financial Year				
	2004	2005	2006	2007	Total
	Current Plan				
Building Facilities	13.2	6.5	25.8	n.a.	45.5
Information Technology	26.4	22.9	20.2	n.a.	69.5
Total	39.6	29.4	46.0	n.a.	**115.0**
		FY 2005 Proposed Plan			
Building Facilities	n.a.	8.1	25.1	24.4	57.6
Information Technology	n.a.	23.7	21.6	20.0	65.2
Total	n.a.	31.8	46.7	44.4	**122.9**

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

68. **Table 13 presents both actual and projected annual capital expenditures under previous capital budgets, together with the projected expenditures under the proposed medium-term capital plan for FY 2005—FY 2007 as follows:**[20]

- There will be a rise in capital spending on building facilities, after several years of relatively flat expenditures. This reflects mainly a peaking of expenditures related to heightened security projects. After FY 2005, annual capital expenditures are projected to fall over the remainder of the medium term.

- Since FY 2000, the focus of the IT Strategic Plan has been on the replacement of the Fund's main administrative and financial information systems, as well as the development of improved economic data systems. As with building facility projects, overall spending is expected to peak in FY 2005, with a gradual tapering off in FY 2006 and FY 2007. Offsetting (in part) this downward trend will be the higher costs for the administrative budget associated with the ongoing maintenance of newly renovated or replaced systems. As noted in Section II of the paper, IT expenditures will thus increase as a proportion of the administrative budget over this period.[21]

- Taken together, building facility and IT capital expenditures will peak in FY 2005, before falling to lower levels by the end of the medium term.

- For total capital expenditures—major building works, building facilities and IT—the same pattern is projected. High expenditures will be incurred in FY 2005, falling to the lower levels experienced in the past over the subsequent two years.

[20] In FY 2003 the budget regime changed to a multi-year funding approach under which funds are available to the projects for a period of three consecutive years.

[21] See Section II G, "The Medium-Term Expenditure Framework."

Table 13. Actual and Projected Capital Expenditures, FY 2000–FY 2007
(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	FY 2007
Building Facilities	**12.4**	**15.9**	**22.9**	**14.0**	**16.2**	**41.5**	**24.5**	**19.9**
Budgets approved prior to FY 2005	12.4	15.9	22.9	14.0	16.2	35.0	7.2	
FY 2005 Budget						6.5	1.5	0.0
Medium-term FY 2006-FY 2007 Plan							15.8	19.9
Information Technology (IT)	**18.6**	**15.8**	**30.7**	**22.9**	**17.1**	**26.0**	**23.1**	**20.0**
Budgets approved prior to FY 2005	18.6	15.8	30.7	22.9	17.1	18.5	7.8	
FY 2005 Budget						7.5	8.5	7.1
Medium-term FY 2006-FY 2007 Plan							6.8	12.9
Total Building Facilities and IT	**31.0**	**31.7**	**53.6**	**36.9**	**33.3**	**67.5**	**47.5**	**39.9**
Major Building 1/	**8.5**	**3.0**	**7.9**	**13.5**	**35.3**	**84.0**	**2.5**	**0.0**
Budgets approved prior to FY 2005	8.5	3.0	7.9	13.5	35.3	84.0	2.5	0.0
Total Capital Expenditures	**39.5**	**34.7**	**61.5**	**50.4**	**68.6**	**151.5**	**50.0**	**39.9**

Source: Office of Budget and Planning.

1/ Includes HQ Phase III and HQ2.

D. The FY 2005 Capital Budget

69. **Within the medium term capital plan, approval is sought for an appropriation of $31.8 million for new capital projects starting in FY 2005**. Table 14 lists all new projects either individually or by program, along with financial year completion dates. The main components are as follows:

Table 14. Capital Budget Projects Beginning in FY 2005
(In thousands of U.S. dollars)

	Project Budget Estimates	Estimated Completion
Building facilities	**8,050**	
Heightened Security Environment	4,100	FY 2005
Conference and Training Room Renovations	3,000	FY 2007
Other projects, including Executive Boardroom Sprinkler	950	FY 2005
Information Technology	**23,700**	
Enterprise Information Program	*6,450*	
Archives Transparency Project	2,300	FY 2007
Economic Data Facility and Statistical Publication	1,700	FY 2007
Web-related projects	1,500	FY 2006
Fund-wide Compound Document Standards	600	FY 2006
Metadata Exchange Project	350	FY 2006
Administrative and Financial Information Program	*8,100*	
PeopleSoft Financials Projects	4,100	FY 2007
FIN Financial Information Systems Enhancements	2,450	FY 2006
Integration of Financial and Administrative Information Systems (F	825	FY 2006
Other minor projects	725	FY 2007
Infrastructure and Connectivity Program	*9,150*	
Internet Protocol Telephony and HQ2 infrastructure	4,550	FY 2007
Desktop, Network and Telecommunication Equipment	2,100	FY 2007
Microsoft Exchange/Outlook 2003	1,550	FY 2006
Storage Resource Management	500	FY 2006
Other minor projects	450	FY 2007
FY 2005 Capital Budget Total	**31,750**	

Source: Technology and General Services Department.

70. **For building facilities, approval is sought for capital projects amounting to $8.1 million as follows:**

- A major heightened security project ($4.1 million) is designed to help the Fund cope with airborne security hazards through: (i) raising the HQ1 air intake from street level to 15 feet above (the HQ2 air intakes are above street level); (ii) installation of chemical and radiological detection devices on HQ1 and HQ2; and (iii) provision of a safe haven in below-ground rooms for staff. The measures proposed follow the guidelines of the U.S. Center for Disease Control.

- A conference and training room renovations project ($3 million) will upgrade the finishings and equipment in HQ1 facilities and provide similar equipment for the HQ2 building.

- Other minor projects account for just under $1 million.

71. **For IT, approval is sought for capital projects totaling $23.7 million**. The main projects in this category are the following:

- The projects under the **Enterprise Information Program** ($6.5 million) support the goal of improving information and knowledge management, and are focused on the core work of the Fund. In the economic data area, the further development of the Economic Data Facility and streamlining statistical publications will strengthen the integration of economic data and enhance electronic submission and retrieval of time series data by member countries. The Archives Transparency Project will help fulfill the institution’s commitment to transparency by making the Fund’s archival records available to all staff as well as to the public via the web.

- The projects proposed under the **Administrative and Financial Information Program** ($8.1 million) aim to develop an integrated set of information systems for the Fund’s administrative, financial, and human resource applications. The major investment in the PeopleSoft (Financials) software, over the last three years, provided a new accounting, purchase and general ledger system. To realize the full capacity of the PeopleSoft Financials application, the budgeting and cost allocation modules will be developed. Greater integration with an enhanced PeopleSoft (HR) system is also envisaged to integrate (and unify) all the Fund’s financial management information systems. This program also includes enhancement of the Finance Department’s recently completed financial information system for transactions with member countries.

- By far the largest investment under the **Infrastructure and Connectivity Program** (ICP) (total $9.2 million) is the installation of the core network infrastructure for HQ2 and an Internet Protocol Telephony system at both HQ1 and HQ2—a uniform voice and data cabling network. Another important project under the ICP is the deployment of Microsoft Exchange and Office 2003, which will upgrade all major core applications and improve reliability and performance for remote access. These projects and others will help to maintain a secure, reliable, and accessible infrastructure that can support the current work requirements of the Fund but is flexible enough to accommodate changing requirements.

IV. THE EFFECT OF THE BUDGET ON THE FUND'S NET INCOME POSITION

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

72. **The impact of the FY 2005 administrative and capital budgets on the Fund's projected net income and the rate of charge depends on a number of factors, notably the level of outstanding use of Fund credit, the timing of disbursements, and the U.S. dollar/SDR exchange rate.**

73. **For the administrative budget, each addition 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 $3.33 million in annual depreciation expense, which in turn will affect the rate of charge.[22] 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.

74. The impact of the FY 2005 Administrative and Capital Budgets on net income and the rate of charge is discussed in a separate paper, which reviews the Fund's income position. [23]

B. Expense Reimbursements

SDR Department

75. **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 2004 is SDR 1.4 million, and the proposed assessment levied on each member's net cumulative allocation of SDRs is 0.00653188.

---

[22] 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.

[23] Review of the Fund's Income Position for FY 2004 and FY 2005, (EBS/04/55, 4/14/04.

PRGF Trust

76. **Under the instrument to establish to PRGF Trust, the GRA is to be reimbursed for the expenses it incurs in administering the 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 HIPC Initiative.**[24] Thus, the costs of administering the PRGF Trust are now borne by the GRA. The estimated outturn of these costs for FY 2004 is SDR 57.7 million, compared with the budget estimate of SDR 71.3 million, reflecting mainly fewer than anticipated PRGF programs and the appreciation of the SDR. For FY 2005, the cost of administering the PRGF Trust is projected to be about SDR 66.2 million.

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

V. DRAFT DECISIONS

The following draft decisions on the Administrative and Capital Budgets for FY 2005, 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, §2 (b) of the Articles of Agreement.[25]

Decision No 1.

Draft Decision Relating to the Administrative Budget for Financial Year 2005

1. Appropriations for administrative expenditures for FY 2005 are approved in the total amount of $905,100,000 (or $849,600,000 net of estimated reimbursements) of which an estimated $37,870,000 is to be provided by external donors for capacity enhancement. The staff limit of 2,802 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, §2 (b) of the Articles of Agreement.

Decision No 2.

Draft Decision Relating to the Capital Budget for Projects Beginning in Financial Year 2005

1. Appropriations for capital projects beginning in FY 2005 are approved in the total amount of $31,750,000 and are applied to the following project categories.

I. Building facilities	$8,050,000
II. Information Technology	$23,700,000

[25] Externally financed technical assistance.

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 2004

Pursuant to Article XVI, Section 2, 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, 2003 through April 30, 2004; 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, 2004 with an amount equal to 0.00653188 of their net cumulative allocations of special drawings rights. The total assessment shall be paid into the General Department.