

INTERNATIONAL MONETARY FUND

The FY 2006 Budget and the Medium-Term Budgetary Framework

Prepared by the Office of Budget and Planning

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	Page
Executive Summary	4
I. Introduction	8
II. FY 2005 Administrative Budget and Projected Outturn	9
A. Overview	9
B. Primary Outputs and Activities.....	15
C. New Initiatives Approved in the FY 2005 Budget	19
D. Expenditures by Input Categories.....	21
E. Receipts.....	32
III. FY 2006 Administrative Budget and the Medium-Term Budgetary Framework.....	34
A. The Top-Down Constraint	34
B. Priorities and Plans for FY 2006.....	38
C. FY 2006 Administrative Budget by Primary Outputs	40
D. FY 2006 Administrative Budget by Input Categories	44
E. Risks and Uncertainties	50
F. The FY 2006 Administrative Budget Proposal.....	52
G. The Medium-Term Budgetary Framework.....	52
IV. FY 2006 Capital Budget and the Medium-Term Capital Plan	54
A. Overview.....	54
B. A Longer-Term Perspective on Capital Expenditures	56
C. The Medium-Term Capital Plan and Expenditures	61
D. The FY 2006 Capital Budget	64
V. The Effect of the Budget on the Rate of charge.....	68
A. The Proposed Budget and the Fund's Financial Statements.....	68
B. Impact of the Proposed Budget on the Rate of Charge.....	71
VI. Draft Decisions	73

Contents

Page

Tables

1.	Administrative Budget and Outturn Expenditures, FY 1998–FY 2005	10
2.	Administrative Expenditures: Budget and Estimated Outturn by Major Expense Category, FY 2005.....	15
3.	Gross Administrative Budget and Expenses by Output/Costs of Inputs, FY 2004-FY 2005	16
4.	Selected Activity Indicators, FY 2005-FY 2006	18
5.	Gross Administrative Budget and Expenses: Personnel Costs, FY 2004-FY 2005	22
6.	Selected Indicators of Work Pressure, FY 2002-FY 2005	25
7.	Staff Separations and Appointments By Grade Group and Quartile, FY 2003-FY 2005	26
8.	Gross Administrative Budget and Expenditures: Travel Costs, FY 2004-FY 2005....	27
9.	Travel Volumes by Department Groups, FY 2003-FY 2005	29
10.	Receipts, FY 2004-FY 2006	33
11.	Gross and Net Administrative Budget by Major Expense Category, FY 2005-FY 2006.....	36
12.	Reductions in Base Budget Provision.....	37
13.	Estimated Resource Requirements: Biennial Surveillance Review (BSR)	39
14.	Gross Administrative Budget by Outputs, FY 2006.....	42
15.	Staff Retirement Plan (SRP) Contribution for FY 2006.....	49
16.	Gross Administrative Budget: Sensitivity to Changes in Average Salaries and Demand-Led Benefits	51
17.	Medium-Term Budgetary Framework by Input Costs, FY 2006-FY 2008	53
18.	Medium-Term Capital Plan, FY 2005–FY 2008	62
19.	Outturn and Projected Capital Expenditures, FY 2000–FY 2008	63
20.	Capital Budget Projects Beginning in FY 2006.....	65
21.	The Fund's Capital and Administrative Budgets and Depreciation Expenses, FY 2003-FY 2006.....	70
22.	Impact of the Budget on the Rate of Charge, FY 2005-FY 2006.....	71

Figures

1.	Gross Administrative Expenses: Rate of Growth, FY 2000–FY 2005.....	11
2.	Full-Time Staffing (FTS) and Vacancy Rate, FY 1989–FY 2005.....	23
3.	Number of Mission-Days by Region, FY 1995, FY 2000, and FY 2005	30
4.	Building Facilities and IT Expenditures, FY 1994–FY 2008.....	58

Contents

Page

Boxes

1.	The Retroactive Salary Payment and the Staff Retirement Plan (SRP) Service Credits	12
2.	The Budget Regime for Personnel Costs	14
3.	Budget Contribution to the Staff Retirement Plan (SRP)	48
4.	Capital Budget: Strengthened Security Projects	55
5.	HQ2 Project	56
6.	The Fund's Capital Budget: An Overview	57
7.	IT Spending Review	60
8.	IT: High Availability Program.....	67

Appendix

Acronyms Used in Budget Papers	75
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EXECUTIVE SUMMARY

A gross administrative budget of \$937 million is proposed for FY 2006, representing a 3.5 percent increase over the FY 2005 budget. With receipts projected to rise by nearly 10 percent budget to budget, a net administrative budget of \$876 million is proposed for FY 2006—a 3.1 percent increase over the FY 2005 net budget. The ceiling on staff positions would remain unchanged at 2,802 in FY 2006.

With the preparation of a medium-term strategy for the Fund underway and reviews covering 75 percent of administrative expenses ongoing, the FY 2006 budget is intended to be transitional in nature.¹ It is based on delivering zero-real growth in the Fund's administrative budget.

Direct application of the Fund's cost deflator would have yielded a gross budget-to-budget increase of 3.8 percent.² That increase was held to 3.5 percent by:

- removing some \$6.5 million of budget provision on certain items (including tax allowances, non-business travel, and certain staff benefits) from the FY 2005 budget base, prior to applying the Fund's deflator: persistent differences in recent years between budget and outturn called for this downward rebasing; and
- adding \$4 million for additional security measures, as recommended by the U.S. Secret Service after conducting a threat vulnerability analysis: a further \$0.7 million in security expenditures will be absorbed within the budget total.

The proposed FY 2006 budget also absorbs the full financial impact (in excess of \$10 million) of the 2 percent retroactive salary adjustment for 2004 to staff. The budget thus has to allow for the cost of a 5.6 percent cumulative salary increase (the retroactive 2004 adjustment plus the 2005 salary adjustment of 3.6 percent), while the relevant deflator assumed a 3.8 percent increase in salary costs for FY 2006.

To accommodate the resultant pressure on personnel costs, the FY 2006 budget allows for lower effective staffing than the FY 2005 budget. Each administrative budget is based on an assumed staff vacancy rate—since not all Full-Time Staff (FTS) positions are filled all of the time. Total effective staffing (measured as Full-Time Equivalents or FTEs) allows for this accumulated vacancy rate and determines personnel costs. In setting the FY 2006 budget, the accumulated vacancy rate has been raised from 3.3 percent (FY 2005) to 4.0 percent. This would imply a budget to budget fall of some 20 FTEs. However, the outturn

¹ The reviews are on Employment, Compensation and Benefits, and on Information Technology (IT).

² The Fund's implicit price cost deflator is a composite index of its three main inputs: personnel (assumed to increase by 3.8 percent), travel (4.5 percent increase), and building and other expenses (3.6 percent increase).

on FTEs for FY 2005 is expected to be below the figures set in the budget; the difference between the projected outturn accumulated vacancy rate of 5.4 percent and the 3.3 percent figure in the budget is equivalent to over 50 FTEs. Thus, even with the higher accumulated vacancy rate set in the FY 2006 budget, there would be room for some increase in FTEs next year.

In effect, the gap in recent years between outturn administrative expenses and budget, that has been driven by higher than assumed staff vacancy rates, is being largely closed in the FY 2006 budget. Allowing also for the redeployment of staff positions from support to primary activities, there will be scope for an increase in effective staffing, and higher primary outputs, in FY 2006. It is on this basis that departments have drawn up their business plans.

While the FY 2006 budget is transitional in nature, it provides additional resources for priority new initiatives. Redeployment of some 20 FTS (almost entirely from support activities) will enable implementation of the main recommendations from the 2004 Biennial Review of Surveillance (BSR), and additional work on low-income countries (LICs), particularly in Africa.

Departments are planning for a changing pattern of outputs in FY 2006 relative to the likely FY 2005 outturn. In part, these changes reflect the priority new initiatives and other Board decisions, for example, following Independent Evaluation Office (IEO) reviews. But they are also driven by expected demands on non-discretionary activities. The number of program countries is expected to rise from 59 to 64, and a small increase in the number of near program countries is also anticipated. Surveillance activity is projected to grow, reflecting not only the additional resources devoted to financial sector work and greater attention to spillover effects (as recommended by the BSR), but also some increase in planned Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSCs) activities, relative to the FY 2005 projected outturn. Capacity building, while remaining broadly constant, will be reoriented in terms of prioritization, delivery mechanisms, and intensity of backstopping, taking on board the recommendations from the recent IEO review. More research will be conducted on oil and energy-related issues and on trade matters.

As noted, however, the combined effect of the downward rebasing of the FY 2005 budget, the accommodation of some additional security costs and the absorption of the retroactive salary award for 2004—totaling \$17 million—is to squeeze the budget in volume terms. This implies both much reduced flexibility in FY 2006 for in-year adjustments and greater risk—as discussed below. The balance between input costs in FY 2006 will change, relative to the FY 2005 budget. Provision for personnel expenses will rise by over 4 percent; the provision for travel and for building and other expenditures will be cut back in real terms for the second successive year. Such a differential pattern of change in input costs cannot be sustained over a longer period.

There are greater than usual financial risks to the FY 2006 administrative budget.

- First, as noted, the overall provision has been considerably tightened. So the budget is more vulnerable to unforeseen cost developments, for example on exchange rates or airfares, or mandatory volume changes, such as a larger than anticipated number of UFR cases (including the possibility that a few countries may re-establish formal relations with the Fund).
- Second, the budget provisions for the travel and building and other expenditures categories are dollar allocations that cannot be exceeded. But the provisions for personnel costs—both for benefits and staff salaries—are estimates. Some domestic and the main expatriate benefits, are open ended and demand-led in nature; behavior may change next year, given uncertainty about future entitlements. While considerable care has gone into preparing the estimated costs of various benefits and allowances, there is a significant margin attached to the estimates.
- Third, total salary costs are driven by staff numbers and unit costs. But the impact on unit salary costs from the pattern of recruitments and separations is volatile from year to year, leaving some uncertainty, for any given structural salary increase and comparatio adjustment. Again, staff (and potential staff) uncertainty about the future shape of the Fund employment, compensation, and benefit regime may affect recruitment and separation decisions.

Management is committed to operating a hard budget constraint and, in the circumstances, has decided to tighten budget controls and monitoring, particularly in the critical area of personnel costs.

- First, the FY 2006 budget will maintain a small contingency provision, limited to \$1 million vis-à-vis the \$3 million built into, but not utilized in the FY 2005 budget. This contingency will only be available to meet above estimated personnel costs: the corollary is that the totals for travel and building and other expenditures will be a binding constraint.
- Second, the vacancy rate that determines the budgeted FTE figures for departments has been set at 4 percent—a prudent basis for calculating potential staff salary expenses. But, with a much smaller contingency provision than in recent years, it is critical that this FTE number not be exceeded. So for individual departments, their FTE figures will no longer be a guideline but a constraint.³ Departments' ability to

³ The present regime allows departments/offices to move automatically up from their FTEs to FTS—providing all their other expenditures remain within budget. This change is envisaged as a transitional arrangement, pending review of the approach to controlling staff costs after the Employment, Compensation and Benefits Review (ECBR) is completed.

hire up to their full complement will be suspended for FY 2006: and for the bulk of departments, the FTE figures will be a ceiling. Some flexibility will be needed, however: all departments will not start from the same position—some are well below their budgeted FTEs at present, some above. In addition, management will need scope (as exercised in all recent years within the staff ceiling) to handle unanticipated events through redeployment of staff. But this flexibility will be exercised only on a case-by-case basis and with management's approval.

- Third, monitoring by OBP will be reinforced with monthly reports to management on budget execution covering expenses and commitments by key inputs (e.g., personnel and travel) costs. Management will be in a well informed position to take remedial measures, as necessary, should the overall budget come under pressure. The completion of the new Time Reporting System will also enable quarterly reports on expenses and activity indicators to be provided to the Committee on the Budget (COB) for the first time in FY 2006.

With the preparation of the Fund's medium-term strategy still ongoing, the medium-term budgetary framework (MTBF) for FY 2007 and FY 2008 is presented on a for information basis and the numbers are mechanical in nature. The figures assume a continuation of all existing policies; the same price/cost increases for the personnel, travel and other categories as the assumptions underlying the proposed FY 2006 budget; and an unchanged ceiling on staff positions. Application of the assumed price increases for the Fund's main inputs, and after allowing for the extra costs of holding the FY 2006 Annual Meetings in Singapore, yields annual increases in gross and net administrative budgets of 4.4 percent and 3.3 percent for FY 2007 and FY 2008, respectively.

The proposed FY 2006–FY 2008 capital plan of \$148.3 million is also of a transitional nature, given uncertainties on the strategic, IT and ECB reviews. The highest priority in the capital plan is some \$30 million of new security related projects over the next three years: this has been accommodated within the plan, in part by rephrasing or delaying other building projects. For IT, the highest priority is the creation of back-up facilities to guarantee availability of all critical systems in the case of a serious outage or disruption. Within the plan, a capital budget of \$52.5 million is proposed for FY 2006. With the completion of the HQ2 building (within the \$149.3 million budget), no major building works are planned over the medium term.

The proposed administrative and capital budgets are one of many factors that impact on the rate of charge—which depends mainly on the income outlook, itself largely determined by the level of Fund credit outstanding and the SDR interest rate. The forthcoming staff paper for the review of the Fund's income position, which will be available prior to the Board's discussion of the budget, will provide more information. But, *ceteris paribus*, the proposed administrative and capital budgets for FY 2006, relative to the estimated FY 2005 outturn, would lead to an addition to the rate of charge of about 4 basis points.

I. INTRODUCTION

1. **This paper presents proposals for the Fund's FY 2006 administrative and capital budgets, and sets out, for information, the FY 2007–FY 2008 medium-term budget framework (MTBF) for administrative expenditures, as well as the three-year capital plan.** The proposals take account of earlier discussions in the Executive Board's Committee on the Budget (COB); the proposals approved by the Pension Committees on the Fund's contributions to the Staff Retirement Plan (SRP) and to the costs of the SRP service credits for former contractual and temporary employees (March 29, 2005); the Board's decisions on the retroactive salary adjustment for 2004 (March 23, 2005); and the structural salary adjustment for 2005 (March 30, 2005).
2. **This paper is supplemented by two complementary papers.** The first provides statistical and other background material to this paper. The second presents departmental business plans and describes how resources are allocated within the present institutional framework.
3. **The remainder of this paper is organized as follows.**
 - Section II describes the projected FY 2005 outturn for administrative expenses, both by primary outputs and by main inputs; reports on new initiatives funded in the FY 2005 budget; and identifies other developments that substantially affected the FY 2005 outturn (i.e., the 2 percent retroactive salary payment to staff and the advanced payment toward the cost of the SRP buy-back scheme).
 - Section III describes the derivation of the FY 2006 administrative budget envelope; discusses the budget's key objectives, priorities, and new initiatives; presents an allocation of resources by primary outputs; and sets out the proposed budget appropriations by broad categories of input. This section also identifies the main risks and uncertainties; and presents the MTBF for FY 2007 and FY 2008.
 - Section IV presents the medium-term capital plan and its key components, and sets out the proposed appropriation for the FY 2006 capital budget.
 - Section V describes the impact of the Fund's administrative and capital budgets on the rate of charge: it also includes a projection of reimbursements of the Trust Fund Accounts administered by the Fund under Article V, Section 2 (b).
 - Finally, Section VI sets out the formal budget decisions proposed for the consideration of the Executive Board.

II. FY 2005 ADMINISTRATIVE BUDGET AND PROJECTED OUTTURN

A. Overview

4. **On the basis of information on expenses recorded, and commitments entered, in the Fund's administrative general ledger over the first ten months of FY 2005, staff project that administrative expenses will be some \$8.5 million (1 percent) below the FY 2005 gross administrative budget** (Table 1). If the step increase in the Fund contribution to the SRP (\$48 million) in FY 2005 were excluded—in order to assess the trend—this projected outturn would lead to the smallest underlying annual increase in administrative expenses since FY 1998 (Figure 1). As receipts are projected to be nearly 15 percent higher than estimated in setting the FY 2005 net budget (the reasons are explained below), the outturn is projected at \$16.6 million below the net budget.

5. **This \$8.5 million difference between the FY 2005 gross budget and outturn is projected after taking into account the costs of both the retroactive 2 percent salary adjustment for staff for 2004, and the planned payment into the SRP for service credits under the buy-back policy.** These additional expenses are estimated at \$8.4 million and \$8 million respectively. The proposed payment to the SRP buy-back scheme was discussed with the COB as a useful step, given the prospective gap between budget and outturn, and the absence of any carry-over provision for the administrative budget.⁴ The retroactive salary adjustment, by contrast, was a late and unexpected development. Both, however, have the effect of increasing personnel costs. Without those two changes, the underlying gap between the gross administrative budget and outturn for FY 2005 would have been projected at just under \$25 million, equivalent to some 2.8 percent of the budget—a slightly lower percentage than incurred in each of the last two years.

⁴ Proposals to create a more flexible regime for the medium-term budget starting in FY 2007, including a carry-over mechanism outside the staffing area, will be presented to the COB later this year.

Table 1. Administrative Budget and Outturn Expenditures, FY 1998–FY 2005
(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 2/	837.5	806.1	-31.4	-3.7	43.2	5.4	42.1	5.5
2005	905.1 3/	896.6 4/	-8.5	-0.9	67.6	8.1	90.5	11.2
2005	857.1 5/	848.6 5/	-8.5	-1.0	19.6	2.3	42.5	5.3
B. Net Budget								
1998	503.7	495.3	-8.4	-1.7	13.2	2.7	23.8	5.0
1999 1/	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 2/	785.5	747.6	-37.9	-4.8	39.1	5.2	27.7	3.8
2005	849.6 3/	833.0 4/	-16.6	-2.0	64.1	8.2	85.4	11.4
2005	801.6 5/	785.0 5/	-16.6	-2.1	16.1	2.0	37.4	5.0

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.

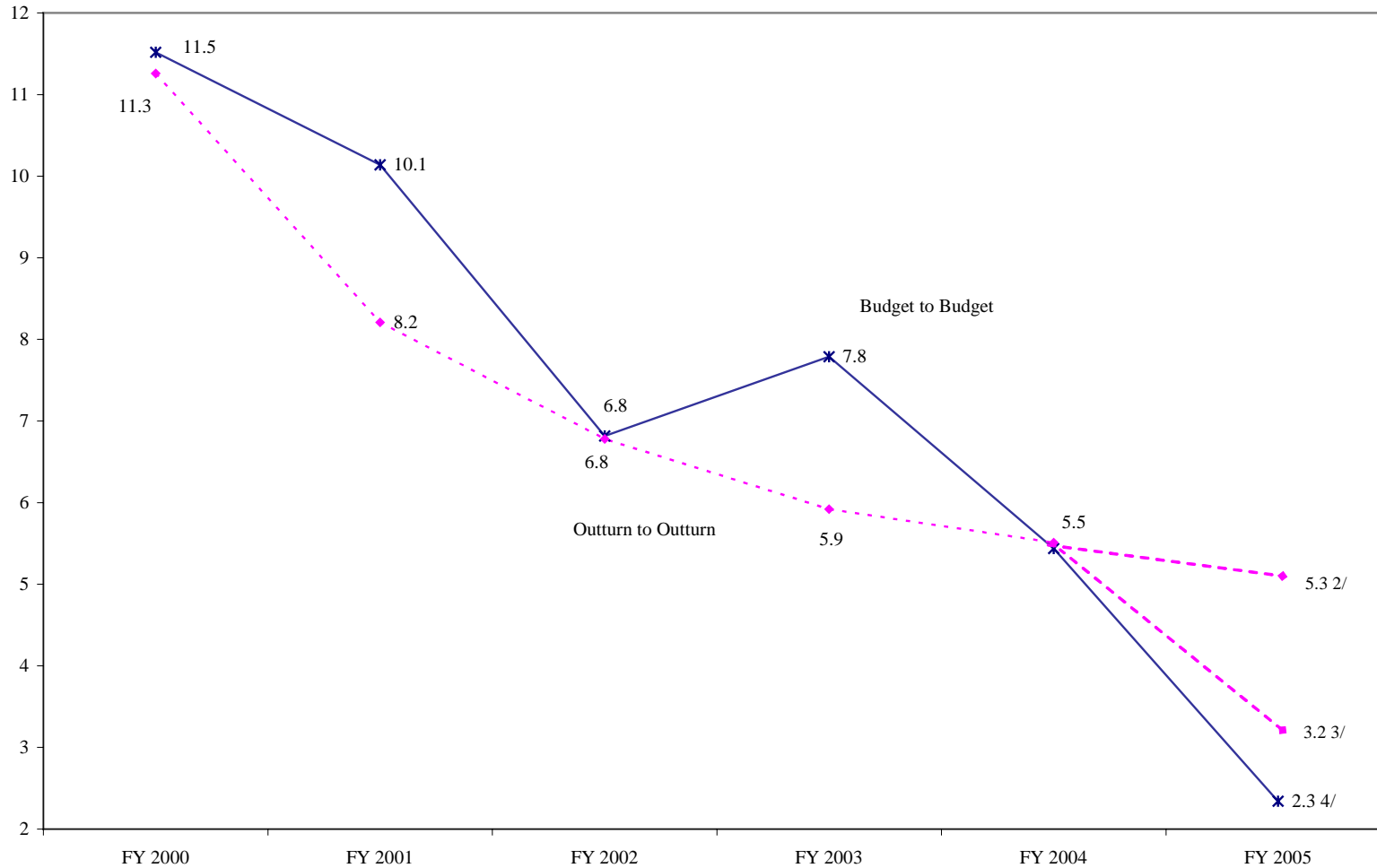
2/ An adjustment to the administrative accruals increased the gross expenditure outturn compared with prior years, along with an equivalent and offsetting increase in the revenue outturn. The offsetting changes have no impact on the net outturn.

3/ The budget increase for FY 2005 includes an additional \$48 million contribution to the SRP.

4/ Estimated outturn, including the \$8.4 million resulting from the 2 percent salary adjustment and \$8 million for the SRP buy-back.

5/ Excluding the \$48 million additional contribution to the SRP.

Figure 1. Gross Administrative Expenses: Rate of Growth, FY 2000-FY 2005 1/
(In percent)



Source: Office of Budget and Planning.

1/ Including the annual budgetary contribution to the Staff Retirement Plan (SRP).

2/ FY 2005 estimated outturn excludes the \$48 million additional contribution to the SRP and includes the \$8.4 million resulting from the 2 percent salary adjustment and the \$8 million for the SRP buy-back.

3/ Excludes only the \$48 million additional contribution to the SRP.

4/ Excludes the \$48 million additional contribution to the SRP, approved by the Board as part of the FY 2005 budget, to normalize the annual budgetary contribution at a rate of 14 percent of gross remuneration.

Box 1. The Retroactive Salary Payment and the Staff Retirement Plan (SRP) Service Credits

A. The Salary Payment

- On March, 23, 2005, the Executive Board approved a retroactive 2 percent salary adjustment for staff for 2004.⁵ In earlier discussions, management had indicated that the financial impact of this salary adjustment would be accommodated both within the existing FY 2005 budget envelope and within the FY 2006 overall budget envelope of \$937 million, that had been discussed at the March 3 meeting of the Committee on the Budget (COB).
- The cost of the 2 percent retroactive salary payment in FY 2005 amounts to \$8.4 million, of which \$6.1 million is the impact on salaries and \$2.3 million is for salary-linked benefits and personnel allowances. The latter include tax allowances paid to U.S. personnel; the Fund's contribution to the SRP;⁶ settlement allowances provided to staff when they join the Fund; certain overseas allowances for staff assigned in the field; and separation incentives. Fund contributions to the Medical Benefits Plan (MBP) and Group Life Insurance (GLI) are affected only marginally.
- For FY 2006, the full cost is estimated at just over \$10 million. Two additional expenses need to be taken into account: the Fund's contributions to the RSBIA, and the need to restore links between contractuels, consultants and experts remuneration and staff salaries.

B. The SRP Service Credits

- In FY 2002, the Board decided to permit the acquisition of SRP service credits by contractual employees who later converted to staff.
- In approving the SRP service credits policy, the Pension Committee and Board decided that the cost, estimated in 2002 at \$26.5 million, should be met from the administrative budget through payments over and above the Fund's regular annual contributions and amortized over a period of 7-10 years.
- The Pension Committee endorsed the staff's proposed nine-year amortization schedule for the cost of the SRP service credits for periods of prior contractual/temporary employment; an advance payment of \$8 million in FY 2005; and an amortization payment, based on the nine-year schedule, of \$2 million per annum, starting in FY 2006.

⁵ In practice, this translates into a 1.93 percent adjustment, which is the ratio between the figure of 5.6 percent that would have resulted in the absence of the technical mistake that occurred and last year's actual 3.6 percent structural salary award.

⁶ Contributions to the Retired Staff Benefits Investment Account (RSBIA), the account through which long-term benefits are financed, are also influenced by nominal salary increases, but on a lagged basis.

6. **This projected underlying difference of some \$25 million reflects lower-than-planned outputs, which have their counterpart in lower input costs.**⁷ The driving factor is lower effective staffing than assumed when the budget was set. A 5.4 percent accumulated vacancy rate has been recorded, thus far, in FY 2005, two percentage points higher than the 3.3 percent figure set in providing for personnel costs in the FY 2005 budget; the reasons are discussed in Box 2. The remainder of the difference is explained by lower than budgeted travel expenses (also partly a result of the higher vacancy rate), and lower than expected costs in the building and other expenditures categories—despite higher expenses on security measures. The \$3 million contingency set aside in the FY 2005 budget will not be used (Table 2).

⁷ In this context, planned and outturn outputs are identified in terms of the costs of producing outputs, and measured principally by the allocation of staff time to primary outputs and activities.

Box 2. The Budget Regime for Personnel Costs

In FY 2002, the budget regime for personnel costs moved from a system of position control to a dollar control basis. The following changes were introduced and remain in place to date:

- Each department is given a full-time staffing (FTS) limit, the same concept of positions as under the previous regime. Departments can, in principle, hire up to their FTS level—provided their discretionary expenditures remain within their Group II-IV budgets.
- Each department is also given a budget of full-time equivalents (FTEs), an estimate of actual staff years likely to be used given their FTS. These are based on recent vacancy experience and differentiated by class of departments.
- The FTE is thus an estimate of the usage of FTS positions, allowing for the time when positions are unoccupied because of turnover (appointments and separations).
- The accumulated vacancy rate is defined as 1 minus the ratio between FTEs and FTS positions.

The dollar budget for personnel costs is based on the aggregate departmental FTEs, plus a contingency to allow departments to staff toward their FTS. The contingency, initially set at \$4 million in FY 2002, was reduced to \$1 million in FY 2005—and has never been needed. It was originally introduced to meet concerns from some Executive Directors that the new dollar budget system might prevent departments from staffing up to their FTS.

Since the inception of the new dollar budget system, departments, in aggregate, have never reached their FTEs, although a few individual departments have exceeded it. The present employment (and budget) regulations make it difficult to get below a 2.5-3.0 percent accumulated vacancy rate range, which can be viewed as the “natural” or frictional vacancy rate for the Fund.

- Departments must try to fill vacancies, in the first instance, by recruiting from within the Fund. Where successful, the first impact is to shift the vacancy from one department to another.
- The internal recruitment process is estimated to take, on average, 10 weeks. The external recruitment process may take up to 6 months, especially for functional and support departments, which have to recruit specialists. As a result, the recruitment process alone may account for 1.5 percent of the accumulated vacancy rate in a given year.
- The timing of appointments also affects the accumulated vacancy rate. For instance, in the last few years, the bulk of the Economist Program in-take has been concentrated in November. The implication is that a significant number of positions provided for in the budget at the beginning of the fiscal year (May) are left vacant for more than half of the financial year (until November), again increasing the accumulated vacancy rate.
- Over a longer period, it is clear that departmental reorganizations tend to raise turnover and hold up the vacancy rate. The absence of any such planned reorganization in FY 2006 should help to bring down the accumulated vacancy rate.
- OBP will review the budget regime for personnel costs in the light of the ECBR.

Table 2. Administrative Expenditures: Budget and Estimated Outturn
by Major Expense Category, FY 2005
(In millions of U.S. dollars)

	Budget [1]	Percent	Estimated Outturn 1/ [2]	Percent	Variance	
					Amount [3]=[2]-[1]	Percent [3]/[1]
I. Personnel	633.7	70.0	637.2	71.1	3.5	0.6
Salary 2/	373.8	41.3	375.4	41.9	1.6	0.4
<i>Of which:</i> Contingency	1.0	0.1	0.0	0.0	-1.0	...
Benefits and Other Personnel	259.9	28.7	261.8	29.2	1.9	0.7
<i>Of which:</i> Contribution to the SRP 3/	74.0	8.2	82.2	9.2	8.2	11.1
II. Travel	96.6	10.7	92.3	10.3	-4.3	-4.5
III. Building and Other	172.8	19.1	167.1	18.6	-5.7	-3.3
<i>Of which: Security</i>	8.2	0.9	10.6	1.2	2.4	29.3
IV. Contingency Reserve	2.0	0.2	0.0	0.0	-2.0	...
Gross Budget	905.1	100.0	896.6	100.0	-8.5	-0.9
V. Receipts	-55.5	...	-63.6	...	-8.1	14.6
Net Budget	849.6	...	833.0	...	-16.6	-2.0

Sources: Office of Budget and Planning; and Finance Department.

Note: Totals may not add due to rounding.

1/ Based on ten months information on recorded expenses and commitments.

2/ Includes the impact of the 2 percent retroactive salary payment (\$8.4 million).

3/ Includes the advance payment to the SRP service credits (\$8.0 million).

B. Primary Outputs and Activities

7. **With the exception of capacity building in FY 2005, the outturn for the Fund's primary outputs is likely to be a little below planned levels**—a reflection, in large part, of lower effective staffing than anticipated when departmental business plans were drawn up. As expected, following last year's redeployment of ten staff positions from support to primary activities, the share of overhead activities is projected to decline vis-à-vis the share of resources devoted to the Fund's primary outputs (Table 3).⁸

⁸ The definition of governance activities has been further refined and expanded during the year and Table 3 presents the FY 2005 budget plan on both the old and new definition.

Table 3. Gross Administrative Budget and Expenses by Output/Costs of Inputs,
FY 2004-FY 2005
(In millions of U.S. dollars)

	FY 2004 Outturn	FY 2005		
		Budget	Revised Budget 1/	Estimated Outturn 2/
Policy development, research and operation of the International Monetary System	53.4	60.5	57.7	57.7
Staff time	38.8	43.4	41.4	42.8
Travel	1.7	1.6	1.5	1.6
Overhead	13.0	15.5	14.8	13.3
Standard setting/provision of standardized information	46.8	53.2	50.8	47.1
Staff time	34.5	38.6	36.8	35.3
Travel	0.8	0.8	0.8	1.0
Overhead	11.5	13.8	13.1	10.9
Surveillance	217.5	243.5	232.4	224.6
Staff time	144.9	162.3	154.9	155.5
Travel	24.0	23.3	22.2	21.0
Overhead	48.6	57.9	55.2	48.1
Use of Fund resources	221.1	247.6	236.4	219.3
Staff time	148.0	165.8	158.3	153.7
Travel	23.4	22.7	21.7	18.0
Overhead	49.6	59.1	56.4	47.6
Capacity building	186.5	206.6	197.2	218.3
Staff time	114.6	128.3	122.5	137.6
Travel	33.6	32.6	31.1	38.2
Overhead	38.4	45.7	43.7	42.5
Total excluding governance 3/	725.3	811.4	774.5	767.0
Staff time	480.7	538.4	514.0	524.9
Travel	83.5	81.0	77.3	79.7
Overhead	161.1	191.9	183.2	162.4
Total including governance 1/	806.1	905.1	905.1	896.6

Sources: Office of Budget and Planning; PeopleSoft Financials, and budget/time reporting systems.

1/ After the start of FY 2005, the definition of governance was expanded to include the cost of the Executive Board, IEO, INV, OBP, OIA, OMD, SEC, UNO, and parts of FIN, LEG, and OTM.

2/ Includes the advance payment to the SRP for service credits of \$8.0 million, and the 2 percent retroactive salary adjustment in FY 2005 of \$8.4 million.

3/ The share of overhead in total outputs, excluding governance, is expected to decline to 21.2 percent in FY 2005 compared to 22.2 percent in FY 2004.

8. **Activity indicators** (which are not comprehensive and take no account of quality of output) **suggest that departments are sustaining their outputs closer to their budget plans, than the overall lower effective staffing would have suggested** (Table 4). Some individual departments are, however, at or above budgeted FTEs: thus, for example, the higher than planned delivery of INS courses. The main points are:

- A lower-than-planned number of research papers is likely to be produced on policy development, research and work on the International Monetary System—although the RES department itself will be close to delivery in its business plan. Research activity throughout the Fund is particularly vulnerable to lower effective staffing and the reorientation of resources toward research activities that require a shorter gestation period.
- With regard to standard setting/provision of standardized information, the numbers of methodology manuals and compilation guides, and courses, seminars, and workshops delivered, are projected to slightly exceed budget plans. Greater efficiency in producing statistical compilations (allowing a reduction in STA staffing next year) helped keep down costs.
- For surveillance work, the completion of fewer than planned FSAPs and ROSCs is expected to more than offset the impact of a larger than planned number of intensive surveillance cases.
- Fewer FSAPs were initiated in FY 2005 than planned. In part, this reflected staffing constraints, including the need to redeploy resources to AML/CFT work, and in part the postponement by country authorities of two FSAPs from the fourth quarter of FY 2005 to the first quarter of FY 2006.
- FAD expects to complete 12 ROSCs compared with the 17 budgeted, partly because of some crowding out of ROSCs due to unanticipated demands on staff for the pilot public investment studies, but also as a reflection of falling participation in what is a voluntary program. STA expects to complete 12 data module ROSCs compared with the 16 planned, and one additional substantive ROSC update relative to the three planned, as some of these activities are being postponed to early FY 2006.
- The larger gap between plan and outturn on UFR work reflects 4 fewer Fund-supported financial or near programs than expected when departments' business plans for FY 2005 were drawn up. Moreover, more countries remained in near program status, rather than reaching agreement on a financial program. As indicated previously, this outcome reflects a mixture of political developments and unsuccessful negotiations in a number of country cases.

Table 4. Selected Activity Indicators, FY 2005-FY 2006

	FY 2005		FY 2006
	Planned	Est. Outturn	Planned
1. Policy Development, Research and IMS			
Research papers 1/	173	164	164
Board policy papers 2/	36	28	35
Workshops and conferences attended 3/	...	337	302
2. Standard Setting/Provision of Standardized Information			
Research papers 1/	...	6	6
Methodology manuals and compilation guides	18	21	20
GDDS participants	85	83	90
SDDS participants	67	62	70
Courses, seminars, and workshops conducted 4/	8	13	15
Workshops and conferences attended 3/	...	20	16
3. Surveillance			
Surveillance status (countries)			
Intensive	40	44	46
Standard	68	69	65
Research papers 1/	...	208	230
Pre-brief meetings	...	106	125
Board meetings 5/	...	129	104
Board policy papers 2/	...	193	212
ROSCs completed	33	24	24
FSAPs initiated	17	14	15
FSAPs completed	19	13	15
Workshops and conferences attended 3/	...	130	138
4. Use of Fund Resources			
Program status (countries)			
Financial facilities	72	59	64
Near program	11	20	17
Research papers 1/	...	78	64
Pre-brief meetings	...	101	136
Board meetings 5/	...	114	90
Board policy papers 2/	...	227	244
Workshops and conferences attended 3/	...	41	43
5. Capacity Building			
Research papers 1/	...	71	72
Total TA delivery (person years)	290	294	293
TA reports	196	226	227
Courses, seminars, and workshops conducted 4/	272	288	293
Workshops and conferences attended 3/	...	147	134

Source: Departmental Business Plans.

1/ Working/occasional papers are for the financial year for which the bulk of the work is completed; referred journal articles are for the year they are published.

2/ Board documents and policy papers are agenda items for the Board, including those produced jointly with other departments.

3/ Includes public, private and IMF-sponsored conferences.

4/ Courses, seminars and workshops are external training for which the Fund is the main organizer.

5/ Originating department only. Includes informal Board meetings.

9. **Capacity building output is projected to be a little higher than planned.** This outcome mainly reflects slightly higher than expected delivery of external training by INS and technical assistance (TA), with higher delivery by MFD more than offsetting a small under delivery of TA by FAD and STA.

- MFD's overall TA output, including headquarters time, is projected to exceed budget plans by about 6 person-years, reflecting better planning, strengthened internal review, and intensified backstopping of experts.
- STA and FAD TA outputs are projected to be slightly below their planned levels: the pace of implementation of externally funded projects was slower than expected and some resources were reallocated from capacity building to surveillance and UFR outputs, respectively.
- External training in the INS program, in terms of course weeks, was in line with the business plan for the year. INS staff delivered more training than planned, largely reflecting two additional distance learning courses for African officials, one in French and one in English, made possible by external funding of participant and consultant costs. This was offset by lower than planned delivery by other departments, which reflected in significant part a shift in the timing of a long course at headquarters.
- Departments are continuing to reduce reliance on the use of long-term experts providing downstream TA in favor of HQ-based missions and short-term expert assignments to provide strategic upstream advice.

C. New Initiatives Approved in the FY 2005 Budget

10. **This year's budget provided additional resources (12 staff positions, of which 9 were to be filled through internal redeployment, and \$5.3 million) to strengthen the Fund's work on low-income countries (LICs), particularly in Africa, and on surveillance.**

- Work on LICs was to be strengthened in three ways. First, a new unit was to be established in FAD to assist area departments in integrating poverty and social impact analysis assessments (PSIAs) in the Fund's work on LICs, including PRGF program design. Second, a Middle East Technical Assistance Center (METAC) to augment the Fund's capacity building work in that region was to be set up. Third, following the recommendations of the Task Force, the African Department was to be reorganized and 24 additional staff assigned over a two-year period, within the overall staff ceiling.

- Surveillance was to be enhanced by additional work on regional surveillance, the conduct of ex-post assessments (EPAs), and increased financial sector surveillance in line with the IEO's recommendations;⁹ and by an expanded AML/CFT assessment program, with further associated technical assistance.

11. The resources allocated for the above initiatives in the FY 2005 budget are, in the main, expected to be fully deployed.

- FAD has established a PSIA group. The group is focusing on ten PRGF countries selected by area departments and has undertaken six missions. In addition, the department has begun its outreach work with other institutions and NGOs on their PSIAs and their suitability for use by the Fund; and it has prepared guidance notes to assist area departments in program design.
- The Middle East Technical Assistance Center (METAC) opened in October 2004. The center, the fifth of such centers operated by the Fund, is available to provide technical assistance and training to 10 countries and territories in the Middle East region.¹⁰
- In addition to filling all 12 new positions, AFR has also restructured its staffing. Over the period February 1, 2004-January 31, 2005, AFR was able to recruit close to 70 staff, two thirds through interdepartmental transfers, and the remainder through external recruitment. Recruitment was initially focused on putting in place the restructured immediate office and subsequently, on augmenting staff resources for country work. As a result, AFR was able to strengthen country teams for bilateral surveillance and UFR work and to enhance its regional surveillance activities.
- In FY 2005, MFD and LEG finalized 12 AML/CFT assessments, based on the 2002 methodology, that were begun in FY 2004. The departments also initiated 5 assessments based on the 2004 methodology. The delivery of technical assistance on AML/CFT was high in the first half of the fiscal year, but has had to be curtailed in the second half, as the new and much more resource intensive assessments started. New external funding for technical assistance has not been forthcoming in any significant amount.¹¹

⁹ Further information can be found in the *Review of Technical Assistance*, available on the IMF Web site (www.imf.org).

¹⁰ Further information can be found in the *Review of Technical Assistance*, available on the IMF Web site (www.imf.org).

¹¹ While the FY 2005 budget assumed some \$1 million in external financing for AML/CFT TA delivery, these additional resources did not materialize.

- Although there has been a Fund-wide increase in regional surveillance activity, specific resources for this activity (one FTE) were allocated only to MCD. MCD has participated in the Broader Middle East Initiative which was launched this year by the United States on oil issues, including the issuance of a policy note on fiscal policy analysis in oil-producing countries, and in outreach activities with Middle East parliamentarians in Beirut and Abu Dhabi. The staff took the lead in organizing the trade policy committee of the Central Asia Regional Economic Cooperation (CAREC)—an organization intended to improve economic cooperation and trading relations among the Central Asian countries.
- During FY 2005, 14 Ex-Post Assessments are expected to be submitted to the Board for consideration—a 56 percent increase from the previous fiscal year.

D. Expenditures by Input Categories

12. **The projected outturn on personnel costs for FY 2005 is estimated at \$637.2 million, some 0.6 percent above budget** (Table 5). However, this figure allows for the estimated \$16.4 million cost for the 2 percent retroactive salary increase and the contribution towards the funding of the SRP buy-back scheme. Without these additions, the corresponding outturn figure would have been \$620.8 million—some 2 percent below budget. This underlying gap is accounted for by lower than planned spending on both salaries and on benefit allowances. But it is mainly volume (higher than assumed staff vacancies) that is driving the projected difference between outturn and budget on staff salaries—unit costs (average wages) are broadly in line with expectations.

Table 5. Gross Administrative Budget and Expenses: Personnel Costs, FY 2004-FY 2005
(In millions of U.S. dollars)

	FY 2004 Outturn	FY 2005			
		Budget	Estimated Outturn	Variance	
				Amount	Percent
Total	556.2	633.7	637.2	3.5	0.6
Salaries	355.9	373.8	375.4	1.6	0.4
<i>Of which: Retroactive pay adjustment 1/</i>	...	...	6.1	...	...
Benefits and Other Personnel Expenses	200.3	259.9	261.8	1.9	0.7
<i>Of which: Impact of retroactive pay adjustment on benefits 2/</i>	...	...	2.3	...	...
Tax allowances	31.3	36.1	34.1	-2.1	-5.7
Health benefits	25.0	28.1	26.8	-1.3	-4.5
Retirement contributions	30.4	74.9	83.5	8.6	11.5
<i>Of which: SRP buy-back</i>	...	...	8.0	...	...
Long-term benefits (RSBIA)	35.1	35.3	35.3	0.0	0.0
Home leave	19.3	21.0	23.0	2.0	9.5
Children education allowances	12.8	14.7	14.6	-0.1	-0.5
Spouse and child allowances	7.8	8.4	7.7	-0.7	-8.4
Settlement allowances	4.4	6.1	4.2	-1.9	-31.5
Overseas allowances	13.4	15.7	14.3	-1.4	-9.0
Separation incentives	9.6	7.2	6.3	-0.9	-13.0
Training and study allowances	6.2	7.0	6.4	-0.6	-8.4
IMF Institute allowances	1.7	1.8	1.8	0.0	0.0
Social and welfare	1.2	1.4	1.8	0.4	28.6
Life insurance and death benefits	0.7	0.9	0.8	-0.1	-8.0
Other benefits	1.5	1.4	1.3	-0.1	-6.7

Sources: Office of Budget and Planning; and Finance Department.

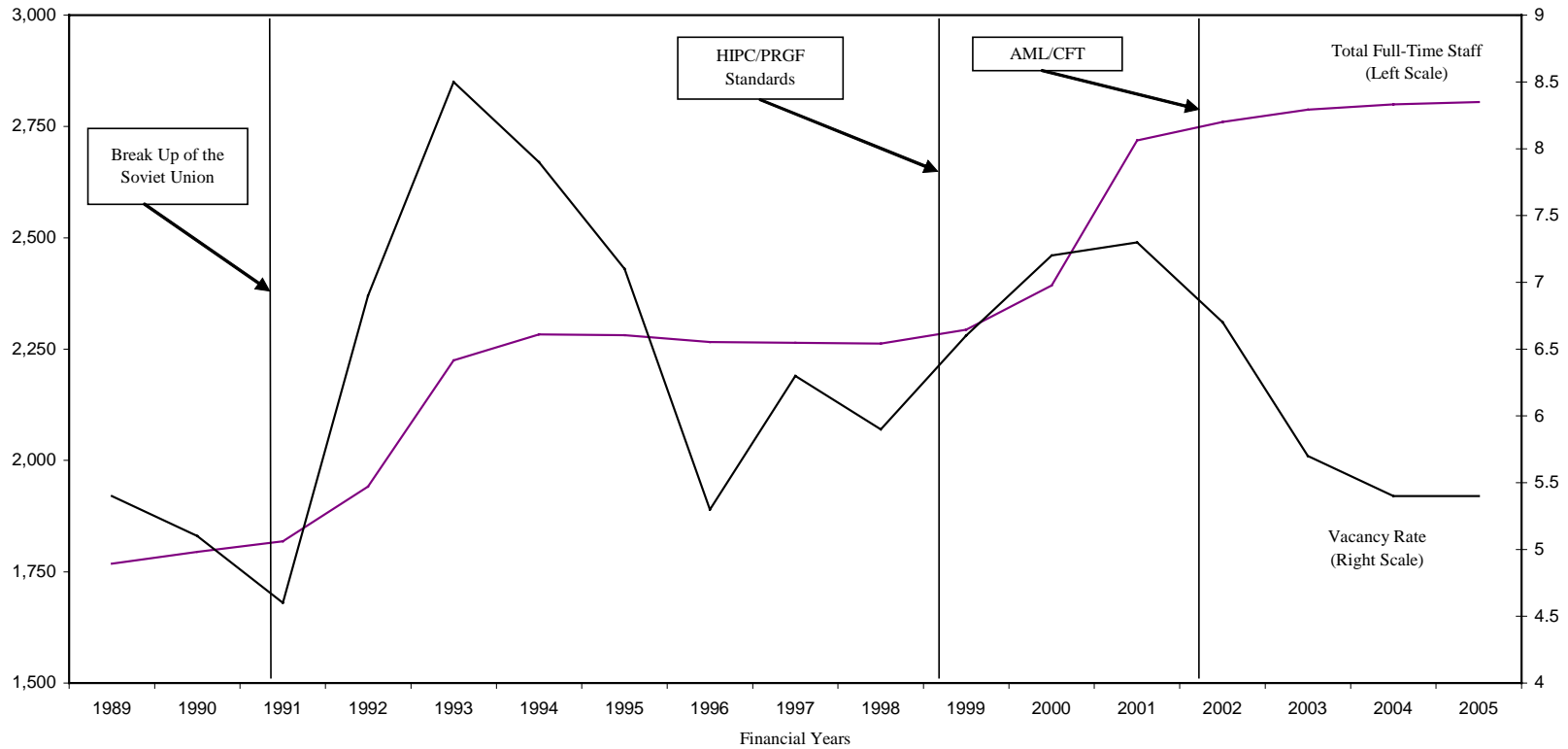
Note: Totals may not add due to rounding.

1/ The estimated salary outturn for FY 2005 includes the retroactive pay adjustment of 2 percent or \$6.1 million.

2/ The retroactive pay adjustment of 2 percent has an impact on a number of benefits, adding \$2.3 million in cost.

13. **Despite relatively benign labor market conditions, the staff vacancy rate has remained at or around 5.4 percent in each of the first ten months of FY 2005**—about 2 percentage points higher than allowed for setting the FY 2005 budget. Total FTEs in FY 2005 are thus projected to remain at around the same level as the outturn in FY 2004. The vacancy rate has been falling from the recent peak of 7.3 percent in FY 2001, but not as far or as fast as expected, and now appears to be continuing at around 5.4 percent (Figure 2). As explained in Box 2, there are a number of reasons why the accumulated vacancy rate has proved to be stickier than expected. While the recent experience thus calls for setting a higher vacancy rate in the FY 2006 budget, some of those factors (in particular, departmental reorganizations) are likely to be less relevant next year, indicating scope for some fall relative to the FY 2005 outturn.

Figure 2. Full-Time Staffing (FTS) and Vacancy Rate, FY 1989-FY 2005 1/



Source: Office of Budget and Planning.

1/ FY 2005 data are projections based on ten months data.

14. **Notwithstanding the broadly unchanged effective staffing, the relevant staff stress indicators are expected to show a small amelioration in FY 2005** (Table 6).

Recorded unpaid overtime (not a very reliable absolute indicator but useful for checking year-to-year movements) may fall a little in FY 2005. While the projected small improvement may reflect better allocation of staff and other resources among activities, it is also the result of more efficient delivery of primary and support activities. The distributional pattern, however, is consistent with that in previous years, with area departments reporting the highest amounts of unpaid overtime, and support and liaison departments the lowest. The number of staff projected to travel more than 50 days is falling sharply, consistent with lower travel volumes as discussed below.

15. **Average salaries are moving broadly in line with the structural salary adjustment for FY 2005—whereas in FY 2004, the actual average salary was higher than the structural increase.** But the figures are volatile not only from year to year but from month to month. The movement in average salaries reflects not just the structural salary award and the comparative adjustment in that year but also staffing patterns: the inflow of staff appointments; the outflow of separations; the shift in positions from lower paid support categories to higher paid professional categories in redeployment exercises; and the number and distribution of promotions. The pattern for this year is more favorable (in financial terms) relative to last year's experience, because a slightly larger proportion of separations are of staff paid in the upper quartiles of their salary range, and a higher proportion of economist recruitment is through the Economist Program, rather than as mid career (and higher salary) hires (Table 7).

16. **With the retroactive 2 percent salary adjustment for 2004 (which affects salary-related benefits) and the payment towards SRP service credits, benefit expenditures are now projected to be about 0.7 percent above budget** (see Table 5). Without these additions, benefit expenditures would have been 2 percent (\$13 million) below budget. Again, this gap, to some extent, reflects the higher than assumed staff vacancy rate. But, as discussed with the COB, a number of such expenses are projected to be below budget, for structural reasons. Sustained differences between budget and projected outturn—affecting mainly tax allowances, contributions to the Medical Benefits Plan (MBP), and settlement and overseas allowances—have been recorded in recent years and call for a downward rebasing of the relevant budget line item provision. Expenditures on home leave allowances are projected to rise sharply in FY 2005: the increase is principally volume related, with prices rising by only about 3 percent. While it is in part driven by an increase in the number of staff eligible for home leave, it is also in the nature of a catch-up effect. The number of staff taking home leave in the last couple of years was held down by a number of events, including the September 11, 2001, terrorist attacks, the SARS epidemic and the Iraq war.

Table 6. Selected Indicators of Work Pressure, FY 2002-FY 2005
(In percent of total staff years)

	FY 2002	FY 2003	FY 2004	FY 2005 1/
Overtime				
By Grade	10.2	9.7	9.6	9.5
B-level	19.0	18.4	17.5	16.4
Professional level	11.4	10.6	10.6	10.4
Support level	4.1	3.8	3.7	3.9
By Department	10.2	9.7	9.6	9.5
Area Departments	12.6	12.2	12.5	12.4
Functional Departments	10.6	9.7	9.5	9.5
Support and Information Liaison Departments	6.2	6.0	5.8	5.6
Other 2/	12.8	12.7	11.5	11.1
Annual Leave 3/				
By Grade	9.0	9.2	9.0	9.2
B-level	9.9	10.0	9.5	10.9
Professional level	8.4	8.8	8.6	8.7
Support level	9.6	9.6	9.6	9.5
By Department	9.0	9.2	9.0	9.2
Area Departments	8.7	8.8	8.4	9.6
Functional Departments	8.9	9.1	9.1	9.0
Support and Information Liaison Departments	9.4	9.7	9.6	9.1
Other 2/	9.4	9.2	9.3	9.5
Sick Leave 4/				
By Grade	8.9	8.8	9.2	8.8
B-level	7.4	7.3	7.7	6.9
Professional level	8.8	8.6	9.1	8.7
Support level	9.9	9.8	10.2	10.0
By Department	8.9	8.8	9.2	8.8
Area Departments	8.8	8.5	9.0	8.4
Functional Departments	8.5	8.7	9.0	8.4
Support and Information Liaison Departments	10.0	9.4	9.9	10.0
Other 2/	7.1	8.0	9.3	7.3
Memorandum item:				
Number of staff traveling 50+ days				
As share of Fundwide	7.4	6.0	7.3	4.1
As share of Area and Functional departments	10.6	8.5	9.6	5.2

Sources: Budget Reporting System (BRS); Time Reporting System (TRS); and HR Leave System.

1/ Annualized estimates based on nine months of FY 2005 data.

2/ Includes EUO, INV, OAP, OBP, OIA, OMD, OTM, and UNO.

3/ Includes home leave.

4/ Includes sick leave, official holidays, home leave travel days, and other paid leave.

Table 7. Staff Separations and Appointments By Grade Group and Quartile, FY 2003-FY 2005

	FY 2003		FY 2004		FY 2005 1/	
	Separation	Appointment	Separation	Appointment	Separation	Appointment
By Grade Group						
A1-A8	54	50	54	46	48	35
A9-A15	93	135	80	126	76	125
B1-B5	31	8	27	11	32	4
By Quartile						
Quartile 1	28	101	37	82	32	95
Quartile 2	58	82	43	83	43	61
Quartile 3	47	9	50	14	52	7
Quartile 4	45	1	31	4	29	1
Total	178	193	161	183	156	164

Source: PeopleSoft HR.

1/ End-year estimates based on discussion with HRD.

17. **Outturn travel expenses are projected to be about 4.5 percent below budget in FY 2005** (Table 8). Slightly higher than projected unit prices—comprising airfares, hotel expenses, and per diem allowances—were more than offset by lower than planned volumes, measured by the total number of mission-days. The outturn for the business travel component, accounting for more than two thirds of the travel budget and consisting of the majority of departmental and governance travel budgets, is estimated at \$71.5 million—less than \$0.5 million below budget (excluding the contingency). The other travel category, consisting primarily of travel for seminars and training hosted by the Institute and other departments, and travel relating to the appointment of staff and the resident representatives, is projected to be under budget by \$4 million. Some of the constituent line items in other travel will be rebased downwards in FY 2006.

Table 8. Gross Administrative Budget and Expenditures: Travel Costs, FY 2004-FY 2005
(In percent)

	FY 2004 Outturn	Budget	FY 2005		
			Estimated Outturn 1/	Variance	
				Amount	Percent
Total travel	91.5	96.6	92.3	-4.3	-4.5
Business Travel	70.5	71.9	71.5	-0.4	-0.5
Departmental Business	65.6	68.7	67.6	-1.1	-1.6
Meetings of Governors	3.3	1.9	2.1	0.2	10.5
Charter Flights	1.6	1.3	1.8	0.5	38.5
Other Travel	21.0	24.8	20.8	-4.0	-16.0
Settlement	8.6	10.6	7.8	-2.8	-26.4
Seminar Program	4.0	4.1	4.0	-0.1	-2.4
Institute Participants	3.4	4.5	3.7	-0.7	-16.5
Resident Representative Travel	0.8	0.9	0.9	0.0	0.0
Other	4.2	4.7	4.4	-0.3	-7.2
Contingency	...	1.0	...	-1.0	...

Source: Office of Budget and Planning.

1/ Based on ten months data.

18. **Overall, three factors have held down travel volumes in recent years** (apart from exogenous events such as September 11th, 2001, the war in Iraq, and the SARS epidemic).

- First, although the number of missions is projected to increase slightly in FY 2005, in general, missions are becoming shorter in duration; and in a few activities such as technical assistance, the size of missions has been cut back, suggesting that staff are carrying out their field activity more efficiently (Table 9). While this may reflect the tighter budget regime over the last few years, there have been important productivity gains associated with better communications. Shorter missions may also reflect the growing difficulty of travel in the wake of tougher security requirements—as suggested by the reduced utilization of “stopover” entitlements from 61 percent in FY 2001 to an estimated 50 percent in FY 2005.
- Second, over the last few years there has been a favorable geographical switch (in budgetary terms), with more travel to nearby countries, particularly in Latin America, and less to Asia (Figure 3). While, to some extent, this pattern represents a readjustment of travel volumes in Asia to pre-1997 levels, relatively higher volumes in Latin America reflect the substantial current amount of UFR activity.

- Third, particularly in FY 2005, there are fewer acute country crises or post-conflict situations than in recent years. While the former remain difficult to predict, on the latter, there are several post-conflict countries and other countries which could normalize their relations with the Fund within the next year. That may require intense activity and travel in FY 2006—as discussed below.

19. **Excluding the impact of the more favorable geographical composition, travel unit costs in FY 2005 are estimated to be increasing by 3.3 percent, slightly more than the 3 percent price factor assumed in formulating the FY 2005 budget.** This figure, which reflects a weighted average of changes in airfares, hotel costs and per diem allowances, compares favorably with market-based indicators reporting travel cost increases above 4 percent.

Table 9. Travel Volumes by Department Groups, FY 2003-FY 2005

Departments	Number of Missions			Number of Mission- Persons			Number of Mission-Days			Avg. Size (Staff)			Avg. Length (Days)		
	2003	2004	2005 1/	2003	2004	2005 1/	2003	2004	2005 1/	2003	2004	2005 1/	2003	2004	2005 1/
Area	1,043	1,066	1,029	2,799	3,026	3,061	28,275	28,481	28,040	2.7	2.8	3.0	10.1	9.4	9.2
Article IV	134	127	154	646	595	787	8,295	7,387	8,654	4.8	4.7	5.1	12.8	12.4	11.0
UFR	229	246	234	910	1,039	991	11,081	11,459	10,825	4.0	4.2	4.2	12.2	11.0	10.9
Other	680	693	642	1,243	1,392	1,284	8,899	9,635	8,562	1.8	2.0	2.0	7.2	6.9	6.7
TA Functional	1,772	1,939	2,211	3,040	3,298	3,592	34,241	33,650	35,946	1.7	1.7	1.6	11.3	10.2	10.0
Capacity Building	1,239	1,321	1,549	2,052	2,213	2,483	25,385	25,487	27,812	1.7	1.7	1.6	12.4	11.5	11.2
FSAPs	70	76	53	331	307	221	4,043	3,260	2,607	4.7	4.0	4.2	12.2	10.6	11.8
ROSCs	42	27	34	162	133	139	2,184	1,867	1,885	3.9	4.9	4.1	13.5	14.0	13.6
Other	421	515	575	495	645	749	2,629	3,036	3,642	1.2	1.3	1.3	5.3	4.7	4.9
Other Functional	441	517	522	604	736	670	2,367	3,096	2,487	1.4	1.4	1.3	3.9	4.2	3.7
Support 2/	499	380	521	674	659	760	2,456	2,772	2,555	1.4	1.7	1.5	3.6	4.2	3.4
Governance 3/	1,186	1,635	1,470	1,306	1,800	1,666	6,002	9,138	7,005	1.1	1.1	1.1	4.6	5.1	4.2
Total	4,941	5,537	5,753	8,423	9,519	9,749	73,341	77,137	76,033	1.7	1.7	1.7	8.7	8.1	7.8

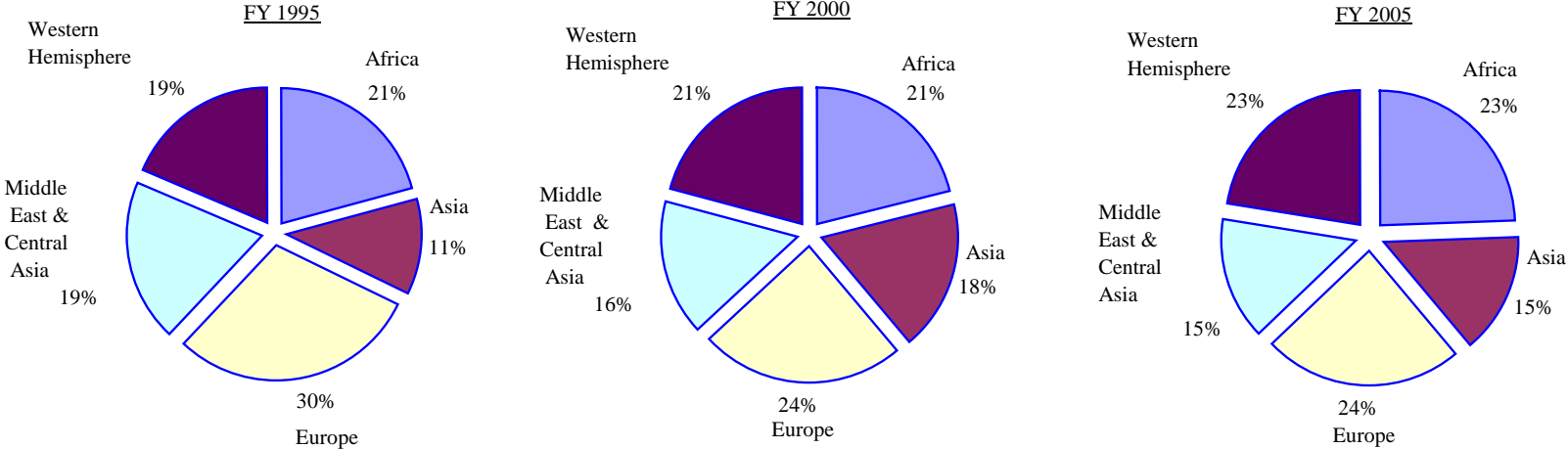
Source: PeopleSoft Financials.

1/ Twelve-month projection based on ten months data.

2/ Consists of EUO, EXR, HRD, OAP, and TGS.

3/ Consists of travel by ETO, IEO, INV, OBP, OED, OMD, SEC, and UNO.

Figure 3. Number of Mission-Days by Region, FY 1995, FY 2000, and FY 2005 1/
(In percent)



Source: Travel Management Information System.

1/ Excludes experts and Annual Meetings travel held abroad. FY 2005 data for ten months travel.

20. **The outturn for the building and other expenditures category is projected at \$167.1 million, compared with a budget provision of \$172.8 million.** In spite of additional—and unbudgeted—security-related spending, expenses will be held below budget, while service levels are being delivered largely according to plan. This, to some extent, reflects more favorable cost developments than budgeted, for example on telecommunication rates but also the achievement of efficiency gains (lower input per given output) in a number of areas. Other contributory factors include delays in starting some IT projects, and less than full utilization of the budget provision for contractual services (which will be reduced in the FY 2006 budget).

- During FY 2005, security for the Fund’s premises was strengthened, primarily through additional guard services, resulting in about \$2.4 million of unanticipated costs. While security requirements are reviewed on a regular basis, the strengthened measures introduced are expected, in the near term, to become part of the on-going operational expenses of the Fund.
- Administrative expenditures on IT, now projected at \$37.9 million, are likely to be slightly lower than the budgeted figure of \$38.9 million, due largely to higher than expected turnover in vendor IT staff. The groundwork was laid in FY 2005 for implementing a performance-based outsourcing contract for the IT Help Desk, which will have a beneficial impact on the FY 2006 budget.
- The projected lower than budget outturn on communications is attributable to long-distance telecommunications rates falling by more than expected, although it is partially offset by the increased usage of Blackberry wireless devices.
- Utility prices increased, with a 24 percent rate increase for electricity and a 13 percent increase for gas. However, the new rates came into effect on January 2005: while therefore limiting the impact on the FY 2005 budget, the full-cost increases have had to be absorbed in the FY 2006 budget.
- Demand for some services, such as departmental publications and mail-related services, is running lower than anticipated. In cases such as these, and where a historical gap between the budget and the outturn persists (e.g., contractual services), the budget is being rebased downwards—that is, budget provision will be reduced for FY 2006.

E. Receipts

21. **Receipts are projected at \$63.6 million relative to the \$55.5 million that was estimated in the FY 2005 budget** (Table 10).¹² Over one third of the difference between the FY 2005 budget and the estimated outturn, however, is attributable to an unbudgeted one-off refund of \$3 million received under the Medical Benefits Plan (MBP). Buoyant travel rebates, are also helping to more than offset slightly lower-than-estimated disbursements from donor financing of TA.

- Travel commissions are projected to be \$1.2 million higher than the budgeted \$4 million—rebates and discounts have been actively negotiated with airlines and hotels, and secured, despite continuing financial problems for several airlines.
- The lower than budgeted disbursements by donors for TA projects reflect the fact that additional donor financing for expanded AML/CFT activities did not materialize to any significant degree. These disbursements, in general, are still subject to some uncertainty about developments in the last quarter of the fiscal year.

¹² The projected outturn of \$63.6 million includes projected prior-year accrual adjustments of \$3.5 million. This figure compares with the \$58.5 million of the FY 2004 outturn, which included prior-year accrual adjustments of \$4.7 million.

Table 10. Receipts, FY 2004-FY 2006
(In millions of U.S. dollars)

	FY 2004		FY 2005				FY 2006 Budget
	Approve Budget	Outturn	Approve Budget	Estimated Outturn 1/	Variance		
					Amount	Percent	
Externally Financed Technical Assistance	33.4	32.3	36.6	35.8 #	-0.7	-2.0	38.5
Direct costs	29.8	28.6	32.6	31.9	-0.7	-2.2	34.2
Support costs 2/	3.6	3.7	3.9	3.9	0.0	-0.3	4.3
Fund-sponsored sharing agreements 3/	7.5	7.6	7.1	7.5	0.4	5.2	6.9
Publications income	4.8	4.3	3.8	4.0	0.2	5.3	4.3
Concordia apartments	2.7	2.3	2.4	2.5	0.1	3.8	2.6
Travel commissions	2.0	5.0	4.0	5.2	1.2	30.0	6.0
HQ2 rental revenues 4/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.1
Other miscellaneous reimbursements 5/	1.6	2.4	1.7	5.1	3.4	196.3	2.5
Prior-year accrual adjustments 6/	...	4.7	...	3.5	3.5	...	...
Total	52.0	58.5	55.5	63.6	8.0	14.5	60.9

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

1/ Based on ten months information on recorded expenses and commitments.

2/ Includes the payments the Fund receives from donors towards overall costs of providing externally financed technical assistance.

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

4/ Includes revenues from Credit Union lease of HQ2 space.

5/ Includes reimbursements from overseas offices and revenue and funding from a number of agreements with donors. The FY 2005 outturn includes a one-off \$3 million refund under the Medical Benefits Plan (MBP).

6/ In line with the accounting treatment agreed in FY 2004.

III. FY 2006 ADMINISTRATIVE BUDGET AND THE MEDIUM-TERM BUDGETARY FRAMEWORK

A. The Top-Down Constraint

22. **The Executive Board has given considerable weight, in approving recent administrative budgets, to a “top-down” policy on the overall budget envelope, in the absence of a specific link to the Fund’s income position.** In recent years, that policy has evolved from “maintaining the institution at broadly its present size” to the firmer policy stance of zero-real growth in the administrative budget. Views differ on whether the deflator to be used in deriving this zero real growth assessment should be based on a basket that reflects the structure of the Fund’s costs, or on some single or combined exogenous price indices. Against that background, the top-down constraint on the FY 2006 budget was derived as follows.

23. **For FY 2006 the proposed top-down budget envelope is \$937 million—a budget-to-budget increase of 3.5 percent** (Table 11). This figure is calculated on the basis of the Fund’s cost deflator, but also incorporates the net effect of a downward rebasing of some budget line items (where outturn has been persistently below budget provision) and additional provision for urgent security-related spending. The precise top-down envelope was derived in successive discussions with the COB and reflects both views expressed and some specific suggestions. In more detail:

- Direct application of the Fund’s cost deflator for FY 2006 would have yielded a nominal increase in the budget of 3.8 percent. The Fund’s deflator is a composite index of the Fund’s main input costs—personnel, travel, and building and other expenditures.
- In formulating the FY 2006 budget, OBP assumed an increase for personnel unit costs of 3.8 percent, in line with the convention adopted since FY 2001 that the structural salary increase in the current year is replicated for the next budget year;¹³ a 4.5 percent increase in travel costs, to reflect projected trends in airfares and hotel costs;¹⁴ and, an increase of 3.6 percent for building and other expenditures, in line

¹³ The 3.8 percent deflator for personnel costs consisted of the 2004 3.6 percent structural salary award; a 1.5 percent comparatio; and a 1.3 percent recovery rate. The recovery rate is set 0.2 percent below the comparatio each year, on the basis of the observed average gap in recent years, though the gap is volatile from year to year.

¹⁴ This is a weighted average of the projected annual increase in airfares (5 percent), hotel rates (4.5 percent), and per diem allowances (3 percent). Travel cost forecasts for CY 2005 released by the National Business Travel Association indicate that corporate travel costs will increase by 5 percent over the previous year: airfares are forecast to increase by 5 percent; hotel rates by 7.5 percent, and other costs (e.g., rental cars, meals) by 3 percent.

with the recent movement in U.S. consumer price indices. The assumed annual increase for personnel unit costs did not include the effect of the 2 percent retroactive salary payment.

- Some \$6.5 million was eliminated from the budget base, before the Fund deflator was applied. As discussed with the COB, the provision for certain budget line items was reduced where persistent differences between budget and outturn indicated the need for such an adjustment. This downward rebasing was applied mainly to tax allowances, non-business travel, and other staff benefits, such as overseas allowances (Table 12).
- Following the identification of the Fund as a possible terrorism target, and in line with the recommendations of the U.S. Secret Service, \$4 million was added to the budget envelope for strengthened security measures. A further \$0.7 million on additional security spending will be absorbed within the FY 2006 budget.
- With these adjustments, the year-on-year increase in the gross administrative budget was held to 3.5 percent.

24. On the basis of estimated receipts of around \$61 million in FY 2006, the net administrative budget is set at \$876 million, representing a 3.1 percent increase over the FY 2005 net budget.

Table 11. Gross and Net Administrative Budget by Major Expense Category, FY 2005-FY 2006
(In millions of U.S. dollars)

	FY 2005				FY 2006		Variance (in percent)	
	Budget [1]	Percent	Estimated Outturn [2]	Percent	Budget [3]	Percent	Budget to Budget [4]=[3]/[1]	Budget to Estimated Outturn [5]=[3]/[2]
I. Personnel	633.7	70.0	637.2	71.1	659.7	70.4	4.1	3.5
Salary	373.8	41.3	375.4	41.9	395.7	42.2	5.9	5.4
<i>Of which</i> : Contingency	1.0	0.1	0.0	0.0	1.0	0.1	...	...
Benefits and Other Personnel Expenditures	259.9	28.7	261.8	29.2	263.8	28.2	1.5	0.8
<i>Of which</i> : Contribution to the SRP	74.0	8.2	82.2	9.2	79.2	8.5	7.0	-3.6
II. Travel	96.6	10.7	92.3	10.3	99.4	10.6	2.9	7.7
III. Building and Other Expenses	172.8	19.1	167.1	18.6	177.9	19.0	3.0	6.5
IV. Contingencies	2.0	0.2	0.0	0.0	...	...	...	...
Gross Budget	905.1	100.0	896.6	100.0	937.0	100.0	3.5	4.5
V. Receipts	-55.5	...	-63.6	...	-60.9	...	9.7	-4.2
Net Budget	849.6	...	833.0	...	876.1	...	3.1	5.2

Source: Office of Budget and Planning.

Note: Totals may not add due to rounding.

1/ Based on ten months information on recorded expenses and commitments.

Table 12. Reductions in Base Budget Provision
(In millions of U.S. dollars)

Budgetary Account	FY 2005 Budget	Adjustment to Base	Percentage Reduction
Settlement Travel	10.6	-1.5	-14.2
Freight 1/		-1.5	
Tax Allowances	36.1	-1.0	-2.8
Federal		-0.5	
State		-0.3	
Social security		-0.2	
MBP Contributions	28.1	-1.0	-3.6
Regular staff		-0.8	
Other		-0.2	
Settlement Allowances	6.1	-1.0	-16.4
Staff		-0.9	
Experts		-0.1	
Overseas Allowances	15.7	-0.5	-3.2
Staff		-0.3	
Experts		-0.2	
Contractual Services	23.2	-1.5	-6.5
Sponsored activities		-1.5	
Total	96.6	-6.5	-6.7

Sources: Office of Budget and Planning; and the Human Resources Department.

Note: Totals may not add due to rounding.

1/ Freight covers expenses for shipments of goods of new staff and staff assigned to overseas posts.

B. Priorities and Plans for FY 2006

25. **The proposed administrative budget for FY 2006 has been formulated as a transitional budget, pending completion of the medium-term strategy and ongoing reviews (on the ECBR and IT) covering more than 75 percent of the budget.** An overall assessment of the bottom-up pressures on the Fund's administrative resources indicates that the budget will be sufficient to sustain overall Fund activity at present levels and to provide the resources necessary for delivery of the priority objectives, identified in the "Report of the Managing Director to the IMFC on the IMF's Policy Agenda"¹⁵ (and consistent with the preliminary work of the Committee on the Fund's Strategic Priorities). These priorities include:

- further enhancing the effectiveness of surveillance, following the recommendations of the July 2004 Biennial Review of Surveillance (BSR);¹⁶
- strengthening the Fund's support for low-income member countries; and
- further work on trade and energy.

That said, and as discussed below, the budget is tighter than in recent years and more vulnerable to unanticipated cost or activity developments.

26. **To meet these priority objectives, within a zero real growth budget, will require redeployment of resources from support to primary activities, and the pursuit of further reprioritization and efficiency gains.** The following steps are envisaged:

- To enhance the effectiveness of surveillance, the priority recommendations from the 2004 BSR will be implemented. An additional 8 positions will be assigned to area departments, primarily for increased financial sector surveillance, as described in Table 13, to support this work.
- To strengthen the Fund's work on low-income countries, 12 positions will be redeployed to the African Department to complete the total addition of 24 positions as originally envisaged in the then Managing Director's proposals of February 2004. More broadly, a substantial work agenda on low-income countries involving both functional and area departments is planned.

¹⁵ For details, please visit the IMF Web site at www.imf.org.

¹⁶ For details, please visit the IMF Web site at www.imf.org.

- Departments will undertake additional work on oil and trade issues mainly through reprioritization.
- No additional resources will be allocated to AML/CFT work: in MFD, such work will remain at a broadly unchanged level; in LEG, it will expand a little within the FY 2006 budget.

Table 13. Estimated Resource Requirements: Biennial Surveillance Review (BSR)

	In Full-time Staff				FY 2006 Budget
	BSR	Deferral	Saving	Total Deferrals Saving	
Focus of	2-3	1	1-2	2-3	0
Quality of	18 - 20	8-10	2-4	9-14	7-9
Policy	1-2	1-2	-	1-2	0
Communication and	5-6	5-6	-	5-6	0
Assessing	1- 2	0-1	0-1	1	1
Total	27-32	15-19	4-5	19-22	8-10
	Travel and (In millions of U.S. dollars)				
Staff visits	2.9	1.0	0.2	1.2	1.7
Regional conferences	0.8	0.0	0.4	0.4	0.3
National conferences	3.1	0.0	1.8	1.8	1.2
Total	6.7	1.0	2.5	3.5	3.2

Sources: Office of Budget and Planning; and Policy Development and Review

Note: The endpoints of the ranges do not necessarily add to the sum of the components: different combinations tradeoffs are possible; also figures may not add due to

1/ The initial BSR estimates also assumed longer and larger

27. **The resources to fund the above initiatives will be found by redeploying 20 staff positions and \$7 million within the budget envelope.** As in the recent past, much of this shift of resources is from support to primary activities. The scope for such a shift arises from a combination of efficiency improvements, past investment in IT, internal reorganization, and the outcome of zero-based departmental reviews carried out by OIA/OBP. Some resources for redeployment have also been made available from efficiency gains (i.e., less inputs for given output and/or lower cost per given input) negotiated with departments.

- Under the final installment of a three-year agreement, TGS will relinquish 8 FTS and one contractual position.
- Management's endorsement of the recent OIA/OBP zero-based review of STA has released 5 FTS positions.
- A change in the status of individuals employed under the Research Assistant Program (RAP) will free up 7 staff positions (but only a relatively small dollar amount as they are replaced by contractual appointments).
- Further dollar savings from travel and other discretionary spending, such as contractual employment, were secured in bilateral negotiations.

C. FY 2006 Administrative Budget by Primary Outputs

28. **In line with the above priorities, departments' business plans indicate an increase in resources devoted to surveillance, with emphasis on financial sector and low-income countries, and UFR work** (Table 14).

- The allocation of resources devoted to policy development, research, and the operation of the International Monetary System is planned to remain at broadly the FY 2005 levels.¹⁷ Resources for standard setting/provision of standardized information are projected at lower than the FY 2005 budget but close to the anticipated FY 2005 outturn. This reflects some efficiency gains in STA processes.
- The focus of bilateral surveillance work will be enhanced through better interdepartmental coordination and cooperation to ensure a deeper treatment of exchange rate issues and a more systematic coverage of regional and global spillovers issues.

¹⁷ In addition to enhancing its work on the operation of the international monetary system and multilateral surveillance, RES has set work in train to deepen its expertise in trade (a new division was established within RES' budget envelope) and commodities (with particular emphasis on oil) issues; and address issues related to governance, institutions, political economy, and financial infrastructure.

- Regional surveillance will be strengthened by raising the number of regional seminars and conferences dealing with cross-country issues, such as on fiscal and debt sustainability (WHD), oil related issues (MCD), factor mobility within the European Union and the state of financial market integration in the euro area (EUR), and on Asian regional issues ahead of the 2006 Annual Meetings in Singapore (APD).
- Financial sector surveillance will be enhanced through a pilot project covering 10-12 countries to test the modalities for enhanced coverage of such issues in Article IV consultations. Eight additional staff positions will be assigned to area departments for implementing this (and other) key recommendations of the 2004 BSR. Moreover, MFD plans to increase the proportion of its budgetary resources devoted to financial sector surveillance by 1 percentage point, offset by small reductions in the proportions devoted to UFR and capacity building. This will enable MFD to catch up on the number of FSAPs; step up support to Article IV missions, in addition to backstopping the pilot project mentioned previously; undertake regional surveillance projects; and train area department staff.
- Work on low-income countries will benefit, not just through the assignment of an extra 12 staff positions to AFR, but also through the ongoing, gradual reorientation of resources within RES to support the Fund's work on the special problems of low-income countries. PDR is also planning a substantial work agenda on low-income countries.¹⁸
- UFR work will be increasingly underpinned by research activity focusing on cross-country themes in support of policy advice and program design, for example, the determinants of foreign direct investment in Southeast Europe (EUR). A number of outreach activities are also planned, including the Maghreb Conference (MCD) and the Asian Financial Integration high-level dialogue ahead of the 2006 Annual Meetings in Singapore (APD).

¹⁸ This includes work on refining policies related to the Fund's role in signaling and donor coordination and the PRSP process; implementation of the revised consolidated guidelines for PRSPs; the in-depth triennial review of the PRS approach; monitoring the global progress toward the MDGs (with the World Bank); strengthening the framework for debt-sustainability analysis in low-income countries; and follow-up on the recent G7 proposals for additional debt relief.

Table 14. Gross Administrative Budget by Outputs, FY 2006
(In millions of U.S. dollars)

	FY 2006 Budget
Policy development, research and operation of the International Monetary System	59.9
Standard setting/provision of standardized information	48.1
Surveillance	240.9
Use of Fund resources	237.3
Capacity building	215.6
Total excluding governance	801.9
Governance	135.2
Total	937.0

Source: Office of Budget and Planning.

29. Departments' business plans underscore a continued commitment to capacity building, especially in post-conflict countries, by maintaining a broadly stable allocation of resources to deliver technical assistance and training relative to their projected FY 2005 outturn.

- The main technical assistance-providing departments (FAD, ICM, LEG, MFD and STA) assign high priority to supporting capacity building work in Africa, including work related to the AFRITACs. They also plan an increase in TA delivery to MCD member countries as FY 2006 will be the first full-year operation of the newly established METAC. In line with the IEO recommendations, departments also plan to link the setting of TA priorities with the PRSP process.
- INS plans a 6 percent rise in training weeks for member country officials. This reflects increased delivery of training by other departments, in part owing to a reversal of the timing effects that reduced this training in FY 2005, but also additional

training in the areas of anti-money laundering and combating the financing of terrorism. Training delivered by INS staff, which is expected to be about the same as in FY 2005, will begin to reflect the results of an ongoing review that is aimed at aligning the curriculum more closely with participants' needs and improving cost-effectiveness. Two new courses will be offered at headquarters on Macroeconomic Management and Fiscal Policy Issues (5 weeks) and Macroeconomic Diagnostics (4 weeks), financed by shortening or dropping other courses.

- To help deliver capacity building services, area departments plan to increase their involvement with the relevant regional training centers; broaden the coverage of the resident representatives program and/or the role played by existing resident representatives; and participate in TA missions and courses held by INS and JVI .

30. The planned allocation of resources by departments is, however, subject to a number of uncertainties that may require significant adjustments over the course of FY 2006.

- Departments' ability to deliver their planned outputs in policy development, research, and the operation of the IMS, and standard setting/provision of standardized information will in particular depend on attaining their effective staffing levels as incorporated in their budgets.
- A number of country developments may significantly alter the planned allocation of resources for surveillance and UFR work. For instance, in AFR, there is the possibility of post-conflict arrangements with Cote d'Ivoire and Guinea Bissau and of staff-monitored programs (SMP) with Guinea and Togo. In MCD, recent political developments, the reestablishment of relations with the Fund, and post-conflict work may lead to significantly increased surveillance and near program work in Libya, Somalia, Syria, and West Bank and Gaza and formal UFR programs in Afghanistan, Djibouti, Sudan, Mauritania, and Yemen. Additional work may be required in APD (Cambodia, Lao PDR, and Timor Leste), and WHD (Ecuador).
- The ability of functional departments to deliver capacity building services is increasingly dependent on the availability of external funding. External funding is projected to amount to some 15 percent of STA's overall resources. FAD's and MFD's business plans indicate that the level and disbursements schedule of donor financing are clear downside risks for them. The planned increase in INS' training is also made possible by the availability of external funding to accommodate higher participants' costs relative to FY 2005.¹⁹

¹⁹ Moreover, INS' planned continuation of distance learning activity in FY 2006 at the higher-than-anticipated FY 2005 outturn level is predicated on the continuing financing by the French and U.K. authorities of the additional two courses for African officials.

D. FY 2006 Administrative Budget by Input Categories

31. **The proposed FY 2006 administrative budget takes into account the full impact of the 2 percent retroactive salary payment for staff for 2004.** The effect of this change—not allowed for in the application of the Fund’s cost deflator—is both to imply a volume contraction (budget to budget) and to increase the share of the budget accounted for by personnel costs.

32. **The provision for total personnel costs will rise by just over 4 percent in FY 2006—budget to budget:** that for salaries will rise by 5.9 percent, and that for benefits and allowances by 1.5 percent. In more detail, the salary provision allows for:

- the 2 percent retroactive salary payment to staff for 2004;
- a 3.6 percent structural salary award for staff for 2005;
- a 0.2 percent assumed addition (as every year, equal to the assumed gap between the comparatio and the recovery rate), to reflect the historical average impact on unit salary costs of inflows, outflows, promotions and redeployment of staff; and
- a 5 percent increase in the budget provision for consultants and contractual employees—these budget lines were held constant in nominal terms in last year’s budget.

33. **The provision for staff salaries is set on the basis of a 4 percent accumulated vacancy rate,** as compared to the 3.3 percent set in FY 2005. Compared with the projected outturn of 5.4 percent in FY 2005, and allowing for the planned redeployment of staff positions from support to primary activities, however, there will be (limited) scope for a small increase in FTEs, and higher overall outputs, in FY 2006.

34. **The accumulated vacancy rate for staff positions has been set, as in previous years, on a prudent basis.** Each department has a budgeted FTE figure. These effective staffing figures represent a challenging but feasible outcome; it is the basis on which departments have drawn up their business plans; and it thus creates an incentive to recruit in order to deliver planned outputs. Since it was developed in FY 2002, the budget regime has allowed departments to recruit beyond the FTEs set in departmental budgets up to their FTS, as described in Box 2. A specific contingency for this—starting at \$4 million in FY 2002 and progressively reduced to \$1 million in FY 2005—was created but never used; and, in practice, departments have not reached even the FTE figures set in recent budgets. Because the budget regulations prevent departments from exercising fungibility with underspending on staff positions (a recognition of both relative inflexibility in the factor mix for mainstream Fund work and to prevent local contractual employment substituting for international staff), the outturn on recent budgets has been below the budgeted figures.

35. **But the overall budget is tighter this year, and stronger controls need to be put in place over staffing costs for FY 2006.** The whole budgetary regime for staffing costs will have to be revisited for FY 2007 in the light of the ECBR. But it is critical for FY 2006 that the 4 percent accumulated vacancy rate set in the budget and incorporated in departmental budgets not be exceeded.

36. **Accordingly, for FY 2006, individual departments' accumulated FTEs—that is the number of staff positions (FTS) less the vacancy rate set—will no longer be a guideline but become a constraint.**²⁰ In FY 2006, departments' present ability to hire beyond their accumulated FTE figure will be suspended: for the bulk of departments and offices, their accumulated FTEs will become the figure to be delivered over the year. However, departments will start in different positions—some above their FTEs, some below. Moreover, management needs to be able to redeploy staff resources within the available FTE total (as exercised in all previous years) to meet changing patterns of activity, including unanticipated non-discretionary demands. Some flexibility will thus need to be allowed, at the margin. But this flexibility will be exercised only on a case-by-case basis and at the discretion of management. Finally, should the accumulated vacancy rate not fall to the 4 percent figure set, as in previous years, the budget regime will continue to ensure an outcome of administrative expenses lower than budget—and underdelivery of departmental business plans.

37. **The provision for benefits, including the budgetary contribution to the SRP (discussed below) will increase by 1.5 percent over the FY 2005 budget.** This relatively small increase is, however, before taking account of the downward rebasing of certain budget line items: with the rebasing included, the provision for benefits rises by nearly 3 percent budget to budget. The key assumptions underlying the budget estimates for the main benefits and allowances are the following.

- The budget provision for tax allowances has been kept at the FY 2005 budget level in nominal terms, even after allowing for the retroactive salary adjustment. The FY 2006 budget provision will still be 6 percent higher than the projected FY 2005 outturn, as a growing number of staff area likely to fall under the provision of the alternative minimum tax.²¹
- The number of home leave trips is projected to return to its long-run participation rate of 50 percent. Eligible staff accrue leave allowances every two years, but recent

²⁰ The present regime allows departments/offices to move automatically up from their FTEs to FTS—providing their discretionary expenditures remain within budget. This change is envisaged as a transitional arrangement, pending review of the approach to controlling staff costs after the ECBR is completed.

²¹ Historically, expenses for tax allowances have been growing faster than nominal wages primarily because such allowances are also taxable income, and in spite of the fact that the number of staff eligible to receive such allowances has been relatively stable in recent years.

figures have reflected a catch-up effect, as noted above. After allowing for travel cost deflators, the budget provision will be held at the dollar level of the projected FY 2005 outturn—this figure is, however, some 9 percent above the original budget estimate for FY 2005.

- The provision for dependents' education allowances allows for an 9.1 percent increase over the FY 2005 budget, in line with the average increase recorded over the last eight years. This reflects the assessment that fees and tuition costs will rise, along with an increase in the number of participating dependents as in the last few years. The figure also allows for an assumed travel cost increase.
- The budget provision for overseas allowances will be reduced in nominal terms by 3.2 percent budget to budget. This is one of the items to be rebased downward following persistent gaps between budget and outturn in recent years. Compared with the projected outturn for FY 2005, the proposed (rebased) provision for FY 2006 allows for an increase of 3 percent.

- The contribution to the MBP will be also held at the FY 2005 budget level in nominal terms (4.3 percent above the projected FY 2005 outturn).
- Budget contributions to the Group Life Insurance (GLI) plan will increase by 10 percent over the FY 2005 estimated outturn, reflecting mainly a 5 percent increase in the GLI rates, the impact of the 2 percent retroactive salary payment, and a small increase in the number of participants.
- Finally, the provision for separation incentives will be reduced from \$7.2 million to \$4.9 million (budget to budget). This provision has not been fully utilized this year. As the ECBR will examine the exit strategy for staff, separation incentives in FY 2006 will be largely limited to abolition and/or redesignation of positions and to medical cases, for which severance payments are mandatory.

38. **The proposed budget also includes a \$77.1 million contribution to the Staff Retirement Plan (SRP), in line with last year's Board decision to normalize the contribution rate at 14 percent of gross staff remuneration (Box 3 and Table 15).** In addition, a \$2 million contribution will be made toward the cost of the SRP service credits for former contractual and temporary employees. The recommendation of the Fund's actuary, endorsed by the Pension Committee, is to set the overall contribution at 17.6 percent of gross remuneration, equivalent to about \$97 million. Thus, \$19.9 million (equivalent to 3.61 percent of gross remuneration) will be funded from the Plan's accumulated reserves.²²

²² During the period FY 1999 through FY 2003, the Fund was not required to contribute to the SRP because of a surplus in the SRP net asset position. The Board, however, approved the Pension Committee's recommendation to make voluntary contributions of 5 to 7 percent of gross remuneration to ensure the continuing strong financial position of the SRP. These voluntary contributions, in excess of the required amounts, constitute the so-called stabilization reserves and can be applied toward future required contributions. At the end of FY 2005, the balance of this reserve is estimated at \$94.7million.

Box 3. Budget Contribution to the Staff Retirement Plan (SRP)

The proposed Fund contribution to the SRP, within the FY 2006 budget, is driven by application of the framework that was endorsed by the Pension Committee and adopted by the Executive Board in 2004.

The main elements of the framework are as follows.

- **The Fund’s annual payment from the administrative budget is “normalized” at 14 percent of gross remuneration.** This is consistent with the normal 2:1 contribution ratio that has been incorporated in the design of the Plan since 1948, and with the actual long-term cost of the Plan, as reflected in the Fund’s average contribution rate of 13.8 percent over the past 25 years. Contribution rates are reviewed every five years.
- A stabilization reserve resulting from the accumulation of voluntary contributions of 5-7 percent of gross remuneration made between FY 1999 and FY 2003²³ is used to smooth the year-to-year fluctuations in the actuarially determined contribution around the normalized budget payment of 14 percent of gross remuneration.²⁴
- If the actuarially determined annual SRP contribution is less than 14 percent of gross remuneration, the total contribution is paid from the administrative budget. The balance between 14 percent of gross remuneration and the actuarially determined payment is added to the contribution reserve.
- If the actuarially determined annual SRP contribution is greater than 14 percent of gross remuneration, the amount equivalent to 14 percent is paid from the administrative budget, and the balance in excess of 14 percent is drawn from the accumulated reserve.

²³ During this period, the actuarially determined contribution rate to the SRP was close to or at zero.

²⁴ To continue to ensure the Plan’s long-term financial soundness, provision has been made for both the 14 percent “peg” for payments from the budget and the level and use of the reserves to be reviewed—and reset if necessary—in the context of the Pension Committee’s five-year reviews of actuarial assumptions. The next review will take place in 2006.

Table 15. Staff Retirement Plan (SRP) Contribution for FY 2006
(In millions of U.S. dollars)

SRP contribution established by the Actuary for the Plan 1/	97.0
To be funded by:	
Contribution from the Administrative Budget 2/	77.1
Contribution from the Stabilization Reserve 3/	19.9
Plus: Contribution for the SRP Service Credits	2.0
Total Contribution from the Administrative Budget 4/	79.2

Source: "The Fund's FY 2006 Contribution to the Staff Retirement Plan" (RP/CP/05/3, 3/24/2005).

Note: Total may not add due to rounding.

1/ 17.61 percent of gross SRP remuneration

2/ 14.00 percent of gross SRP remuneration

3/ 3.61 percent of gross SRP remuneration

4/ Includes the standard administrative budget contribution of \$77.1 million plus the cost of the SRP Service Credit buy-back of \$2.0 million.

39. **The provision for travel in FY 2006 will again decline in real terms: the 2.9 percent nominal increase allowed for in the budget is below the 4.5 percent projected increase in costs.** This contraction in real terms is after taking account of a redistribution of budget provision to business travel from other travel. The provision for the former will increase by 6.2 percent, implying a small volume increase primarily because of an increase in externally financed travel on TA work. Budgetary provision for other travel (settlement and miscellaneous) will decline by 6.6 percent, as a result of both the downward rebasing of the FY 2005 budget and other changes negotiated in bilateral budget discussions.

40. **For buildings and other expenditures (non-personnel, non-travel items), the provision will increase by 3 percent, again less than the most recent annual increase in the Washington/Baltimore CPI.** This also implies a contraction in volumes, reflecting the downward rebasing and further savings (overall some \$4.5 million) in contractual services, as well as the move to HQ2, which will allow leased space at International Square and G Street to be relinquished. Higher costs are expected in other areas—strengthened security (\$4.7 million), IT software licenses and production support costs for new systems (\$2.3 million), and utilities and other costs (\$1.0 million).

41. **Receipts are projected at \$61 million, representing nearly a 10 percent increase on the FY 2005 budget.** This increase takes into account the higher than projected receipts outturn for FY 2005—excluding the one-off \$3 million from the refund under the Medical Benefit Plan (MBP). It reflects expected increases in drawdowns from donors' contributions for technical assistance and training activities, continued buoyant travel commissions, and slightly higher revenues than in FY 2005 from the sale of Fund publications and rentals of the Fund-owned Concordia apartments.

E. Risks and Uncertainties

42. **There are a number of risks surrounding the FY 2006 budget.** First, there are those exogenous to the Fund—such as unfavorable price and/or exchange rate developments, a larger than planned demand for UFR cases, and the possibility that a few countries may re-establish formal relations with the Fund. Such developments would by and large have to be accommodated. On costs, the scope for changes in factor mix is limited in the short term and at the margin; so higher costs will tend to restrain the volume of activities. In terms of activities, as in past years, management will redeploy staff resources to meet unanticipated country demands for UFR or enhanced surveillance work, for example, in WHD in FY 2003. Deeper adjustments, if needed, would inevitably have to fall on the more discretionary activities, with some delay in response to requests, for example, for work on standards and codes and on technical assistance.

43. **Second, there are risks where the budget provision has to be in the nature of an estimate, rather than a dollar control total**—as is the case with all budgets that must accommodate the cost of demand driven policies. The most important for the Fund are staff salaries and benefits (many of which are demand driven entitlements). In the case of salaries, the volume (FTEs) can and will be controlled within the regulations set by management: but once the structural salary award and comparatio are approved by the Board, unit salary costs (and hence overall personnel costs) are then largely driven by the pattern of recruitments and separations.

44. **Table 16 presents the results of a simple sensitivity analysis.** Given that more than 70 percent of the budget consists of personnel costs, the average salary and the benefits are the key risks. The sensitivity analysis suggests that the combination of a larger than assumed increase in average salaries, and a series of worse case outcomes on demand-led benefits, could add up to \$5 million to administrative expenses. On the other hand, if outturn FTEs were again below budget, that would lead to lower than budgeted salary (and benefit) costs. Other elements of risk previously mentioned by the COB, such as exposure to foreign exchange rate movements, are relatively minor by comparison: less than 8 percent of the Fund's expenses is directly or indirectly exposed to exchange rate risk.

Table 16. Gross Administrative Budget: Sensitivity to Changes in Average Salaries and Demand-Led Benefits
(In millions of U.S. dollars, unless otherwise stated)

Change in demand-led benefits budget assumption (In percent)	Average Wage (Annual increase, in percent)		
	3.3	3.8	4.3
	Budget		
5	937.1	939.6	942.1
0	934.5	937.0	939.5
-5	931.9	934.4	936.9

Source: Office of Budget and Planning.

45. Management is committed to operating within the FY 2006 budget as a hard budget constraint: given the tight budget, and in the light of the sensitivity analysis, action to strengthen budget controls is called for.

- The FY 2006 budget will maintain a contingency provision limited to \$1 million vis-à-vis the (unutilized) \$3 million built into the FY 2005 budget. But this amount will only be available to meet above estimated personnel costs: the corollary is that the totals for travel and building and other expenditures will be a binding constraint.
- As noted above, the budgetary regime for controlling staff costs is being tightened to ensure no upward deviation from the FTE number set in the budget.
- The budget provisions for non-staff salaries, travel and building and other expenditures are set in dollar amounts and the present control system, along with fungibility rules, is fully effective in controlling expenses within the amounts set.
- Budget monitoring by OBP will be reinforced with monthly reports to management on expenses and commitments on personnel costs. Quarterly reports by outputs, expenses, and activity indicators will also be provided to the COB. Management will

have the information necessary to undertake remedial action (if required) so that the gross FY 2006 budget is not exceeded.

46. **The above steps, however, will only be sufficient if it is recognized what they do not take into account.** First, the budget makes no allowance for what may emerge from the strategic, IT and ECBR reviews. While the full impact may not arise till the FY 2007 budget, some initial costs could be incurred in FY 2006. The tightness of the budget suggests little room for maneuver. Second, as in previous years, Board decisions on new or changed policies will have to be fitted into this budget—or left for implementation till FY 2007 and beyond. Third, the small contingency reserve would likely not be enough to cope with major disruptions to the Fund's operations.

F. The FY 2006 Administrative Budget Proposal

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

- a gross administrative budget of \$937 million, including \$79.2 million for the budgetary contribution to the SRP;
- projected receipts of \$60.9 million, leading to a net (of receipts) budget for FY 2006 of \$876.1 million; and
- a ceiling of 2,802 on staff positions.

G. The Medium-Term Budgetary Framework

48. **As in previous years, the Board is also asked to take note of the MTBF figures for FY 2007 and FY 2008** (Table 17).²⁵ With preparation of the Fund's medium-term strategy still underway, the estimates presented in this paper are of a mechanical nature. Following the final approval of the Fund's medium-term strategy, the above allocation—both by inputs and by primary outputs—will have to be revisited.

²⁵ The replacement of the previous Medium-Term Expenditure Framework with an MTBF as a more comprehensive framework for setting the annual administrative budget was proposed in November 2004.

Table 17. Medium-Term Budgetary Framework by Input Costs, FY 2006-FY 2008
(In millions of U.S. dollars)

	FY 2006 Budget	FY 2007		FY 2008	
		MTBF Estimate	Percentage Increase	MTBF Estimate	Percentage Increase
Personnel	659.7	684.8	3.8	710.8	3.8
<i>Of which: Contribution to the SRP</i>	79.2	82.2	3.8	85.4	3.8
Travel	99.4	108.9 1/	9.5 1/	108.5	4.5
Other	177.9	184.3	3.6	190.9	3.6
Gross budget	937.0	977.9	4.4	1,010.3	3.3
Receipts	-60.9	-63.0	3.5	-65.2	3.5
Net budget	876.1	914.9	4.4	945.0	3.3
Memorandum item:					
Annual Meetings abroad	...	5.0	...	...	...

Sources: Office of Budget and Planning; PeopleSoft Financials; and the budget/time reporting systems.

Note. Totals may not add due to rounding.

1/ Includes the \$5 million provided for the Annual Meetings planned to be held in Singapore.

49. **The MTBF estimates the cost of a continuation of all existing policies, including the new initiatives described in this paper, under an unchanged ceiling for staff positions.** They also allow for an amount of \$5 million extra to cover the cost of holding the Annual Meetings in Singapore in 2006. The MTBF assumes the same price increase for personnel costs as underlying the proposed FY 2006 budget—that is based on a 3.8 percent salary adjustment. The annual rate of increase in the cost indices for travel and building and other expenditures is assumed to continue at 4.5 percent and 3.6 percent respectively in FY 2007 and FY 2008. Receipts are projected to grow by 3.5 percent each year.

50. **Application of assumed annual price increases for the Fund's main inputs yields annual gross and net budget-to-budget increases of 4.4 percent for FY 2007 and 3.3 percent for FY 2008, respectively.**

IV. FY 2006 CAPITAL BUDGET AND THE MEDIUM-TERM CAPITAL PLAN

A. Overview

51. **Executive Board approval is sought for an appropriation of \$52.5 million for capital projects beginning in FY 2006.**²⁶ The proposed appropriation covers expenditures over the next three years of \$28.5 million for building facilities, including security enhancement projects, and \$24.0 million for information technology (IT) projects.²⁷ No provision is sought for major building projects—the HQ2 building is expected to be completed on time and within budget.

52. **The medium-term capital plan sets out the budgets for all new capital projects that are scheduled to start in each of the next three years: the plan for FY 2006–FY 2008 envisages a small increase in capital spending over these three years, relative to the three-year FY 2005–FY 2007 plan presented in FY 2005—from \$122.9 million to \$148.3 million.** Part of this increase is higher planned spending in the additional year FY 2008 (\$46.3 million) relative to that in FY 2005 (\$31.8 million). But both the FY 2008 figure, and the higher spending envisaged in FY 2006 and FY 2007, are driven by investments in improved security arrangements that were recommended by the U.S. Secret Service—which total some \$30 million (Box 4). Staff have been able to delay or rephase other capital projects to accommodate some of the additional expenditures needed on security.

53. **Expenditures on all building facilities and IT projects approved in FY 2005 are expected to remain within budget.** Several capital projects approved in earlier years were concluded: no project was over budget and several were completed under budget. Some funds which would otherwise lapse, estimated at about \$6 million, were reapplied to other projects within their category to accelerate their progress. But none of these projects is expected to be over their original budget on completion. TGS provides separate reports to the Board on the only major building project underway—the construction of the HQ2 building: a summary of progress to date is provided in Box 5.

²⁶ The draft decision on the FY 2006 capital budget is contained in Section V.

²⁷ 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.

Box 4. Capital Budget: Strengthened Security Projects

In August 2004, the U.S. authorities indicated that there was a specific terrorist threat against the Fund. Immediate steps were taken to respond to this elevated threat, leading to additional administrative budget expenses.

A threat vulnerability assessment (TVA), initiated by the U.S. Secretary of the Treasury, was undertaken by the U.S. Secret Service. The resulting recommendations identified several physical security enhancements that necessitate capital expenditures. These recommendations were reviewed and validated by external consultants.

Implementation of the TVA's recommendations (plus some small further investment in the Business Continuity Plan) is projected to require capital expenditures of about \$30.4 million; \$11.4 million in FY 2006; \$6.5 million in FY 2007; and \$12.5 million in FY 2008.

The expenditures would be undertaken in four areas:

- Strengthened Security for HQ1 - \$18.4 million
- HQ1 Visitors Entrance Security - \$5.0 million
- HQ2 Security Enhancements - \$5.5 million
- Business Continuity - \$1.5 million

The Strengthened Security Projects, totaling some \$18.4 million over the next three years, would encompass improved filtration for air handling units to mitigate the possibility of biological contamination; improved air tightness of the intake dampers; a modified emergency generator exhaust; and raised walls around the outside air intakes. These projects will bring the building into compliance with relevant codes and regulations, identified in the recent Health, Safety and Environment Study.

The HQ1 Visitors Entrance Security project (\$5.0 million over three years) would enable more stringent access control measures at HQ1. A separate visitors entrance, with a secure, blast-resistant area before visitors enter the Fund, and the installation of barrier turnstiles are required.

HQ2 Security Enhancements, totaling some \$5.5 million, would involve the installation of barrier turnstiles; x-ray and magnetometer screening for non-staff; a separate visitors/contractors entry; and structural hardening and other blast protection in areas like the visitor and contractor screening zones.

The Fund has developed an extensive Business Continuity Plan which provides for continued operations in the event that the HQ buildings become unavailable. Part of the strategy is to continue Fund operations at the Bretton Woods Recreation Center. A total of \$1.5 million is required for infrastructure improvements to the grounds and building (start date FY 2008).

Box 5. HQ2 Project

The HQ2 building project remains within the \$149.3 million budget approved by the Executive Board on April 26, 2002 and on track with the revised project. The current schedule envisages a final move-in date by June 2005.

A progress report on the HQ2 project is being finalized. Latest developments include:

- The building is nearing completion. The exterior and atrium windows are complete, and the building's mechanical systems and ceiling are substantially complete, including office lighting. Office partitions are in place and flooring materials have been largely installed. Office furniture is being set up and is scheduled to be completed by mid-April. Finishing stone and wood work and site security measures, which include street furniture that serves as protective barriers, are under construction.
- The Fund has begun operating the building's data center. This will allow time for the Fund's new IP Telephony system to be installed and tested, prior to staff occupancy.
- The Fund entered into an agreement with the relocation firm Fox Relocation Management Corporation who will manage the move of staff into the building beginning in mid-May and ending in June 2005. TGS has been working closely with departments on the final arrangements of office space allocation.
- The Bank/Fund Staff Federal Credit Union will begin the fit-out of its new branch on the first floor of the building shortly after the Fund has taken occupancy.

B. A Longer-Term Perspective on Capital Expenditures

54. **The Fund's capital expenditures—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 the replacement of many of the main software systems in more recent years. Box 6 summarizes the main features of the capital budget and expenditure (its composition and main procedures), while historical trends are presented in Figure 4.

Box 6. 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 to accommodate 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.

Building facilities projects are reviewed, prioritized, and managed by TGS, in consultation with the requesting department, if any.

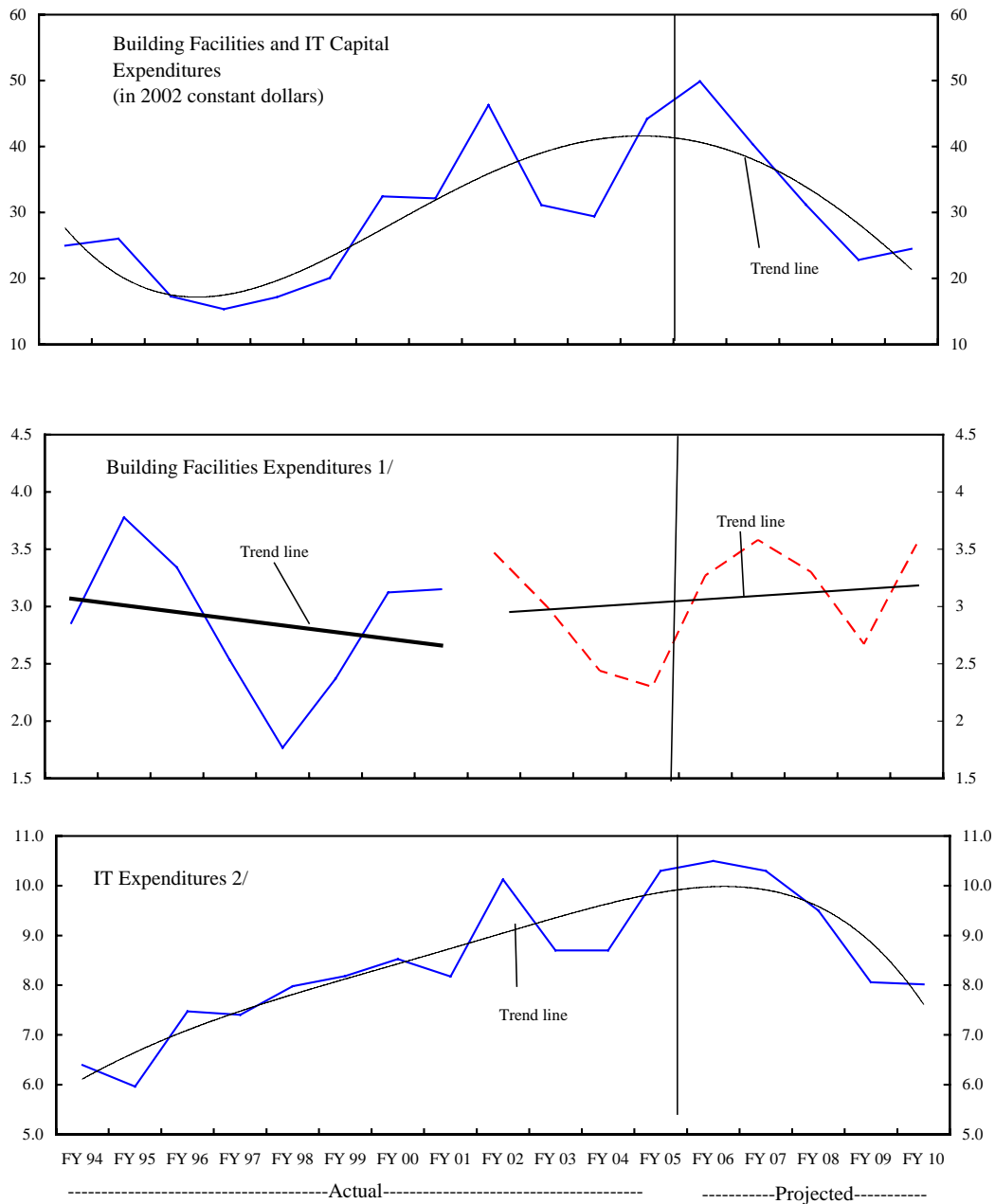
The IT program in the Fund is overseen by the Information Technology Policy Committee (ITPC) which has developed a series of IT strategic plans focusing on the following three components:

- 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 economic and other data transfer with member countries.
- 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 present capital budget procedures have remained unchanged since reforms in FY 2003. Project duration and funds are limited to three years. 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.

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.

Figure 4. Building Facilities and IT Expenditures, FY 1994-FY 2008



Source: Office of Budget and Planning.

1/ Three-year moving average as a percent of physical assets. Starting in FY 2001 asset base included Phase III.

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

55. **The resource envelopes for the three components of the Fund's capital budget—major building works, building facilities and 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; as noted, the HQ2 project is also expected to be completed on time and within budget; no further projects in this category are planned.
- **For building facilities**, annual capital expenditures, calculated as a three-year moving average, have been kept at about 3 percent (the middle panel of Figure 4) of the replacement value of the building—this is in line with external benchmarks for buildings of the size, function and age of the HQ building. This ratio has increased slightly since the addition of the Phase III building, after a period of decline. Periodic external reviews of the buildings' condition are undertaken to ensure that the level of what are fundamentally capital maintenance expenditures is adequate. The most recent such condition assessment of HQ1 was carried out in 2002; this rated HQ1 as in good condition and provided the basis for the Fund's present mechanical replacement and upgrade program.
- **Following the terrorist attacks of September 11, 2001, several security enhancement projects were undertaken under the building facilities capital budget.** But, after a specific threat to the Fund was identified in the summer of 2004, additional security measures were recommended by the U.S. Secret Service. In the six-year period FY 2003-FY 2008, approved and envisaged security enhancement projects will total some \$52 million, just over one third of the entire building facilities' capital budget over that period.
- **The ratio of total building facilities expenditures to total physical asset value can be expected to fall over the next few years.** This reflects the increase in assets associated with HQ2. Excluding expenditures on security enhancement, capital spending on building facilities is projected to remain at about 3 percent of the HQ1 asset value over the next few years, broadly in line with the historical average. However, HQ2 is not expected to require significant capital maintenance until FY 2010.
- **For IT**, total expenditures (capital plus administrative) have been held to about 10 percent of the total administrative and capital budgets (excluding the HQ2 building project) (the third panel of Figure 4). This benchmark for the overall resource cap was drawn from various industry-wide surveys that examined variations in the amounts (relative to size) that organizations (public and private sectors) spend on IT. Surveys of financial institutions (2002-2004 average) showed that IT spending constituted approximately 11 percent of their total budgets. This level of Fund IT expenditures was approached in FY 2002 and is planned for FY 2006.

- **A comprehensive review of the Fund's IT program and spending levels was undertaken during this financial year (Box 7).** The findings and recommendations are currently being considered by management. The present medium-term capital plan (and MTBF) has not taken into account any potential resource implications from the IT Review.

Box 7. IT Spending Review

Given the sizeable level of IT expenditures in recent years, management established an inter-departmental taskforce in early FY 2005 to conduct a review of the Fund's expenditures on IT. The review sought to answer the following questions:

- Where is the IT budget going?
- Have the Fund's IT investments paid off?
- Has the Fund allocated its resources appropriately between new investments versus exploiting the capabilities of existing technologies?
- Are the Fund's governance structures sufficient to evaluate new projects and establish their approximate costs and benefits?
- Is the Fund appropriately exploiting the scope for introducing new technologies?

The taskforce relied on both external and internal analyses in addressing these questions.

In its report to management in January 2005, the taskforce concluded that, while the outlays on IT were not significantly out of line with comparator institutions, there were opportunities for gains in effectiveness and efficiency. The taskforce offered recommendations in four main areas:

- improving cost effectiveness;
- strengthening IT project management and outcomes;
- establishing a commitment to data and information management; and,
- recasting IT governance.

Management is presently considering the recommendations and expects to develop a roadmap for moving forward in early FY 2006.

C. The Medium-Term Capital Plan and Expenditures

56. **The medium-term capital plan for FY 2006–FY 2008 (\$148.3 million) represents an increase from the plan for FY 2005-2007 approved in FY 2005 (\$122.9 million)** (Table 18). As noted, part of this increase is higher planned spending in FY 2008 (\$46.3 million) than in FY 2005 (\$31.8 million). The present plan, however, should be considered provisional as (i) the implications of the IT review have not yet been assessed as noted previously, and (ii) the impact of the review of employment, compensation and benefits on associated IT systems is not known.

57. **Table 19 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 2006–FY 2008, as follows:**

- Capital expenditures on building facilities are expected to rise in FY 2005 (HQ2 furniture and security are primary drivers); expenditures will be at an elevated level for at least the next two fiscal years. This reflects mainly increased expenditures on security-related projects. Beginning in FY 2008, annual capital expenditures are projected to return gradually to historical levels.
- 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. With the replacement of these systems largely completed, the focus in the FY 2006–FY 2008 capital plan is shifting to the underlying IT infrastructure.

Table 18. Medium-Term Capital Plan, FY 2005–FY 2008
(In millions of U.S. dollars)

	Fiscal Year				Total
	2005	2006	2007	2008	
	<u>FY 2005 Current Plan 1/</u>				
Building Facilities	8.1	22.7 2/	24.4	n.a.	55.2
Information Technology	23.7	24.0 2/	20.0	n.a.	67.6
Total	31.8	46.7	44.4	n.a.	122.9
	<u>FY 2006 Proposed Plan</u>				
Building Facilities 3/		28.5	26.2	25.5	80.2
Information Technology		24.0	23.4	20.8	68.2
Total		52.5	49.5	46.3	148.3

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

Note: Totals may not add due to rounding.

1/ EBAP/04/37, 4/1/04.

2/ The multifunctional and electronic printer project, previously appropriated under the building facilities capital budget, was moved to the IT capital budget after May 1, 2004.

3/ Includes security enhancement projects.

Table 19. Outturn and Projected Capital Expenditures, FY 2000–FY 2008
(In millions of U.S. dollars)

Major Program Area	Outturn					Est. FY 2005	Projected		
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004		FY 2006	FY 2007	FY 2008
Building Facilities	12.4	15.9	22.9	14.0	14.3	32.0	34.9	24.8	20.5
Budgets approved prior to FY 2006	12.4	15.9	22.9	14.0	14.3	32.0	11.2	2.1	
FY 2006 Budget							23.7	4.7	0.0
Medium-term FY 2007-FY 2008 Plan								18.0	20.5
Information Technology (IT)	18.6	15.8	30.7	24.8	21.5	32.0	32.9	30.6	23.1
Budgets approved prior to FY 2006	18.6	15.8	30.7	24.8	21.5	32.0	18.9	6.7	
FY 2006 Budget							14.0	9.1	0.6
Medium-term FY 2007-FY 2008 Plan								14.8	22.5
Total Building Facilities and IT	31.0	31.7	53.6	38.8	35.8	64.0	67.8	55.4	43.6
Major Building 1/	8.5	3.0	7.9	13.5	52.4	63.4	12.4	...	...
Budgets approved prior to FY 2006	8.5	3.0	7.9	13.5	52.4	63.4	12.4	...	...
Total Capital Expenditures	39.5	34.7	61.5	52.3	88.2	127.4	80.2	55.4	43.6

Source: Office of Budget and Planning.

1/ Includes HQ Phase III and HQ2.

D. The FY 2006 Capital Budget

58. **Within the medium-term capital plan, approval is sought for an appropriation of \$52.5 million for new capital projects starting in FY 2006.** Table 20 lists all new projects either individually or by program, along with financial year completion dates. The main components are as follows:

- **For building facilities, approval is sought for capital projects amounting to \$28.5 million:** \$11.4 million are for security related improvements and mostly stem directly from recommendations in the assessment that was undertaken by the U.S. Secret Service.
- **Three major areas of work are involved.** First, consistent with the guidelines of the Centers for Disease Control for chemical, biological, and radiological protection, the environmental security project (\$6.4 million) is directed at mitigating the effects of hazardous air contamination in HQ1. Second, \$1 million will be spent on setting up a separate permanent HQ1 visitors entrance: the project will also include the installation of barrier turnstiles for staff access. Third, additional security measures for HQ2 including the installation of barrier turnstiles; x-ray and magnetometer screening devices for non-staff; and separate visitors and contractors entrances are envisaged at a cost of \$4 million.

59. **The remaining building facilities projects for FY 2006 are as follows.**

- The opening of HQ2 will require the redesign and renovation of offices on several HQ1 floors to accommodate incoming departments in a cost effective lay-out. (\$7.5 million).
- As part of the standard long-term furniture replacement in HQ1, workspace upgrades will take place in coordination with the office renovations project. By the end of FY 2006, about 75 percent of the old furniture will have been replaced (\$5.6 million).
- The exterior of HQ1 will be cleaned and recaulked; windows cleaned and window frames resealed (\$2.6 million).
- Heating, ventilation and air-conditioning controls will be upgraded and modernized to ensure efficient operation (\$0.5 million).
- A consultant will be engaged to evaluate the present executive dining room facilities and make recommendations for improving the appeal and use of the facility (\$0.2 million).
- Other minor projects account for just under \$0.7 million.

Table 20. Capital Budget Projects Beginning in FY 2006
(In thousands of U.S. dollars)

	Project Budget	Estimated Completion
Building facilities	28,500	
Strengthened Security	11,400	FY 2007
Office Renovations at HQ1	7,500	FY 2006
Furniture Replacement for HQ1	5,640	FY 2006
Building Exterior Caulking	2,600	FY 2008
HVAC Controls Update	500	FY 2006
Food Service Improvement Study (HQ1)	200	FY 2006
Other minor projects	660	FY 2006
Information Technology	24,000	
<i>Enterprise Information Program</i>	5,025	
Information Management Systems	3,450	FY 2008
Enhancement to the Economic Data Facility	1,400	FY 2006
Metadata Exchange Project	175	FY 2006
<i>Administrative and Financial Information Program</i>	4,725	
PeopleSoft Human Resource Streamlining	3,100	FY 2007
Budget Planning and Reforms	800	FY 2007
Financial Analysis and Information Systems	550	FY 2007
Other minor projects	275	FY 2006
<i>Infrastructure and Connectivity Program</i>	14,250	
Desktop, Network and Telecommunications Equipment	4,750	FY 2006
High Availability Program	4,300	FY 2006
Storage Consolidation	3,300	FY 2007
Internet Protocol Telephony and HQ2 infrastructure	1,000	FY 2006
Other minor projects	900	FY 2006
FY 2006 Capital Budget Total	52,500	

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

60. **For IT, approval is sought for capital projects totaling \$24.0 million.** The main projects in this category are as follows.

- The projects under the **Enterprise Information Program** (\$5 million) aim at improving information and knowledge management, and are focused on the core work of the Fund. An information management program has been put in place to streamline work in the area of data management in coordination with business objectives. Enhancements to the Economic Data Facility in STA are also planned.
- The projects proposed under the **Administrative and Financial Information Program** (\$4.7 million) aim to develop a better integrated set of systems for the Fund's administrative, financial, and human resource applications. Major projects are planned to decustomize and upgrade the PeopleSoft human resource systems, as a necessary prelude to the changes that are expected after the ECBR. Systems supporting the budget reforms, such as the new Time Reporting System (TRS) deployed in FY 2005, will continue to be developed.
- The **Infrastructure and Connectivity Program** (ICP) (\$14.3 million) provides for the planned replacement of computer equipment which includes desktops, laptops, printers, and other peripherals. But the major investment under this program will be the acquisition of back-up systems under the high availability program which will guarantee availability of all critical systems in the case of a system outage or serious disruption (Box 8). Electronic storage requirements have increased 130-fold since 1995; and a storage consolidation effort will be undertaken to address a more efficient allocation of storing information.

Box 8. IT: High Availability Program

- The Fund has become increasingly reliant on its information technology infrastructure and applications services. The growing complexity of IT systems has, as in other larger institutions, been associated with higher frequency of planned and unplanned outages. After a series of outages to critical Fund IT systems which began in late 2003 and continued through early summer 2004, including e-mail and the core network infrastructure, TGS engaged the Gartner Research Group in April 2004 to develop near- and long-term plans for ensuring the availability of critical IT services.
- Gartner studied the cost of IT downtime to the Fund and reviewed TGS's current service availability goals. Based on their estimate of these costs, Gartner recommended that the Fund raise its service availability goals, on a 24x7 basis, from 99 percent (equivalent to more than 7 hours of downtime per month) to 99.9 percent (less than 45 minutes of downtime per month).
- The High Availability Program (HAP) will cost \$10.6 million over a three-year period. An addition to network server capacity at an off-site location will result in fewer service interruptions and, when outages do occur, speedier recovery. Services would typically be restored within one hour rather than many hours or days. Additional systems will also allow the Fund to eliminate or minimize the impact of scheduled outages at night or during the weekends, which benefits resident representatives, traveling and HQ staff.
- The HAP, with the off-site server facility, would also provide a more flexible and cost effective alternative to one of the core components of the Fund's Business Continuity Plan (BCP) by enabling virtually uninterrupted operations in the occurrence of an unforeseen event at the HQ1 and HQ2 facilities.

V. THE EFFECT OF THE BUDGET ON THE RATE OF CHARGE

A. The Proposed Budget and the Fund's Financial Statements

61. **The interrelationships between the Fund's administrative and capital budgets, the Fund's income position, and the rate of charge, are complex and depend on the specific financing arrangements in place.**²⁸ First, adjustments are necessary to align expenditures as shown in the budget, with expenses reported in the Fund's audited financial statements in accordance with International Financial Reporting Standards (IFRS).²⁹ Second, there are further adjustments necessary to define the expenses which, consistent with decisions of the Board, will impact directly on the rate of charge.

62. **Three main adjustments are necessary to bring the budget data into line with the Fund's administrative expenses as reported in the audited financial statements.**

- First, the "administrative" expenses must include, in addition to the Fund's administrative budget expenditures, depreciation expenses for capitalized assets as well as certain "capital" expenditures items, which are not capitalized under the Fund's accounting policies and are thus expensed in the year in which they occur. Capital assets are depreciated over appropriate periods reflecting their useful lives. Major buildings, such as HQ2, are depreciated over 30 years;³⁰ IT equipment over 3-5 years; and some items funded through the capital budget (e.g. some repairs and works), and items below a threshold of \$100,000) are expensed in the year in which the spending occurs.
- Second, an adjustment is made to take account of the difference between the actuarially determined accrual for pension and post-retirement benefits consistent with International Accounting Standard -19 (IAS 19), and the amount of funding provided in the Fund's budget.

²⁸ The Board is discussing these issues as part of the ongoing review of Fund finances.

²⁹ The Fund adopted IFRS in FY 2000.

³⁰ The HQ2 project will be depreciated after it will be occupied (in May 2005). Until then, the construction costs are classified as construction in progress (an asset) on the Fund's balance sheet.

- Third, 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 2005 is SDR 1.5 million, and the proposed assessment to be levied on each member's net cumulative allocation of SDRs is 0.00699845.

63. **Budget and financial reporting data are typically different in content (and purpose).** But it is good practice to provide a reconciliation between the two approaches. Table 21 provides such a reconciliation for the period FY 2003 to FY 2006. The key points are as follows:

- The starting point is the Fund's net administrative expenses—an estimated outturn of \$833 million for FY 2005.
- The FY 2005 estimated outturn for capital budget expenditures is \$127.4 million, of which \$82.6 million (including \$63.4 million on HQ2) will be capitalized on the Fund's balance sheet, and in turn be depreciated.
- The remaining \$44.8 million will be expensed. This includes renovations and repairs, security enhancements, and some IT development work.
- Depreciation of \$21.8 million related to assets capitalized in previous years will also be expensed.
- Taken together these last two items require an addition of \$66.6 million to the budgeted administrative expenses to calculate the FY 2005 outturn on administrative expenses on a financial reporting basis.

Table 21. The Fund's Capital and Administrative Budgets and Depreciation Expenses, FY 2003-FY 2006
(In millions of U.S. dollars)

	FY 2003 Outturn	FY 2004 Outturn	FY 2005 Estimated Outturn	FY 2006 Budget
Net administrative expenses (budgetary basis)	719.9	747.6	833.0	876.1
Plus: Capital budget items expensed	30.8	28.5	44.8	43.9
Plus: Depreciation expenses 1/	20.5	21.1	21.8	28.3
Plus: IAS 19 related expense in excess of pension plan contributions 2/	48.0	3.1	128.6	..
Minus: SDR reimbursements	(2.8)	(2.0)	(2.2)	(2.3)
Total net administrative expenses (U.S. dollars) 3/	816.4	798.3	1,026.0	..
Memorandum items:				
Total net administrative expenses (SDRs) 3/4/	607.1	548.8	687.8	..
Capital budget expenditures 5/	52.3	88.2	127.4	80.2
Assets capitalized 6/	21.5	59.7	82.6	36.3
Capital budget items expensed	30.8	28.5	44.8	43.9

Sources: Finance Department; and Office of Budget and Planning.

1/ Depreciation is calculated using the straight-line method, half-year convention, over the estimated useful lives of the assets.

2/ IAS-19 compliant estimate not yet available for FY 2006.

3/ Compliant with IFRS.

4/ As per audited financial statements (FY 2003 and FY 2004).

5/ Capital budget expenditure reflects the definition of capital projects for management and control purposes and may differ from the presentation of assets capitalized in accordance with the International Financial Reporting Standards (IFRS) in the Fund's audited financial statements.

6/ Assets capitalized include acquisitions of land, buildings, leasehold improvements, and equipment (including IT) greater than \$100,000.

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

64. **The definition of administrative expenses, which impact the rate of charge, is close, but not identical to, that used for reporting purposes in the Fund’s financial statements.** This is illustrated in Table 22. As in the case of the Fund’s financial statements, the net administrative budget is the starting point. Identical adjustments to those for reporting purposes are then made for the treatment of the capital budget, and for reimbursements associated with the SDR Department: thus, the same adjustments appear in both Tables 21 and 22. But, in addition and in accordance with Board decisions, further adjustments are made to exclude the administrative expenses relating to the PRGF Trust and the budgetary funding associated with IAS-19 related employee benefits, from the computation of the rate of charge.

Table 22. Impact of the Budget on the Rate of Charge, FY 2005-FY 2006
(In millions of U.S. dollars) 1/

	FY 2005 Estimated Outturn	FY 2006 Budget	Percentage Change
Net administrative budget 2/	833.0	876.1	5.2
Less: Approved budget for IAS 19-related employee benefits 3/	(109.5)	(114.3)	
Reimbursements for administering the SDR Department	(2.2)	(2.3)	
Non-applicable charges relating to PRGF Trust	(81.0)	(84.4)	
Net administrative budget expenses	640.3	675.1	5.4
Capital budget expenditures expensed	44.8	43.9	
Depreciation expenses	21.8	28.3	
Total net administrative expenses	706.9	747.3	5.7
Memorandum item:			
Total administrative expenses (SDRs)	473.9	494.9	4.4

Sources: Finance Department; and Office of Budget and Planning.

1/ Total budgetary expenses net of recovery and reimbursements of expenses.

2/ Based on average exchange rate in FY 2005; current exchange rate for FY 2006.

3/ Excludes funding related to SRP buy-back.

65. **The rate of charge is affected by a number of factors in addition to a change in the Fund's administrative expenses.** Under current arrangements, a change in the administrative expenses would, at the margin, produce a different rate of charge, *ceteris paribus*, i.e. assuming that all income-producing or cost-reducing factors (such as the cost-reducing effect of the Fund's own resources - the so-called interest-free-resources) are fixed, such that the rate of charge is the only variable factor to allow for the generation of a certain amount of net income. Other factors that affect the rate of charge include the level of receipts, the level of outstanding use of Fund credit, the timing of disbursements, and the prevailing SDR interest rate. In addition, while budgetary expenses are met in U.S. dollars, the rate of charge is calculated in SDRs, and will therefore be influenced by the U.S. dollar/SDR exchange rate.

66. **For illustrative purposes, and assuming existing conditions for other factors that affect the rate of charge, each increase of \$10 million in the administrative budget would require, at the margin, an increase in the rate of charge of approximately one basis point.** Prior to any exchange rate effects, the total expenses to be met by the rate of charge are expected to rise by about 5.7 percent in FY 2006 over the amount in 2005. In SDRs, the effect on the rate of charge is less, at a little over 4 percent, reflecting the relative decline of the US dollar. The increase in the FY 2006 budget over the FY 2005 outturn, therefore represents a contribution to the rate of charge of about 4 basis points.

67. **Finally, the Special Disbursement Account (SDA) is required—with retransfers from the Reserve Account of the PRGF Trust—to reimburse the GRA for the expenses incurred in administering the PRGF operations.** However, for FYs 1998 through 2005, the Fund decided to forego such reimbursements. Thus, the costs of administering the PRGF Trust were borne by the GRA.³¹ The estimated outturn of these costs for FY 2005 is SDR 54.4 million, compared with the budget estimate of SDR 66.2 million, reflecting mainly fewer than anticipated PRGF programs and the appreciation of the SDR. For FY 2006, the cost of administering the PRGF Trust is projected to be about SDR 55.1 million, and it is proposed to forego reimbursement to the GRA for FY 2006 on the assumption that in FY 2006 no SDA resources in the Reserve Account will be used for PRGF loans (if such resources were used, a portion of the administrative costs related to the SDA resources would need to be reimbursed to the GRA from the SDA).³²

³¹ The non-reimbursement of the PRGF expenses does not directly affect the rate of charge because such expenses are charged to surcharge income.

³² See *The Review of the Fund's Income Position for FY 2005 and FY 2006*, to be issued shortly.

VI. DRAFT DECISIONS

1. **Draft decisions on the Administrative and Capital Budgets for FY 2006, and an assessment of the expenses of the SDR department, are proposed for adoption by the Executive Board.** Decision No. 1 sets out both a gross and net budget ceiling on administrative expenditures that cannot be exceeded without Executive Board approval, and a total for full-time staffing that also cannot be exceeded. Expenditures by the Executive Board and the Independent Evaluation Office, for which estimates are included in the budget, will be monitored and reported by OBP. Also, as approved by the Executive Board, the decision includes authority for management to approve commitments that exceed the gross administrative budget, when such additional expenditures are fully financed externally from administered and other resources pursuant to Article V, Section 2 (b) of the Articles of Agreement.³³
2. The following draft decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

Decision No 1.

Administrative Budget for Financial Year 2006

1. Appropriations for administrative expenditures for FY 2006 are approved in the total amount of \$937,000,000 (or \$876,100,000 net of estimated receipts) of which an estimated \$38,500,000 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, Section 2 (b) of the Articles of Agreement.

Decision No 2.

Capital Budget for Projects Beginning in Financial Year 2006

1. Appropriations for capital projects beginning in FY 2006 are approved in the total amount of \$52,500,000 and are applied to the following project categories.

³³ Externally financed technical assistance.

- | | |
|----------------------------|--------------|
| I. Building facilities | \$28,500,000 |
| II. Information technology | \$24,000,000 |
2. Commitments may be made for Categories I and II, up to the amount indicated above. Any commitment going beyond these amounts must be submitted to the Executive Board for approval.

Decision No. 3

Assessment Under Article XX Section 4 For Financial Year 2005

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, 2004 through April 30, 2005; 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, 2005 with an amount equal to 0.00699845 of their net cumulative allocations of special drawings rights. The total assessment shall be paid into the General Department.

ACRONYMS USED IN BUDGET PAPERS

AFRITAC	African Technical Assistance Center
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCP	Business Continuity Plan
BRS	Budget Reporting System
BSR	Biennial Review of Surveillance
CAREC	Central Asia Regional Economic Cooperation
CARTAC	Caribbean Regional Technical Assistance Center
CAS	Cost Allocation System
CBA	Cost Benefit Analysis
COB	Executive Board Committee on the Budget
DSBB	Dissemination Standards Bulletin Board
ECBR	Employment, Compensation, and Benefits Review
EDF	Economic Data Facility
EPA	Ex-Post Assessment
ESD	Enterprise Software Distribution
FACTS	Financial Administrative Control and Tracking System
FASS	Financial and Administrative Systems Subcommittee
FATF	Financial Action Task Force
FCA	Facility Condition Assessment
FCI	Facility Condition Index
FSRB	FATF-style Regional Body
FTE	Full-Time Equivalent (person years of employment)
FTS	Full-Time Staff (open-ended and limited-term staff)
FSAP	Financial Sector Assessment Program
FY	Financial Year (May 1 to April 30)
GDDS	General Data Dissemination Standard
GLI	Group Life Insurance
GRA	General Resources Account
HAP	High Availability Program
HIPC	Heavily Indebted Poor Country
HSE	Health, Safety, and Environment
HQ1 and HQ2	Headquarters Building 1 and 2
IAS	International Accounting Standard
ICP	Infrastructure and Connectivity Program
IFS	International Financial Statistics
IFRS	International Financial Reporting Standards
IMS	International Monetary System
IMFC	International Monetary and Finance Committee
IPT	Internet Protocol Telephony
IT	Information Technology
ITPC	Information Technology Policy Committee
JSA	Japan Administered Account for Selected Fund Activities

LICs	Lower Income Countries
MBP	Medical Benefits Plan
MDGs	Millennium Development Goals
METAC	Middle East Technical Assistance Center
MFD	Monetary and Financial Systems Department
MTBF	Medium-Term Budgetary Framework
MTEF	Medium-Term Expenditure Framework
OFC	Offshore Financial Center
PFTAC	Pacific Financial Technical Assistance Center
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
RAP	Research Assistant Program
ROSC	Report on the Observance of Standards and Codes
RSBIA	Retired Staff Benefits Investment Account
RTAC	Regional Technical Assistance Center
SBM	Senior Budget Manager
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
SITA	Société Internationale de Télécommunications Aéronautiques
SMP	Staff Monitored Program
SOA	Sarbanes-Oxley Act
SPM	Senior Personnel Manager
SRP	Staff Retirement Plan
TA	Technical Assistance
TIMS	Travel Information Management System
TRS	Time Reporting System
TVA	Threat Vulnerability Assessment
UFR	Use of Fund Resources
UN	United Nations
UNDP	United Nations Development Program
VTC	Video Conferencing

List of Departments and Offices

Area Departments

AFR	African Department
APD	Asia and Pacific Department
EUR	European Department
MCD	Middle East and Central Asia Department
WHD	Western Hemisphere Department

Functional and Special Services Departments

FAD	Fiscal Affairs Department
FIN	Finance Department
ICM	International Capital Markets Department
INS	IMF Institute
JAI	Joint Africa Institute
JVI	Joint Vienna Institute
LEG	Legal Department
MFD	Monetary and Financial Systems Department
PDR	Policy Development and Review Department
RES	Research Department
STA	Statistics Department
STI	Singapore Regional Training Institute

Information, Liaison and Support Departments

EXR	External Relations Department
HRD	Human Resources Department
SEC	Secretary's Department
TGS	Technology and General Services Department

Offices

ATB	Administrative Tribunal
ETO	Ethics Office
EUO	Offices in Europe
IEO	Independent Evaluation Office
INV	Investment Office
OAP	Regional Office for Asia and the Pacific
OBP	Office of Budget and Planning
OIA	Office of Internal Audit and Inspection
OMD	Office of the Managing Director
OTM	Office of Technical Assistance Management
UNO	United Nations Office