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FY2015–FY2017 MEDIUM-TERM BUDGET

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- The **Staff Report** on the Medium-Term Budget was prepared by IMF staff and completed on March 31, 2014 for the Executive Board's consideration on April 28, 2014.
- A **Press Release** summarizing the views of the Executive Board as expressed during its April 28, 2014 consideration of the staff report.

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International Monetary Fund
Washington, D.C.

FY2015–FY2017 MEDIUM-TERM BUDGET

March 31, 2014

EXECUTIVE SUMMARY

The proposed FY 15–17 Medium-Term Budget (MTB) was formulated within the Fund's strategic planning framework to align allocation of resources to the delivery of institutional priorities.

For the ***net administrative budget***, the FY 15–17 MTB proposal includes:

- ***In FY 15, an unchanged budget envelope in real terms, for the third year in a row.*** New demands are met once again through better utilization and reallocation of existing resources, including a small reduction in crisis allocations.

- ***For FY 16–17, as a baseline assumption, a flat real budget envelope as well.*** In the baseline, further savings in crisis allocations along with continued streamlining are counterbalanced by new priority demands and the need to rebuild the contingency. However, given uncertainties about the post-crisis world, a range of outcomes is also possible: at the lower end, reduced crisis resolution work and continued streamlining efforts dominate and the overall budget envelope declines back by almost one half of the crisis allocation; at the upper end, the effects of a continued adverse global environment and the need for additional crisis prevention efforts more than offset efficiency savings and an even larger overall budget is warranted.

Within an unchanged net administrative budget for FY 15, some $24 million of key priority demands would be accommodated by: using unspent carry forward funds from FY 14 ($12 million), reallocating internal budget space ($7 million), and reducing the official contingency ($5 million).

Planned ***gross expenditures*** in FY 15 reflect a further increase in externally-financed capacity development (CD). In the outer years of the MTB, the level of externally-financed operations is expected to level off.

The level of the proposed FY 15 ***capital budget*** has increased slightly relative to FY 14 mainly to accommodate the move of the Investment Office to an offsite location and the combining of data centers to gain office space.

Approved By
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Prepared by an Office of Budget and Planning (OBP) team with Gisela Ulmschneider as lead and James Gordon as supervisor and including contributions from Phebe Abiye, Nora Bennis, Rebecca Brofft, Melanie Burke, Gregory Conway, Taha El Hajji, Heikki Hatanpaa, Mark Henderson, Neena Kapur, Sepideh Khazai, Anne Kim, Rosa Mariduena, Carolina Parodi, Samuele Rosa, Anika Shtuni, Janet Stotsky, Muriel Vimond, and Jiu Hong Zhou.

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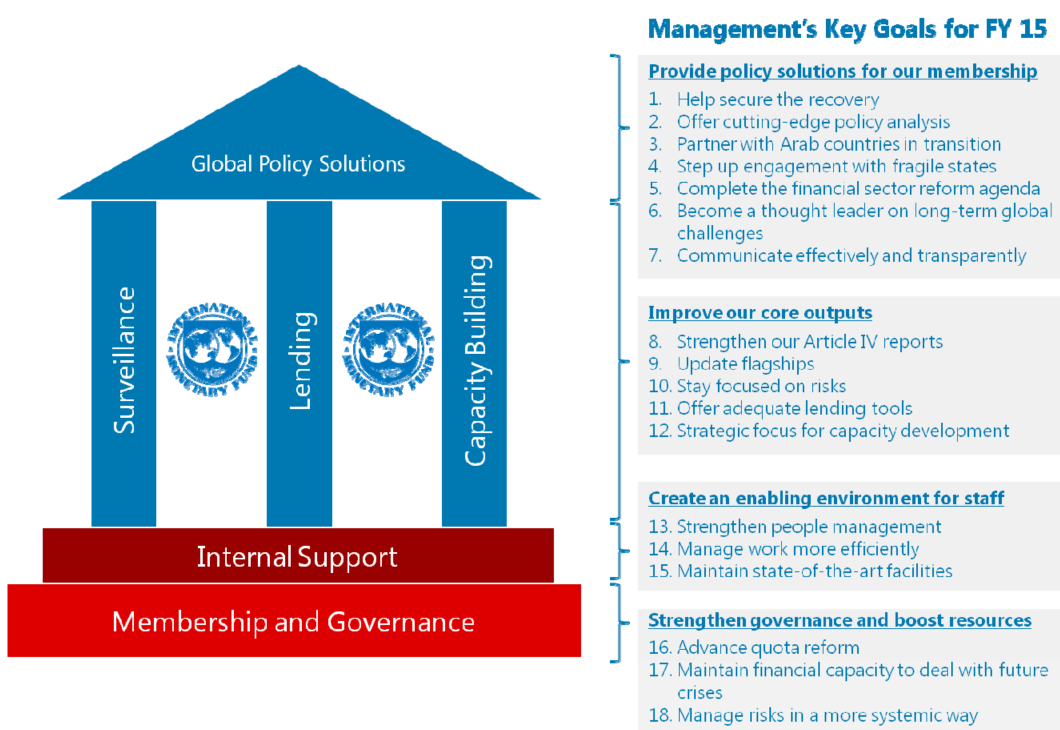
STRATEGIC DIRECTIONS AND THE BUDGET

1. **The FY 15–17 medium-term budget has been formulated within the Fund's strategic planning framework.** The overall budget envelope is set so as to enable achievement of the institution's strategic priorities. Resources are allocated to departments with those priorities in mind (Annex I). The Fund's strategic directions are laid out in the Managing Director's biannual Global Policy Agenda (GPA) that identifies challenges facing the global economy and focuses on appropriate policy responses.[1] Recent GPAs give emphasis to helping countries manage the withdrawal of monetary accommodation in advanced economies and to boosting growth and reducing vulnerabilities across the membership. Other priorities include integrating spillover risks into bilateral surveillance, building technical capacity in member countries, and providing support to Arab Countries in Transition (ACTs).

2. **Institutional objectives laid out in the GPA have been translated into Management's Key Goals (MKGs) for FY 15.** Specifying high-level MKGs helps align individual departments' objectives with broader institutional priorities through the Accountability Framework. Key operational and policy objectives are grouped under three broad categories: *providing policy solutions*; *improving core outputs;* and *strengthening governance and resources.* The MKGs also specify internal objectives aimed at *creating an enabling environment for staff* (Figure 1). Departments are increasingly cascading their objectives down by formulating accountability frameworks at the divisional level.

Figure 1. Overview of Fund Activities and Outputs



[1] Managing Director's Global Policy Agenda, October 2013: http://www.imf.org/external/np/pp/eng/2013/101213b.pdf and April 2014 http://www.imf.org/external/np/pp/eng/2014/041214.pdf.

SETTING THE BUDGET CONTEXT

3. **Global activity continues to strengthen, with risks somewhat lower**. The global recovery is being led by the advanced economies, although low inflation is a potential concern given still-large output gaps and unemployment rates that remain elevated. Activity remains weak in emerging market economies where the risks of financial volatility persist. Overall, risks have diminished somewhat but are still biased to the downside. In this uncertain environment, the Fund is playing an active role in alerting the membership to potential risks to the recovery and to financial market stability.

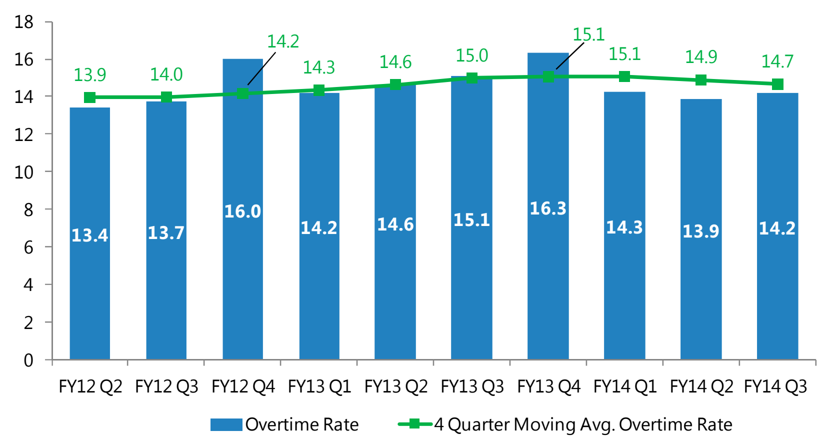
4. **The Fund's response to the evolving needs of the membership can be tracked in terms of outputs using estimates from the Analytic Costing and Estimation System (ACES).** With the number of programs subsiding, the share of resources devoted to lending has fallen somewhat since its peak in FY 11. Work to reform Fund policies and instruments has also ebbed from peaks in the wake of the crisis. Within the Fund's budget, freed-up resources have been shifted to crisis prevention through enhanced bilateral and multilateral surveillance. There has also been a marked increase in capacity development, largely funded through external donors (Annex II).

5. **After a hike of 3 percent in FY 12, the net administrative budget was held flat in real terms in FY 13 and FY 14, with efforts made to address persistent work pressures and under spending:**

- **Initial signs are promising that work pressures are past their peak (Figure 2).** In FY 13 and FY 14 unused central margins were reallocated to fund additional staff positions in departments to meet new needs but also to address persistent high levels of overtime. At the same time, it was recognized that work pressures needed to be addressed through better prioritization and management, an issue that has featured prominently in the Accountability Framework discussions between management and department heads.

Figure 2. Average Fund-wide Overtime Rate, FY 12 Q2–FY 14 Q3 1/

(Percent)

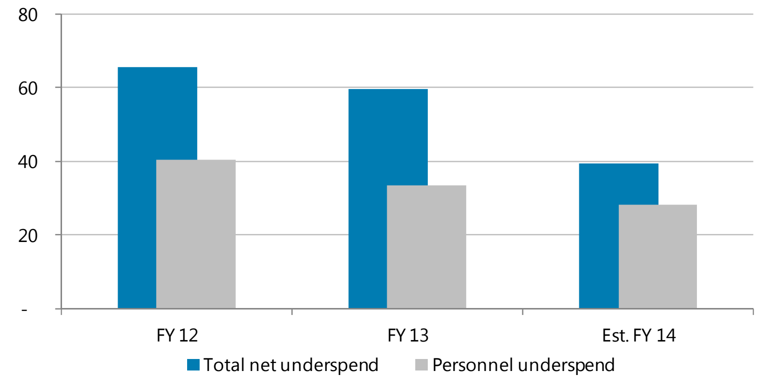


Source: Office of Budget and Planning.
1/ Data includes professional level staff and contractuals, and headquarters-based experts.

- **Underspending is approaching frictional levels (Figure 3)**. Consistent with the budget strategy, departments have been able to better utilize budgeted resources aided by a flexible policy introduced to help reducing frictional vacancies by allowing the budget limits for A-level staff positions (FTEs) to be temporarily exceeded as long as departments remain within their dollar budgets. For FY 14, underspending in the net administrative budget is estimated at about $40 million, or 4 percent, about a third lower than in FY 13.[2]

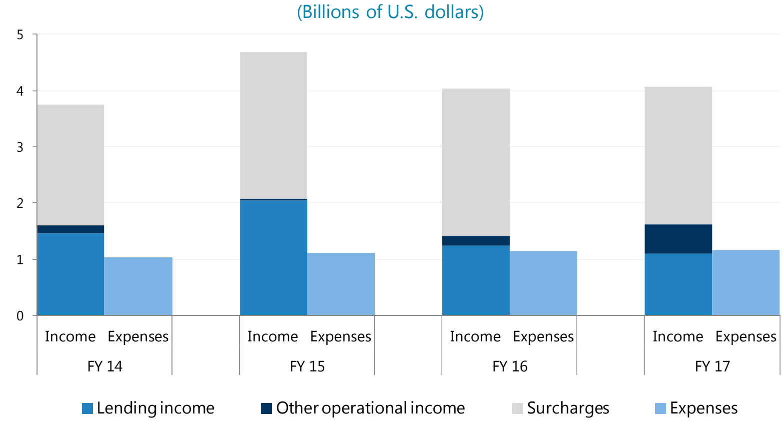
- **Supported by continued high lending income and increasing non-lending income, the Fund's net income position is projected to remain strong over the medium term (Figure 4).** While the number of GRA arrangements has declined by more than one third since the peak levels in FY 11, credit outstanding remains elevated (Figure 5). Net operational income and surcharges are being used to build reserves.[3]

Figure 3. Evolution of Underspend, FY12–14 1/
(Millions of U.S. dollars, Fund-financed)



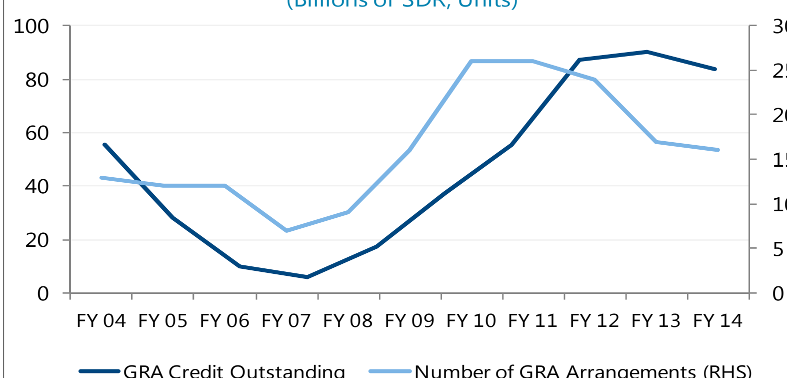
Source: Office of Budget and Planning.
1/ In FY 12 and FY 13, reflects underspend before additional contributions to the RSBIA were made.

Figure 4. Projected Income and Expenses, FY 14–17 1/ 2/ 3/
(Billions of U.S. dollars)



Sources: Finance Department and Office of Budget and Planning.
1/ Operational income = Lending income + other operational income.
2/ Expenses include net administrative expenses, capital budget items expensed, and depreciation.
3/ Net Operational income = Operational income - Expenses.

Figure 5. Fund GRA Credit Outstanding and Number of Arrangements, FY 04–14 1/
(Billions of SDR, Units)



Sources: Finance Department and Strategy, Policy & Review Department.
1/ Last observation as of February 2014.

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[2] Annex III on the FY 14 estimated outturn provides additional details.

[3] Additional information is provided in "The Consolidated Medium-Term Income and Expenditure Framework" available at imf.org.

THE MEDIUM-TERM BUDGET, FY 15–17

6. **The proposed medium-term budget strategy for FY 15–17 has two key features discussed in more detail in the following sections:**

- **Maintenance of an unchanged real budget envelope for FY 15 for the third year in a row.** This proposal was broadly endorsed by the Committee of the Budget on February 25, 2014 and reflects the continued emphasis on meeting new demands through better utilization and reallocation of existing resources; and

- **Uncertainty about likely resource needs in a post-crisis world.** A crisis allocation was introduced in FY 10/11 and expenditure devoted to lending peaked in FY 12.[4] Since then, the number of programs has declined but post-program engagement has remained intensive. Meanwhile, available margins (including resources available as a result of underspending in other areas) have been redirected towards crisis prevention in both bilateral and multilateral surveillance, as well as capacity development. Moreover, new cost drivers have emerged, such as additional IT and physical security expenses. For FY 15, a small reduction in crisis needs would be re-allocated to new demands. Going forward, given the uncertainties as to how spending needs will continue to develop, as a baseline assumption, a flat budget envelope overall is also proposed for FY 16–17. Within the overall envelope, it is considered that increased structural resource needs represent slightly more than one-half of the allocation hitherto considered crisis.

A. The FY 15 Administrative Budget

The process for determining the composition of the FY 15 budget within a flat envelope was, first, to identify new priority needs according to the MKGs and second, to create budget space for these priorities through reallocation and efficiency measures.

New Demands

7. **Notwithstanding significant efforts to reallocate and make room for emerging needs (see Section C), departments identified some $50 million in net new demands for FY 15.** In the process of assessing budget demands against the MKGs, close to $26 million of the new needs were identified as priority requests. The remainder were less closely matched to key priorities.

- *Priorities that were already approved or satisfy a clear corporate-wide need amounted to almost $11 million.* An immediate priority was to provide for resident representative posts (e.g., Cyprus) that were funded during FY 14 from the central contingency ($1.1 million), as well as for enhanced

[4] In late 2008, shortly after the Fund's restructuring was initiated, the global financial crisis started to have a dramatic effect on the Fund's activities and lending arrangements. The Fund mobilized quickly and beginning with FY 10 crisis-related resources were made available to help finance additional expenditures as the number of GRA lending arrangements more than tripled to 27 relative to the baseline of 7 set in the FY 09–11 MTB. In FY 12, in recognition of the Fund's enhanced role in the global economic arena, the Executive Board approved a 3 percent structural increase and retained the crisis allocation of $52 million.

work on spillovers and the external stability report ($1 million). Corporate-wide needs primarily consisted of security-related expenses ($5 million), both for IT and physical security (particularly in ACTs), and the annual budget for skills upgrading and promotions ($3 million).

- *Demands that could be directly linked to the MKGs amounted to another $15 million*. This category included new resident representative posts in fragile states and ACTs and the Fund's contribution to the cost of a new RTAC[5] ($3.5 million); technical assistance to Europe that was previously financed by the European Commission ($1.3 million); work on AML/CFT, implementation of the Integrated Surveillance Decision, and work related to the data gap initiative ($2 million); and strengthening the Fund's risk management ($1.1 million). Demands related to internal objectives ($7 million) included economics and HR training and programs, and some extra Annual Meeting costs due to HQ1 renovation.

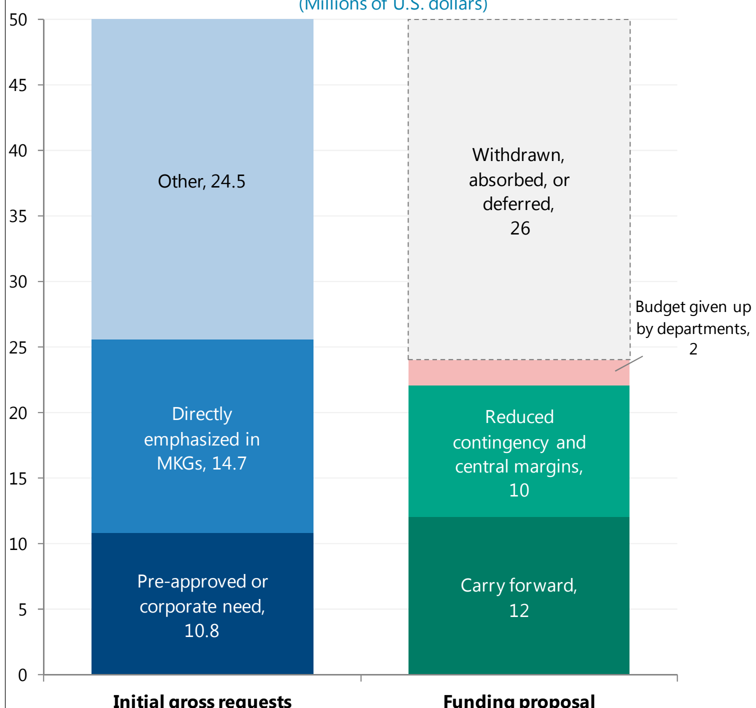
- *Other demands amounting to $24 million were deemed as lower priority at this juncture*. These included for example, additional FSAPs, an increase in the number of fiscal transparency assessments, and certain extra IT-related expenses. Also included in this category is the free-data initiative,[6] implementation of which has been temporarily deferred.

Reallocation to Meet New Demands

8. **Measures were identified that could accommodate some $24 million of the priority requests within a flat real envelope (Figure 6).**

- *First, $12 million in demands were considered to be one-off in nature*, including large regional conferences in Mozambique and Jordan, a number of HR initiatives, such as the Triennial Compensation Review, as well as TA activities. It is expected that all these items will be funded from temporary unspent funds carried forward from FY 14; as such, they would not be part of the FY 15 budget appropriation.

Figure 6. FY 15 Budgetary Pressures
(Millions of U.S. dollars)



Source: Office of Budget and Planning.

[5] The Fund typically covers the bulk of the start-up costs for new Regional Technical Assistance Centers (RTACs) and Regional Training Centers (RTCs) and provides funding for the RTAC coordinators on an ongoing basis.

[6] The free data initiative is a proposal to rescind the current charging mechanism for certain long-standing statistical products, such as *International Financial Statistics* and *Direction of Trade Statistics*. The impact on the budget would be mainly in the form of lost revenue.

- *Some $10 million in requests would be financed internally* through a reduction in the ex-ante contingency from $9 million to $4 million, the reallocation of a small unused central margin associated with lower-than-planned personnel spending, and from real savings stemming from holding departments' nominal business travel budgets flat (see Box 1).

- *A reduction in baseline budgets of several departments would yield a further $2 million.* With the effects of the global crisis receding, EUR and SPR were able to reduce crisis allocations in their budgets slightly to meet resource needs elsewhere in the institution. In addition, SEC achieved a reduction in the costs of its regular activities associated with the Annual Meetings, and OBP is rebasing staff resources due to the completion of certain phases of the ACES data modeling work.

Box 1. Business Travel Measures

Changes in policy and operational procedures

Greater efficiencies in business travel have been achieved over the last five years in a number of ways:

- The travel policy underwent considerable reform in FY 09 with the introduction of the designated airline program; the lowest available direct fare (LADF) as the benchmark for each trip; and the alignment of per diem rates with those of the U.S. State Department.
- Through various IT changes, better and more timely information on travel has been made available to departmental managers including more transparency on actual ticket costs.
- Early ticketing has been emphasized as a way to obtain a more favorable price. An advance ticketing indicator in the Accountability Framework has raised the visibility of ticketing behavior across departments and has promoted good practice. Table 1 illustrates the improvements made from FY 12 to present.

The efficiencies achieved have led to declines in the average cost per mile since FY 11 (Table 2).

Table 1. Advance Ticketing, FY 11–14

(Average number of days)

Department groups	FY12	FY13	FY14 1/
Fund-wide	18.8	22.1	22.7
Area	19.3	23.1	23.5
Functional	17.2	23.2	22.9
Functional - TA	18.1	20.5	21.5
Support	26.9	34.5	31.7

Source: Office of Budget and Planning.

1/ Trips through January 2014.

Table 2. Average Cost per Mile, FY 11–14

(U.S. dollars)

	FY 11	FY 12	FY 13	FY 14 1/
Average cost per mile 2/	0.42	0.41	0.39	0.38

Source: Technology and General Services Department (Transportation Section)

1/ Captures travel from May 2013–January 2014.

2/ Indicator is based on international travel only.

Overall impact

The potential savings from early ticketing and other travel measures are estimated at $5–7 million per year, about half of which has been captured by the center by holding department's nominal travel budgets unchanged since FY 12.[1] The remaining savings have allowed departments a modest increase in travel volumes to strengthen their engagement with member countries.

Going forward

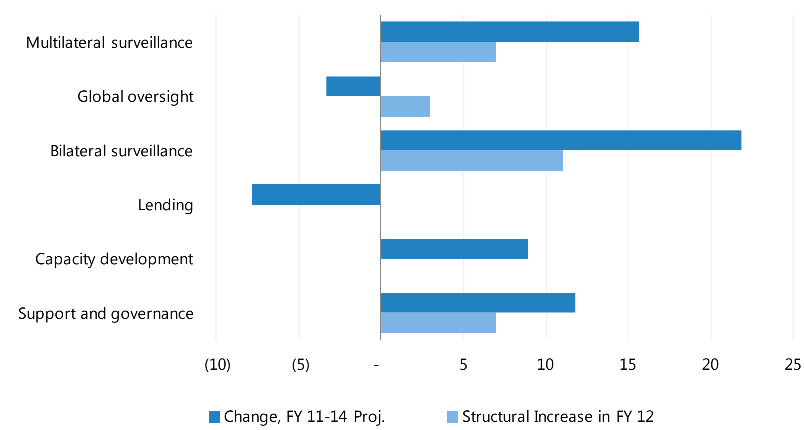
Over the medium term, efforts to promote cost effective use of travel resources will continue. A key priority will be to monitor the impact of the new airline contracts starting in FY 15. The new airline contracts include joint ventures, which are cooperative agreements formed by airlines that allow them to combine their comparative advantages in terms of routes and other services. In addition to benefits to the traveler (e.g., better coordinated schedules and flight options, more seamless baggage handling, etc), the joint ventures also allow for the alignment of fares for itineraries that involve multiple carriers in the partnership which is likely to result in more cost effective travel.

[1] Measurement issues make it difficult to calculate the savings from early ticketing with precision, but a rough estimate of the potential savings was derived by using the total number of tickets, multiplied by a savings factor ranging from $700–2,000 per ticket (depending on the extent of the advance ticketing) minus an assumption on penalty fees for cancellations and changes.

B. Trends Shaping the Medium-Term Budget

9. **Global economic conditions have strengthened since the introduction of the crisis allocation in FY 10/11.** The number of financial arrangements has come down; however, the continuation of intensive engagement via non-lending arrangements has implied that, at least to date, rather little resources have been freed up (Figure 7). Yet, new demands have been placed on the Fund with regard to devising new and enhanced tools to better prevent and guard against future crises, and to capacity development. Some of these new initiatives were funded by the FY 12 increase in the structural budget. But, given other cost increases, their full accommodation has also required squeezing margins and the contingency.

Figure 7. Shifts in Outputs, FY 11–14 Projected 1/
(Millions of FY 12 U.S. dollars)



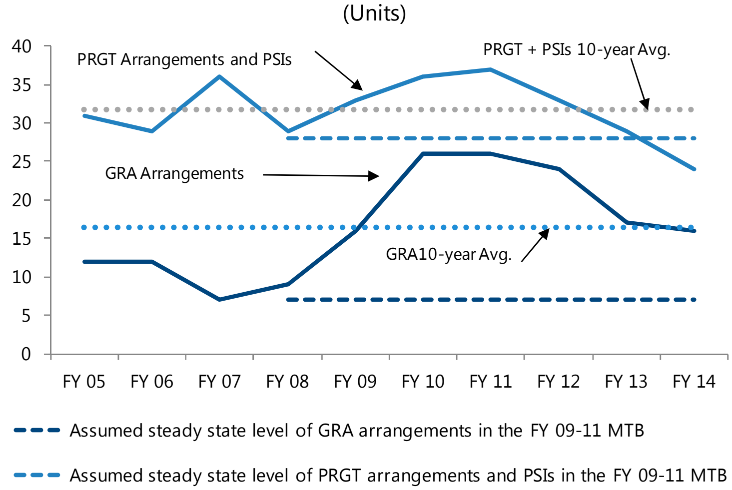
Source: Office of Budget and Planning, ACES.
1/ Fund-financed, not fully loaded.

10. **Looking at the trends in the Fund's activities and associated budget consequences, several developments are noteworthy.**

11. **First, with regard to the Fund's bilateral engagement with the membership, it is now clear that the baseline assumptions in setting the FY 09–11 MTB were unrealistic and underestimated the level of resources required**.

- **Lending:** The number of GRA arrangements has declined back to historical norms, although still well above the baseline assumed at the time of the Fund's restructuring (Figure 8). In terms of the staffing model described in Box 2, the number of programs assumed in the steady state was too low and hence the level of structural spending was underestimated by $15–18 million (10 extra arrangements at an additional cost of $1.5–1.8 million each).

Figure 8. Number of Fund Arrangements, FY 05–14 1/
(Units)



Source: Strategy, Policy, & Review Department.
1/ Last observation as of February 2014.

Moreover, the required staffing coefficient takes time to decline (from β^P to β^S) after countries move out of active program status because engagement can remain intense for an extended period of time due to post-program monitoring and the continued need for a resident representative. Engagement with low-income countries also remains deep, despite a recent decline in PRGT cases.

Box 2. Basic Staffing Model

Staff are allocated to area departments on the basis of the level of engagement and intensity of interaction with countries in the region. OBP uses a fixed coefficient model as an indicative guide to assessing staffing need. In its simplest form, the required staffing level for a department's country work (lending and bilateral surveillance), S, is given by:

$$S = \beta^P N^P + \beta^S (N - N^P)$$

where N is the number of countries in the department, of which N^P have programs, β^P is the number of staff assigned to a program, β^S is the number of staff assigned for surveillance, and $\beta^P > \beta^S$. In reality, there are various types of program engagement (e.g., financial and non-financial arrangements) and various types of surveillance (e.g., intensive, standard, 24 month cycle) and the values for $\beta^{P'}$ and $\beta^{S'}$ are differentiated accordingly. The model can also be calibrated to incorporate the functional department support provided to country teams.

- **Bilateral surveillance:** In the wake of the crisis, bilateral surveillance has been enhanced through the Integrated Surveillance Decision, with additional emphasis in Article IV consultations on financial sector analysis, better integration of risk and spillover assessments, and greater focus on job and growth issues. Given the expanded scope of this work, and that vulnerabilities remain high, particularly in emerging markets, area departments are of the view that the coefficients in the structural staffing model should be larger for certain country desks. The additional direct cost relative to that provided for in the current structural baseline is about $5 million.[7]

12. **The toolkit to shift the emphasis from crisis management to crisis prevention has also been sharpened in multilateral surveillance**. New and improved products, such as the pilot External Sector Report, as well as deeper focus on cross-cutting analysis, interconnectedness, spillovers, risks, and global imbalances, have already become part of the Fund's regular work. Some of this extra work was funded by the structural budget increase in FY 12, but ACES estimates suggest that resources devoted to multilateral surveillance are at least $5 million higher.

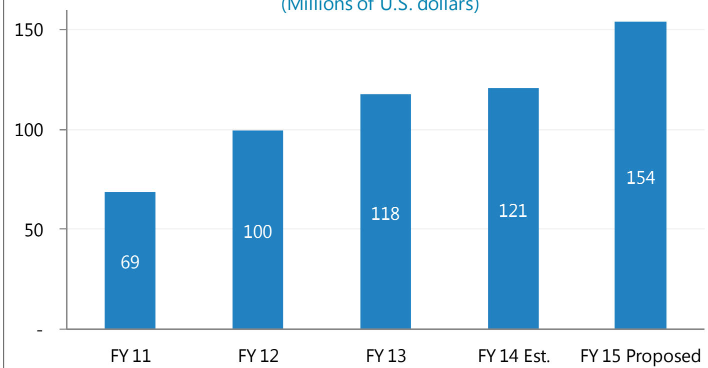
[7] In fact, area departments not only consider β^S to be too low for vulnerable non-program countries, but also consider β^P to be too low for certain vulnerable program countries. At present, they are spending about $2 million more on these countries than would be implied by the staffing model.

13. **The Fund has expanded the volume and scope of its CD activities.** In response to the crisis, the Fund first ramped up curative CD to countries with financial arrangements to facilitate the implementation of crisis-resolving measures. With the receding crisis, the focus has shifted increasingly to preventive CD that helps members upgrade policy and institutional frameworks to boost resiliency to shocks. In this context, CD has also been expanded to cover advanced economies. At the same time, the Fund's financial support to the RTACs which provide services to more traditional recipients of TA has increased.

14. **Much of the expansion in CD has been externally funded, but there have also been calls on the Fund-financed budget:**

- The structural demand for Fund-financed CD is estimated to have increased by about $8 million since FY 11 reflecting the provision of CD to program countries, particularly in Europe, and the cost of providing coordinators for additional RTACs.

Figure 9. Donor-funded Capacity Development, FY 11–15
(Millions of U.S. dollars)



Source: Office of Budget and Planning.

- Current arrangements with donors do not fully recover overheads associated with externally funded CD such as HQ office space, IT, and HR costs. Using ACES and the average cost of TA projects, the expansion in donor funded activities since FY 11 (Figure 9) is estimated to imply around $5 million in unrecovered overhead costs that need to be absorbed within the Fund's budget. [8]

15. **Two other key cost developments were not anticipated in the FY 09–11 structural baseline:** a large increase in security expenditures, and a revamped training program.

- *Spending on security.* The cost of physical security at headquarters and for missions and resident representative offices has grown by about $5 million. At the same time, IT security to guard against cyber attacks and threats has increased by about $3 million.

- *Targeted economic and HR/management training has also increased by about $3 million.* Such spending meets an important structural need given under-investment in previous years, particularly during the crisis.

[8] Some uncertainties remain about the exact amount of unrecovered overhead costs; as work continues, these estimates will be refined as appropriate.

16. **Annual cost implications of these developments are shown in Table 1.** At a minimum, correcting the baseline assumptions regarding the number of GRA programs and staff assigned to surveillance of vulnerable countries to more realistic scenarios, plus allowing for higher security costs, requires that about $30 million of the crisis budget should more transparently be considered structural in nature.

Table 1. Increase in Annual Structural Costs, FY 15 Projected vs. FY 12

(Millions of U.S. dollars)

		Additional Annual Cost
Total		**54**
Lending	Steady state number of program countries (N^P in Box 2) should be higher	18
	Staff assigned to vulnerable program countries (β^P) considered to be too low	2
Bilateral Surveillance	Staff assigned to vulnerable non-program countries (β^S) considered to be too low	5
Multilateral Surveillance	Sharpened toolkit for crisis prevention	5
Capacity Development	Expanded Fund-financed CD	8
	Unrecovered overheads from donor-financed CD	5
Cost of Security	Field, HQ, and IT	8
Training	Economic and HR/management	3

Source: Office and Budget and Planning.

C. Efficiencies and Reallocations

17. **With the budget flat since FY 12 and overtime already high, the Fund has made considerable efforts to reallocate and operate more efficiently to meet new demands**. Box 3 documents a range of efficiency initiatives and steps to reallocate that have been taken across the Fund. These range from major changes in the way that business is conducted (e.g., through the migration to structured databases in area departments) to smaller measures that would not ordinarily be detected outside the department, such as reallocation of staff from one division to another in the Statistics Department to meet new priorities. Reallocations have also included the closing of resident representative posts in Europe at the end of programs and the use of the freed up resources to open posts in new program countries. Over the MTB period, efforts will continue to be made to identify savings for reallocation within and across departmental budgets to meet emerging demands.

18. **Changes in travel policies and procedures have been a particular source of savings.** As described earlier in Box 1, better information about ticket prices and the benefits of early ticketing has increased travelers' cost consciousness and led to a steady decline in the cost per mile traveled. By FY 15, annual savings in travel costs from these initiatives are estimated at $5–7 million. About half of this has been captured by the center by holding departments' nominal travel budgets constant for three consecutive years to be reallocated to new needs. The remainder has been retained by departments for reallocation to other travel needs. While travel budgets have thus far accommodated these real reductions, it is unclear the extent to which further savings will be possible.

Box 3. Reallocations Within Departments

To limit budget pressures, departments have been actively reallocating resources to meet emerging demands. Notable examples include:

- The Fiscal Affairs Department (FAD) has put in place a comprehensive plan to bring down high levels of overtime, through a combination of measures that include: (i) reducing analytical work, Board papers, books, and conferences; (ii) eliminating quarterly updates and reducing the length of the Fiscal Monitor; (iii) streamlining inputs into vulnerability exercises; and (iv) substituting staff with short-term experts in certain types of TA. In sum, these measures are targeted to yield $2 million (or 8 FTEs) in reduced overtime.

- The Statistics Department (STA) has met increased work associated with the Global Flow of Funds (GFF), Special Data Dissemination Standard Plus (SDDS Plus) and assistance to the Middle East (ArabStat) within an unchanged budget through reducing lower priority work. It is estimated that STA has been able to reallocate $1.4 million (in a combination of staff and contractual resources) across divisional boundaries to address these new needs.

- The Communications Department (COM) has focused efforts on streamlining publications. Through a combination of efforts and by leveraging technology, COM has migrated from a print to a digital focus, utilized better their physical space (including warehouse space), and reduced costs while maintaining a high quality digital product. Notional annual savings are estimated at over $3 million per year.

- The Strategy, Policy, and Review Department (SPR) has adopted a comprehensive plan to cut back on excessive overtime, which has been persistent since the onset of the financial crisis in FY 09. Key elements of the plan include: (i) reducing and re-phasing policy and analytical work to fit within resource constraints, (ii) across-the-board re-prioritization of work as needed to meet evolving priorities from the membership, (iii) reducing vacancy lags, and (iv) streamlining internal review on low-vulnerability cases while maintaining quality of reviews. Going forward, the plan is to assess the timing and the pace of policy reviews. In sum, these measures are targeted to reduce excessive overtime, while safeguarding SPR's contribution to area department missions and broader work of the department.

- Area departments have been proactive in managing country work, either through utilization of resident representative offices to cover multiple countries or reassigning staff to manage emerging programs. For example, the European Department has reallocated resources away from country teams where programs were coming to an end (Iceland, Latvia, Hungary, and Ireland) and to countries that had emerging needs (such as Cyprus, Albania, Slovenia, and Ukraine). The migration to structured databases in area departments also promises future resource savings.

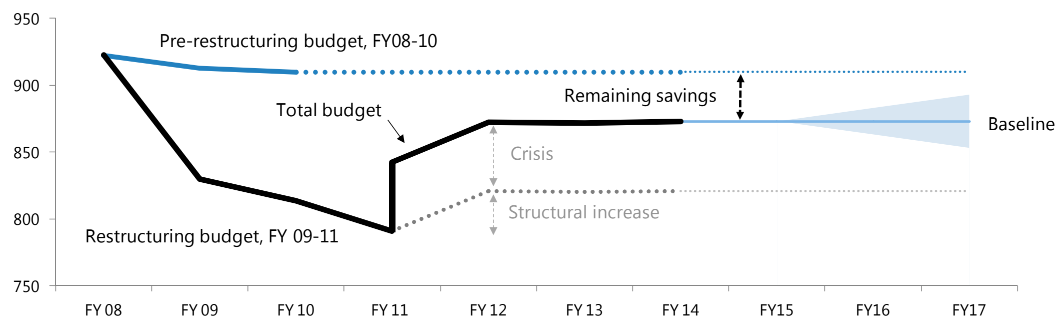
- Other departments (FIN, ICD, LEG, MCM, OIA, OBP, SEC, and TGS) have dropped activities to meet emerging higher-priority demands or have taken steps to improve efficiency. An important role in generating efficiencies has been played by investments in technology such as increased use of video conferencing and improved data and document storage and retrieval. In addition, systems such as the eReview, eLearning, the IMF Finances, iPad App, My Enquiry, and Leave Management System have yielded savings. Other measures that have helped to free resources to be reallocated include: (i) increased focus on early ticketing as a way to better utilize the travel budget (see Box 1); (ii) updating of the resident representative budget process to increase efficiency; and (iii) improving building operations and aggressively rebidding contracts to yield dollar savings.

19. **Policy changes to personnel benefits have also resulted in savings.** Changes to personnel benefits in recent years are estimated to have yielded cumulative savings of around $16 million in the administrative budget. Reforms have included the change in the grossing up formula in the staff retirement plan to better reflect changes in the U.S. tax code (FY 12); streamlining of overseas allowances and costs (FY 12); and a revision to the home leave policy and medical benefit plan (FY 07–11). Savings stemming from these reforms have been gradually reallocated to departments to fund new demands in FY 13 and FY 14. A further reform in FY 12 resulted in the elimination of the separation grant for new staff members.

D. Outlook for FY 16 and FY 17

20. **Budget needs going forward are uncertain.** Continuation of current medium-term trends, with resources freed up from reduced program work being redeployed to meet additional structural needs, combined with ongoing efficiency efforts, suggest a baseline scenario of zero real growth for FY 16–17. However, the considerable uncertainty in the outlook implies a range of alternative outcomes (Figure 10). If crisis pressures were to definitively recede, savings due to the reduction in program work and additional streamlining could reduce spending below the baseline. By contrast, renewed global pressures, the large crisis prevention work agenda, and the need to replenish depleted contingency reserves could more than overwhelm savings from streamlining and push spending up above the baseline.

Figure 10. Net Spending, FY 08–17



Source: Office of Budget and Planning.
1/ Excludes spending on the Annual Meetings abroad.

21. **The baseline proposed for the medium-term is one of a continued flat budget in real terms for FY 16–17**. The baseline assumes that GRA arrangements remain well above the level assumed in the restructuring and that enhanced bilateral surveillance, including in vulnerable cases, is maintained at current levels. The strengthening of the Fund's multilateral surveillance work, the expansion of CD work, and the other costs shown in Table 1 are also assumed to be here to stay. As the global economy recovers and vulnerabilities are reduced, less intensive engagement in the euro area is assumed to lead to additional resource savings. However, these savings would be used to cover a number of important initiatives that have been deferred in the FY 15 priority-setting exercise

or whose cost impact is likely to increase in future years (Table 2). Meanwhile, efficiency efforts and reallocation of resources to meet emerging demands would need to continue to allow the maintenance of a flat budget.

Table 2. Deferred Activities and Additional Pressures 1/
(Millions of U.S. dollars)

Total	**13–14**
Free-data policy	3.5
IT security	3.5
IT maintenance, including projects moving from capital to admin.	3.0
IT onshoring	1.5
Additional staff training	1–2

Source: Office of Budget and Planning.

1/ These costs are additional to those identified in Table 1.

22. **The continued global recovery could imply larger savings and a lower overall envelope.**

- While a sustained reduction in crisis pressures would reduce the number of countries that require programs or need intensive surveillance, the resources freed up would find a ready use in meeting deferred structural demands and rebuilding contingencies. Given these needs, even with maximum efficiency efforts, reducing overall spending will be difficult and will require cutting outputs. If essential country engagement (both lending and bilateral surveillance activities) were to be preserved, cuts would need to focus on multilateral surveillance and capacity development.

- Moreover, the number of GRA arrangements is unlikely to fall back to the unrealistic level set in the FY 09–11 MTB, which also seems to have underprovided for adequate levels of bilateral surveillance. The recent surge in security costs was also unanticipated at that time. In this light, the lower end of the range shown in Figure 10—about $25–30 million above the current structural budget—should be considered the bare minimum level of spending necessary to meet the Fund's medium-term needs.

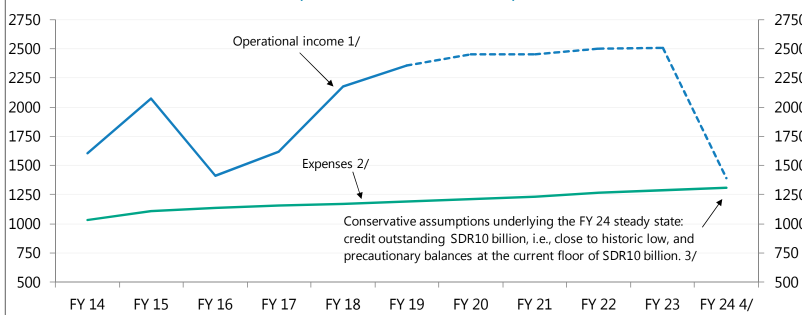
23. **Spending needs could also exceed the current envelope.** A longer and more drawn out recovery process would continue to exert pressures on the budget, given known deferred activities and additional pressures in the pipeline (see Table 2). At the same time, greater engagement with the membership in crisis-prevention work or additional FSAPs in non-systemic jurisdictions would push spending upwards. Moreover, in such a situation, a further replenishment of the contingency to $15 million (equal to 1½ percent of the budget) should be considered as a precaution in safeguarding against possible shocks and vulnerabilities.

24. **The entire range of outcomes shown in Figure 10 would nonetheless retain a portion of the savings from the restructuring.** The restructuring in 2008 set out to achieve a real reduction in the net administrative budget of 13 1/2 percent. The approved structural increase in FY 12 reduced these savings by 3 percent. Under the baseline projections for FY 16 and FY 17, projected net real spending would still be some 6 percent below pre-restructuring levels and would preserve savings of some $65 million (in FY 14 dollars). Spending levels in the lower portion of the range of projected spending could retain an additional $20–25 million. Even at the upper end of the range, some savings would still be preserved.

INCOME OUTLOOK AND PROPOSED MEDIUM-TERM BUDGET ENVELOPE

25. **Continued zero-real growth in the FY 15–17 MTB would imply a flat net administrative budget, but also, as discussed above, a higher level of structural engagement with the membership than assumed previously**. At the same time, the overall income outlook for the Fund is set to remain strong with continued high lending income in the medium term. In the longer term, assuming a net administrative budget constant in real terms, projections illustrate a broad balance between income and expenditures even if lending were to return to pre-crisis levels (Figure 11).

Figure 11. Income Outlook, FY 14–24
(Millions of U.S. dollars)



Source: Finance Department.
1/ Excludes surcharges. Annual payouts from the endowment at an assumed 3 percent are included from FY 18 onwards.
2/ Assumes constant real net administrative budget from FY 14 onwards.
3/ For more details, see the background paper on the consolidated income and expenditure framework.
4/ Represents an illustrative scenario to indicate the income-expenditure position when drawings under current arrangements have been repurchased.

26. **The Global External Deflator (GED) is used to determine the budget envelope in nominal terms** (Table 3).[9] The proposed nominal net budget envelopes are shown in Table 4.

Table 3. Global External Deflator, FY 15–17
(Percentage change)

	FY 15	FY 16	FY 17
Global external deflator	2.0	2.0	2.1
Personnel component (70 percent)	2.1	2.1	2.1
Non-personnel component (30 percent)	1.6	1.9	2.0

Source: Office of Budget and Planning.
Note: The personnel component is equal to the structure adjustment decided annually in the Review of Staff Compensation—it is held constant for the outer two years; the non-personnel component is based on the projected U.S. CPI in the WEO.

Table 4. Budget Envelope, FY 14–17
(Millions of U.S. dollars)

	FY 14	FY 15	FY 16	FY 17
Total gross expenditures	1,186	1,224	1,252	1,268
Personnel 1/	861	893	912	931
Travel 2/	123	128	134	128
Buildings and other expenses	191	196	199	202
Contingency reserves 3/	12	7	7	7
Less: Receipts	(179)	(197)	(197)	(198)
Total net expenditures	1,007	1,027	1,054	1,070

Source: Office and Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ All Fund employees including those in local offices.
2/ In FY 16, includes the Annual Meetings abroad.
3/ Includes contingency reserves for OED, IEO, and staff.

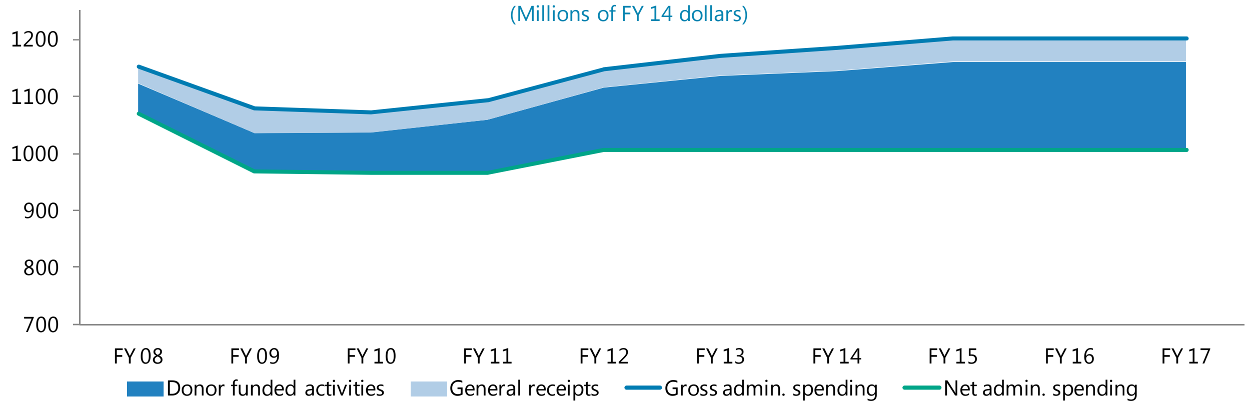
[9] A Global External Deflator is formulated to translate real spending into nominal terms. The GED consists of two components: (i) a personnel component, representing 70 percent of the budget, is constructed from an external salary index derived on the basis of the Board-endorsed methodology for comparing Fund salaries to the national markets and sectors that comprise the Fund's comparator market; and (ii) a non-personnel component, representing 30 percent of the budget, based on an index that reflects most closely the Fund's non-staff related costs (travel, facilities, and IT). The latter is measured by the projected U.S. CPI in the most recently published version of the World Economic Outlook.

27. **Gross expenditures also reflect the projected increase in externally-financed CD in FY 15** (Figure 12). Compared with FY 14, donor-financed activities are projected to increase in FY 15 by about $15 million. The main drivers for the increase are: scaling up activities toward full program level in regional CD centers; responding to institutional CD priorities for FY 15; and implementing earlier decided new initiatives and projects.[10]

28. **The Fund-financed and donor-financed budgets are becoming better integrated**. A number of steps were taken during the FY 15 planning cycle to better integrate externally-funded CD into the Fund's overall strategic planning process and further efforts are envisaged to strengthen prioritization and effectiveness of CD. Going forward, the appropriate level of externally-financed activities should be assessed in light of the Fund's institutional priorities, taking also into account the indirect cost that externally-financed activities imply for the Fund-financed budget.

Figure 12. Gross Expenditures, FY 08–17

(Millions of FY 14 dollars)



Source: Office of Budget and Planning.

CAPITAL BUDGET

29. **This paper seeks Executive Board approval for $52 million in capital funding for FY 15**. The capital budget has two primary components:

- $22 million for building facilities projects, including $11 million for the Audio Visual (AV) improvement program begun last year; and
- $30 million for IT capital projects, including $5 million for the IT security program.

30. **The proposed facilities capital budget is $22 million, and includes two initiatives not envisaged when the preliminary FY 15 capital budget was submitted last year**. The FY 15 capital budget, as outlined last year, provides resources for the end of life purchase of emergency

[10] For more details, see Annex IV.

generators, the replacement of furniture due to breakage, and exterior stone replacement. In addition, there are two new items this year based on recent developments: (i) as recommended by the Investment Committee, resources have been included to move the Investment Office to a location outside of the headquarters buildings ($0.9 million); and (ii) to maximize valuable HQ space, resources have also been included to combine the HQ1 and HQ2 data centers and repurpose the space vacated so that it is available for increased headcount ($4.1 million).

31. **The new AV program was introduced last year given the significant spending needs that were required over the medium term, including $11 million in FY 15 (Table 5)**. In order to better align with the HQ1 Renewal Program schedule, some elements of the AV program have been moved forward from FY 16 to FY 15, but the overall FY14–16 budget presented last year remains on track.[11]

Table 5. Medium-Term Capital Budgets, FY 14–17

(Millions of U.S. dollars)

		Proposed		
	FY 14	FY 15	FY 16	FY 17
Total	**41**	**52**	**41**	**47**
Building facilities	17	22	14	21
Of which: audio visual	12	11	6	10
Information technology	24	30	27	27
Of which: enhanced IT security	4	5	2	2
Memorandum items for reference:				
FY 15–16 Preliminary Plan 1/		**45**	**44**	
New items:				
Investment Office move		1	0	
HQ2 Data Center space		4	0	
Audio visual changes		2	-2	

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

Note: Figures may not add due to rounding.

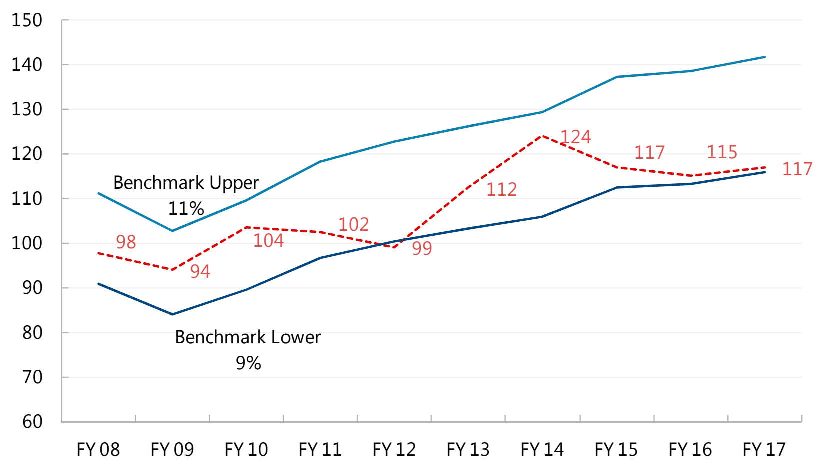
1/ FY2014–FY2016 Medium-Term Budget; IMF Policy Papers; March 28, 2013; Table 3.

32. **The FY 15 IT capital budget is $30 million, unchanged from the plan presented last year.** The FY 15 budget seeks to improve the reliability and performance of the IT infrastructure ($10 million), upgrade core financial and administrative systems ($4 million), improve economic and financial analysis and data management ($6.0 million), and continue to improve the security of IT systems ($5 million). The balance of $5.0 million remains in the IT capital pool and will be allocated by the Committee on Business and Information Technology (CBIT) to fund priority projects including an upgrade to Microsoft Office. Additional rigor has been instituted for IT capital projects to ensure that they are completed within a two-year window and quickly deliver significant business value.

[11] The FY15 budget allocation will provide resources for the core AV central control and monitoring systems and the lower level floor venues, including the media studio, press briefing center, multipurpose rooms on the concourse through the third floor, and the large meeting halls and public spaces like the bistro, atrium and gallery.

33. **The Fund's total IT spending is expected to remain within the benchmark range that has served as a barometer over many years.** The benchmarking exercise is conducted each year with other similar organizations. The exercise compares the total IT spending of the institutions and also the amount spent per workstation. On both counts the Fund IT spending is within the comparator benchmark range (Figure 13).

Figure 13. IT Spending, FY 08–17 1/
(Millions of U.S. dollars)



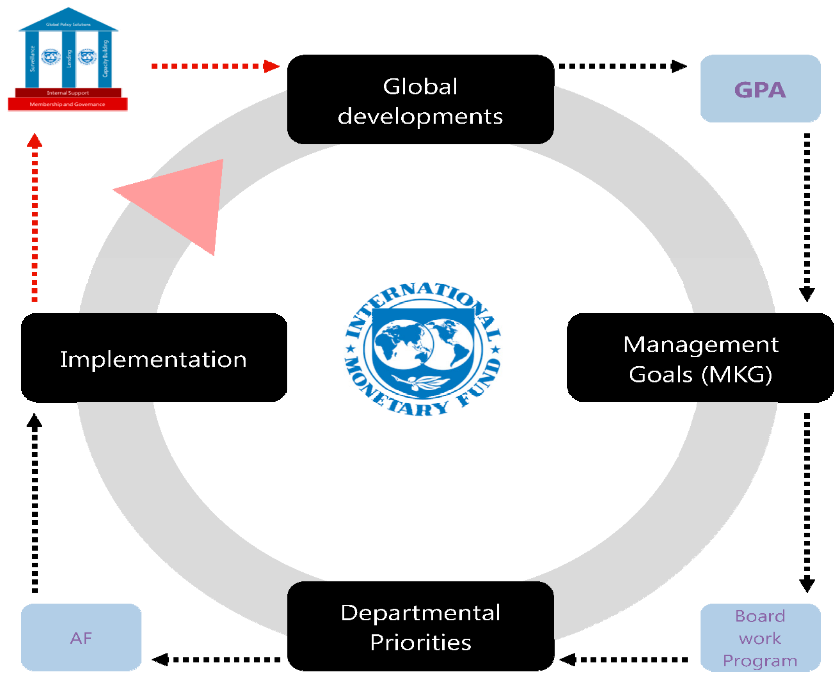
FY 15 IT Benchmark	
(Millions of U.S. dollars)	
Total IT Spending	116.8
Administrative	86.8
Capital	30.0
(Percent)	
IT spending/total spending	9.2
Benchmark	9– 11

Sources: Office of Budget and Planning, Technology and General Services Department.
1/ FY 08–12 is Outturn, FY 14–17 is budget.

Annex I. Strategic Planning Cycle

The annual planning cycle starts with the elaboration of Management's strategic priorities in the context of the Global Policy Agenda (GPA). Drawing on the GPA, Management translates institutional objectives into Management's Key Goals (MKGs) for the coming financial year. The GPA and guidance from the IMFC are embodied in the Executive Board's Work Program.

The next phase of the planning process is structured around the Accountability Framework, which provides for regular discussions between Heads of Departments and Management on key departmental objectives, including on budget and HR priorities. In this context, MKGs help align departmental objectives with broader institutional objectives. Workforce planning is also grounded within the strategic planning framework and helps inform budget strategy.



Budget formulation flows from this strategic planning framework, with the overall envelope and resource allocation set to ensure the delivery of the institution's priorities.

Within the Accountability Framework, management holds semi-annual discussions with each Department Head to discuss progress made on current strategic priorities and to review performance against budget and people management indicators. New goals and targets are also discussed for the period ahead.

In an iterative process, the Accountability Framework builds on the achievements made during the current year and takes into account new and ongoing global developments as the planning cycle begins anew.

A review of the initial experience with the Accountability Framework was conducted in the fall of 2013. Improvements subsequently made included greater focus on coordination of cross-departmental objectives as well as setting additional traffic lights and targets for a number of budget and people indicators to enhance monitoring and performance measurement).

Annex II. Analyzing the FY 11–14 ACES Data

ACES data covering FY 11–14 provides a comprehensive picture of the evolution of spending on the Fund's key outputs, reflecting changing priorities in the Global Policy Agenda and the evolving needs of the IMF's member countries (Table II.1 and Figure II.1).[1] *The ACES estimates show that over the past few years, expenditure shares have shifted from financial program work (Lending) and reform of Fund policies and facilities (Oversight of Global Systems) to enhanced Bilateral Surveillance and expansion of Capacity Development (CD).*

1. Resources devoted to *Multilateral Surveillance* have increased from 22 to 23 percent of total Fund-financed direct spending. Support to multilateral forums (including the G20) has declined, but has been offset by a steady increase in general research, in part reflecting stepped-up work in the area of modeling. General outreach has also increased.

2. Spending on work under *Oversight of Global System*s has declined. A reduction in resources devoted to the development of new Fund policies and facilities, activities that featured prominently immediately after the crisis, was partially offset by more work on the development of the international financial architecture, reflecting an increase in analytical work and greater engagement with the Financial Stability Board.

3. *Bilateral surveillance* has increased as a share of Fund-financed direct spending since FY 12 as countries have exited program status and moved to more regular surveillance. At the same time, the number of surveillance countries classified as medium to high vulnerability (including systemically important ones) remains elevated, requiring more intensive surveillance with increased emphasis on the financial sector.

4. Resources devoted to *Lending* (programs and quasi-programs) activities have declined as a result of a reduction in number of programs. After a spike in crisis-related work in FY 11, there has been a gradual fall in spending on lending programs supported both by the General Resources Account and by the Poverty Reduction and Growth Facility. This decline has been partially offset by more spending on non-financial instruments (mainly Post-Program Monitoring and Ex-Post assessments), reflecting continued intensive engagement with countries even as their financial arrangements end.

5. *Fund-financed* CD work grew between FY 11 and FY 14. Adding the externally-financed component, CD as a whole is now the largest output of the Fund. The expansion in CD is primarily attributable to increased support from donors, but Fund-financed CD has also risen over this period. The rate of growth of CD work is projected to have slowed in FY 14, in part due to capacity constraints.

[1] This analysis focuses on Fund-financed direct costs. ACES data have been revised based on an improved methodology for defining cost drivers. FY 14 data are projections based on nine months of actual data.

6. Figure II.2 illustrates the shift in outputs by region.[2] Spending on work for European countries has increased across the board, with a sizeable jump in the share of lending in FY 12, followed by a rise in bilateral surveillance. Spending has remained broadly flat on African countries, with outputs shifting from lending to bilateral surveillance. Surveillance work is projected to have increased in the Asia region, reflecting a rise in engagement with vulnerable and systemic countries, while the share of lending work contracted. Both bilateral surveillance and lending outputs have grown in Middle East and Central Asia. In the Western Hemisphere there has been an increase in surveillance, in part offset by reduced work in the area of lending.

7. In summary, the ACES estimates show that as the crisis has subsided, output shares are gradually shifting towards bilateral surveillance, while the need to scale up work on multilateral surveillance and risk work has absorbed additional resources. Meanwhile, CD has expanded significantly, primarily as a result of increased external funding.

[2] Data by regions aggregates direct spending on countries in that region across all departments.

Table II.1. Fund-Financed Direct Spending by Outputs, FY 11–14 Proj. 1/

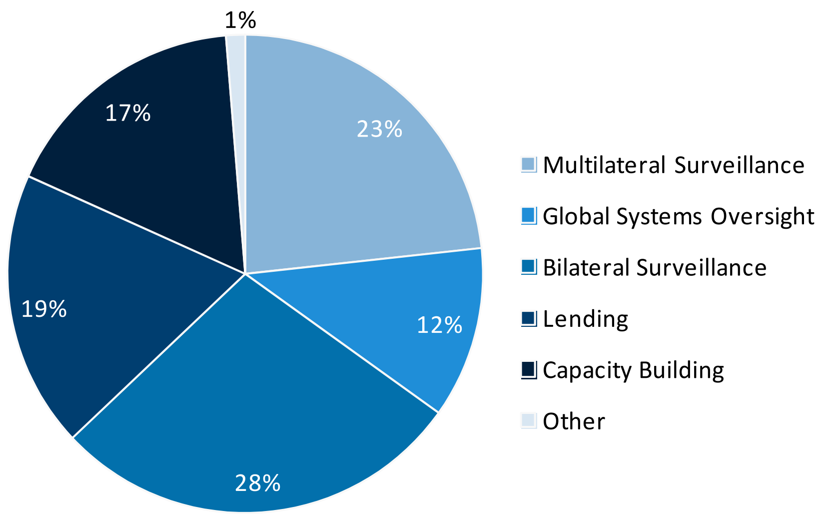
	Millions of U.S. dollars				Percent of total for the financial year			
	FY 11	FY 12	FY 13	FY 14 Proj. Outturn	FY 11	FY 12	FY 13	FY 14 Proj. outturn
Total	**496**	**538**	**540**	**562**	**100.0**	**100.0**	**100.0**	**100.0**
Multilateral surveillance	**110**	**125**	**123**	**131**	**22.2**	**23.3**	**22.8**	**23.3**
Global economic analysis	**44**	**56**	**60**	**66**	**8.8**	**10.4**	**11.1**	**11.7**
WEO	7	8	8	8	1.5	1.5	1.5	1.4
GFSR	7	7	8	8	1.3	1.3	1.4	1.4
General outreach	20	26	27	30	4.0	4.8	5.1	5.4
General research	10	15	17	20	2.1	2.8	3.1	3.6
Cooperative economic policy solutions	**14**	**12**	**10**	**11**	**2.9**	**2.3**	**1.9**	**2.0**
Multilateral consultations	3	4	2	2	0.7	0.7	0.5	0.4
Support and Inputs to multilateral forums	11	9	8	9	2.2	1.6	1.4	1.5
Tools to prevent and resolve systemic crises	**32**	**36**	**35**	**32**	**6.4**	**6.7**	**6.5**	**5.6**
Analysis of Vulnerabilities and Imbalances	11	10	11	9	2.3	1.9	2.1	1.6
Other Cross Cutting Analysis	21	26	22	20	4.2	4.8	4.1	3.6
Fiscal Monitor			1	2	-	-	0.2	0.4
Regional approaches to economic stability	**20**	**21**	**18**	**23**	**4.1**	**4.0**	**3.4**	**4.0**
REOs	10	10	6	9	2.0	1.8	1.2	1.5
Surveillance of regional bodies	7	6	6	7	1.4	1.2	1.1	1.3
Other regional projects	3	6	6	7	0.7	1.0	1.1	1.2
Oversight of global system	**66**	**63**	**62**	**66**	**13.2**	**11.6**	**11.4**	**11.7**
Development of international financial architecture	**12**	**15**	**15**	**19**	**2.4**	**2.7**	**2.8**	**3.4**
Other work on monetary financial and capital markets issues	10	12	12	16	2.0	2.1	2.2	2.8
Work with FSB and other international bodies	2	3	3	3	0.3	0.6	0.6	0.6
Data transparency	**18**	**19**	**20**	**21**	**3.6**	**3.5**	**3.7**	**3.8**
Statistical information data	12	13	13	15	2.4	2.5	2.5	2.6
Statistical manuals	1	2	2	2	0.2	0.3	0.4	0.4
Statistical methodologies	5	4	4	4	0.9	0.7	0.8	0.8
The role of the Fund	**36**	**29**	**27**	**25**	**7.2**	**5.5**	**4.9**	**4.5**
Development and review of Fund policies and facilities	20	11	10	9	4.1	2.1	1.9	1.7
Development and review of Fund policies and facilities GRA	4	5	5	5	0.9	1.0	0.9	1.0
Development and review of Fund policies and facilities LIC	7	9	7	6	1.4	1.7	1.4	1.1
Quota and voice	3	3	3	3	0.6	0.5	0.6	0.5
SDR Issues	2	2	1	1	0.3	0.3	0.2	0.2
Bilateral surveillance	**129**	**136**	**148**	**158**	**26.0**	**25.3**	**27.5**	**28.1**
Assessment of economic policies and risks	**111**	**118**	**130**	**139**	**22.3**	**21.9**	**24.1**	**24.8**
Article IV Consultations	95	95	100	107	19.1	17.6	18.6	19.1
Other bilateral surveillance	16	23	30	32	3.2	4.2	5.5	5.7
Financial soundness evaluations	**14**	**14**	**14**	**14**	**2.8**	**2.7**	**2.6**	**2.4**
FSAPs OFCs	14	14	14	14	2.8	2.7	2.6	2.4
Standards and Codes evaluations	**4**	**4**	**4**	**5**	**0.9**	**0.8**	**0.7**	**0.9**
AML CFT includes ROSC	1	1	1	1	0.2	0.1	0.1	0.1
GDDS SDDS	2	3	2	3	0.5	0.5	0.4	0.5
ROSCs	1	1	1	2	0.2	0.2	0.2	0.3
Lending	**109**	**117**	**108**	**105**	**21.9**	**21.7**	**20.0**	**18.7**
Arrangements not supported by Fund resources	**14**	**15**	**14**	**21**	**2.9**	**2.7**	**2.6**	**3.7**
Non financial instruments	14	15	14	21	2.9	2.7	2.6	3.7
Arrangements supported by Fund resources	**94**	**102**	**94**	**84**	**19.0**	**19.0**	**17.4**	**14.9**
Programs and precautionary arrangements supported by general resources	52	60	53	48	10.4	11.1	9.9	8.5
Programs supported by subsidized resources	43	42	40	37	8.6	7.9	7.5	6.5
Capacity Development	**78**	**90**	**92**	**95**	**15.8**	**16.7**	**17.0**	**16.9**
Technical assistance	**57**	**65**	**68**	**72**	**11.4**	**12.1**	**12.6**	**12.8**
Technical assistance reports notes manuals	57	65	68	72	11.4	12.1	12.6	12.8
Training	**22**	**24**	**24**	**23**	**4.4**	**4.5**	**4.4**	**4.1**
Training courses workshops	22	24	24	23	4.4	4.5	4.4	4.1
Unallocated 2/	**5**	**7**	**7**	**7**	**1.0**	**1.4**	**1.3**	**1.3**
Memorandum item:								
Externally-financed capacity development	69	100	118	121 --	--	--	--	--

Source: Office of Budget and Planning, ACES.

1/ Spending includes direct cost for Fund-Financed (IMF01) activities.

2/ The "unallocated" classification includes expenditures that currently cannot be properly allocated within the model due to missing input data.

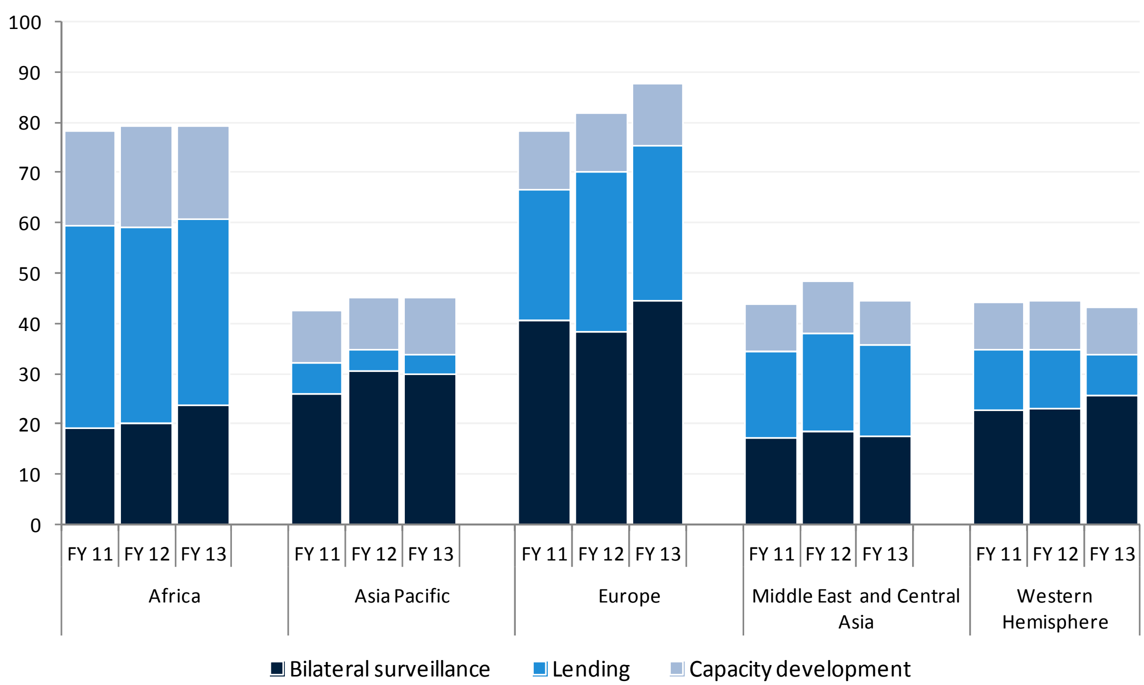
Figure II.1. Share of Fund-Financed Direct Costs, FY 14 Projected



Source: Office of Budget and Planning, ACES.

Figure II.2. Fund-Financed Direct Cost by Region for Selected Outputs, FY 11–13 1/

(Millions of FY 12 U.S. dollars)



Source: Office of Budget and Planning, ACES.

Annex III. FY 14 Projected Outturn: Overview

1. **This annex reports on the execution of the FY 14 budget and provides an outturn estimate for the year as a whole**. It also presents an overview of capital investments related to major building works and information technology.

2. **Current trends in expenditures and receipts point to an underspend in the net administrative budget of around $40 million, or 4 percent.** Such a shortfall would be 2.5 percentage points lower than in FY 13 (Table III.1) and could be considered close to a frictional level. The FY 14 budget strategy set out to better utilize existing resources and address work pressures. Previously unused central margins were reallocated to provide additional resources to departments, and an "A-flex" policy was introduced that allowed departments to temporarily hire above their budgeted staff positions (FTE limits). Initial signs are that frictional vacancies have been reduced and overtime rates are coming down. Meanwhile, continued efficiencies in travel management are contributing to savings in the travel budget. Higher than planned IT costs were incurred as iPads were deployed and the Fund transitioned from Blackberry mobile devices to iPhones, but these expenses were offset by savings in other areas. Further details by budget category are provided below.

Table III.1. Administrative Budget, FY 12–14 Projected

(Millions of U.S. dollars)

	FY 12		FY 13		FY 14	
	Budget	Outturn	Budget	Outturn	Budget	Est. Outturn
Gross expenditures	1,123	1,052	1,159	1,089	1,186	1,129
Personnel 1/	820	769	835	790	861	820
Travel 2/	112	105	125	119	123	114
Building and other expenses	181	178	181	180	190	195
Contingencies 3/	11	…	18	…	12	…
Less: Revenue	138	135	161	154	179	160
Net expenditures	985	917	998	936	1,007	969
Memorandum item						
Carry Forward from previous year	*34*		*41*		*42*	

Source: Office of Budget and Planning.

1/ Excludes additional contributions to the RSBIA of $30 million and $12 million in FY 12 and FY 13, respectively.

2/ In FY 13 includes travel to the Annual Meetings in Tokyo.

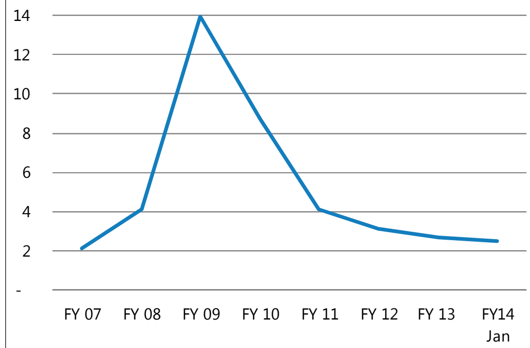
3/ Includes the contingencies for OED, IEO, and staff.

A. Personnel

3. **Personnel spending is estimated to end the year below budget.** The shortfall is largely due to remaining vacancies. The Fund average vacancy rate has been steadily declining since FY 10 and is expected to average around 2.5 percent for FY 14 as a whole (Figure III.1).

- **The average vacancy rate for FY 14 is approaching rates that prevailed prior to the restructuring exercise in 2008 when nearly 500 staff departed the institution**. The restructuring was quickly followed by the global financial crisis, which required an infusion of crisis resources to meet the demands of the membership. The twin effects of the restructuring—with departures of volunteers significantly exceeding the reduction of positions—and the creation of additional staff positions to deal with the crisis resulted in an unprecedented number of vacancies that needed to be filled. Current vacancy rates indicate that the backlog of open positions has been filled, and that vacancies are approaching a "frictional" rate.

Figure III.1. Vacancy Rates, FY 07–14
(Percent)

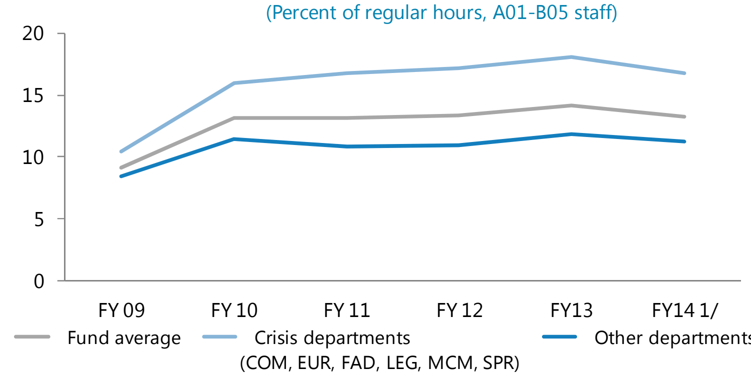


Source: Office of Budget and Planning.

Note: Vacancy rates represent the average rate for the year as a whole.

- **The average salary paid is also expected to be lower than the budgeted average midpoint of salaries.** This is largely because staff who separate are generally at higher grades with salaries close to or above the average midpoint whereas the staff who are hired to replace them are usually below the budgeted average midpoint. Average spending on benefits is also expected to be below budgeted levels.

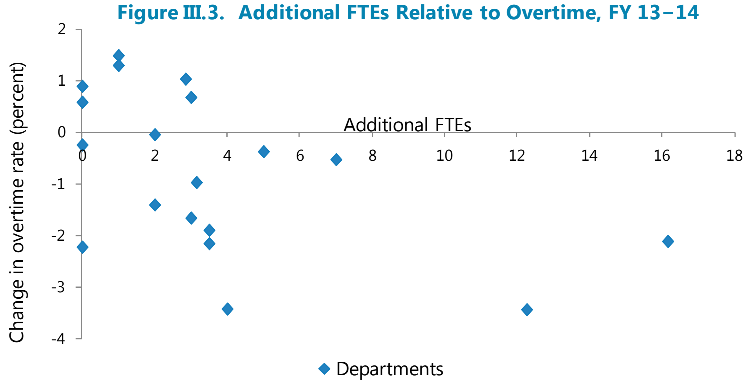
Figure III.2. Evolution of Overtime, FY 09–14 1/
(Percent of regular hours, A01-B05 staff)



Source: TRACES.
1/ FY 14 data for the first nine months.

4. **For the period May-January, the average staff overtime rate for the Fund was 13.2 percent relative to 14.1 percent during the same period in FY 13—mostly driven by a decline in the overtime rate in crisis departments** (Figure III.2). Additonal FTEs in some departments seem to have helped in lowering rates (Figure III.3). Departments have also recognized that

Figure III.3. Additional FTEs Relative to Overtime, FY 13–14



Source: Office of Budget and Planning.

high overtime needed to be addressed through better management and prioritization, an issue that now features prominently in the Accountability Framework discussions.

B. Travel

5. **Travel expenses are also projected to end the year below budget** (Table III.2). This shortfall is mainly because of delays in some planned trips due to security concerns, and savings related to better ticketing practices. In addition, the average cost per mile has dropped by about 2.5 percent.

Table III.2. Travel, FY13–14

(Millions of U.S. dollars)

	FY 13 1/	FY 14	
	Outturn	Budget	Est. Outturn
Total	**119.3**	**122.9**	**113.8**
Business	95.4	94.4	88.5
Seminars/Participants	11.3	13.5	11.5
Settlement	9.9	9.5	10.4
Miscellaneous travel	2.8	5.4	3.4

Source: Office of Budget and Planning.
1/ Includes Annual Meetings to Tokyo.

C. Building and other Expenses

6. **Spending on buildings and other Fund-wide services is expected to end the year about $5 million higher than budgeted** (Table III.3). Higher spending on information technology and telecommunications was the main factor behind the over-run. This mainly reflected one-off initiatives: the expansion of the iPad fleet and the switch to iPhones (under a new network carrier) led to increased costs of $2 million in FY 14. Ongoing administrative costs to support capital development initiatives that have moved into production continue to place increased demands on the information technology administrative budget.

7. **Building occupancy is projected to be about $1 million above budget, due primarily to higher lease costs at overseas locations**. Likewise, requests for translation and interpretation services have grown. On the other hand, some savings have been realized in postage and freight due to reduced demand and lower costs from renegotiated mail and courier service contracts. Savings are also expected in the purchase of furniture for overseas locations.

Table III.3. Gross Administrative Expenditures: Buildings and Other Expenditures, FY 13–14

(Millions of U.S. dollars)

	FY 13	FY 14	
	Outturn	Budget	Est. Outturn
Total buildings and other expenses	**180**	**190**	**195**
Building occupancy	57	58	59
Information technology	47	54	58
Communications	9	8	10
Subscriptions and printing	18	20	19
Supplies and equipment	8	9	6
Miscellaneous	41	42	42

Source: Office of Budget and Planning.

D. Receipts

8. **Receipts are expected to end the year below planned levels** (Table III.4). This is largely due to delays in the start-up of a number of externally funded projects. In particular, the Regional Technical Assistance Center AFRITAC West II in Ghana as well as the Training Center in Mauritius were scheduled to begin their operations in early 2013, but actual operations began instead in February 2014. Furthermore, revenue from the re-opening of the Concordia was lower than planned due to lost market share during the construction; but a recovery is expected to begin in FY 15.

Table III.4. Receipts, FY 13–14

(Millions of U.S. dollars)

	FY13	FY 14	
	Outturn	Budget	Est. Outturn
Total	**153.8**	**178.6**	**159.8**
Externally Financed Technical Assistance 1/	126.1	147.5	129.5
Direct costs	117.7	137.6	121.2
Other costs 2/	8.4	9.9	8.3
General Receipts	27.7	31.1	30.4
Of which:			
Fund-sponsored sharing agreements 3/	4.4	4.7	4.7
Publications income	6.0	5.8	6.0
Concordia Apartments	0.0	3.4	1.6
HQ2 Lease	3.8	3.8	3.8
Parking	2.9	3.0	2.7

Source: Office of Budget and Planning.

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

1/ Includes scholarships.

2/ Administrative fee of 13 percent under the old financing instrument and trust fund management fee of 7 percent under the new financing instrument.

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.

E. Capital Investments

9. **The major building projects are progressing as planned** (Table III.5). The Concordia building was returned to service in April 2013. That project is substantially complete, expected to be delivered on time, and will be below budget when finalized. The HQ1 Renewal program is now in the construction phase and making good progress with project completion planned for FY 17. Quarterly reports are provided to keep the Board apprised of progress on the project. The IT capital strategy for FY 14 focused on reducing the number of new initiatives and improving performance and user satisfaction with core systems while continuing to upgrade IT security. In accordance with normal practice, more information on the execution of capital projects will be provided in the outturn paper after the financial books have closed.

Table III.5. Capital Expenditures, FY 14

(Millions of U.S. dollars)

	Facilities	Information Technology	HQ1 Renewal	Concordia Renovation	Total
FY 14 Budget Appropriations	17.4	23.8	0.0	0.0	41.2
+ Unspent FY 12 and FY 13 Funding	12.4	25.6	405.3	9.3	452.6
= Total Available Funding in FY 14	29.8	49.4	405.3	9.3	493.8
Planned Expenditures FY 14	6.3	36.6	111.2	4.2	158.4

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

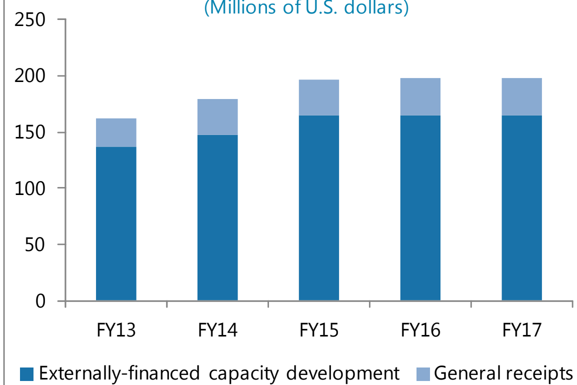
1/ Approved capital budget funding is available for three consecutive years, except for HQ1.

Annex IV. Receipts

1. **Receipts help defray some of the costs of Fund operations.** They consist of: (i) external donor funding used to finance TA and training; and (ii) general receipts (including, for example, revenues from cost-sharing arrangements with the World Bank, publications, and parking).

2. **Donor-funding is expected to increase by about 11 percent in FY 15, and to broadly stabilize subsequently (Figure V.1 and Table V.1).** The main drivers for the increase are: (i) scaling up of activities toward full program level, including for two new regional facilities (the Regional Technical Assistance Center – AFRITAC West II – in Accra, Ghana and the Africa Training Institute in Mauritius); (ii) responding to institutional CD priorities, namely crisis countries in Europe, Arab Countries in Transition, low income countries, including the Somalia trust fund, and financial sector issues; (iii) implementing new initiatives, such as the Tax Administration Diagnostic Assessment Tool , the Debt Management Facility II, and the Externally Financed Appointee program; and (iv) implementing projects initially scheduled for FY 14 that will be rolled into FY 15. In the outer years of the MTB, the level of donor financed operations is expected to stabilize, although these projections are subject to considerable uncertainty. The increase in externally-financed activities is putting additional strain on the Fund-financed budget through indirect costs (e.g., office space in headquarters, IT, and HR support) that are not recovered. In this environment, efforts are under way to further clarify the Fund's CD funding model, including with respect to the appropriate level of external financing going forward.

Figure V.1. Receipts, FY 13–17
(Millions of U.S. dollars)



Source: Office of Budget and Planning.

Table V.1. Receipts, Comparing the FY 14–16 and FY 15–17 MTBs
(Millions of U.S. dollars)

	FY 14	FY 15	FY 16	FY 17	MTB Total 1/
A. FY 14–16 MTB	179	172	171		522
Externally-financed capacity development 2/	148	140	139		427
General receipts	31	32	32		95
B. FY 15–17 MTB		197	197	198	592
Externally-financed capacity development		164	165	165	494
Technical assistance 2/		160	160	160	480
Scholarships (including administrative fees)		5	5	5	14
General receipts		32	33	33	98
Of which:					
Fund-sponsored sharing agreements 3/		5	5	5	15
Publications income		6	6	6	18
Concordia apartment		3	4	4	11
HQ2 leasing		4	4	4	12
Reimbursement of Investment Office costs		6	6	6	18
Parking		3	3	3	9

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ Totals are based on central estimates.
2/ Includes payments from donors of administrative and trust fund management fees.
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.

3. **General receipts are expected to remain broadly unchanged going forward.** The Concordia was opened in May 2013 and operations have resumed. All other general receipts are expected to remain broadly unchanged over the medium term.