



May 2015

## FY2016–FY2018 MEDIUM-TERM BUDGET; SELECTED STREAMLINING PROPOSALS UNDER THE FY16–FY18 MEDIUM-TERM BUDGET—IMPLEMENTATION ISSUES

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Staff Paper** on the FY2016–FY2018 Medium-Term Budget, prepared by IMF staff and completed on March 27, 2015 for the Executive Board’s consideration on April 23, 2015.
- A companion **Staff Paper** on Selected Streamlining Proposals Under the FY16–FY18 Medium-Term Budget—Implementation Issues, prepared by IMF staff and completed on April 9, 2015 for the Executive Board’s consideration on April 23, 2015.

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**International Monetary Fund**  
**Washington, D.C.**



## FY2016–FY2018 MEDIUM-TERM BUDGET

March 27, 2015

### EXECUTIVE SUMMARY

For the **net administrative budget**, the FY 16–18 medium-term budget (MTB) proposal includes:

- **In FY 16, an unchanged budget envelope in real terms, for the fourth year in a row.** To accommodate new and ongoing strategic priorities of the Fund within a flat envelope, efforts to reallocate resources away from lower-priority activities and achieve efficiency gains were stepped up both at the departmental level and across the institution. Savings measures implying a reallocation of resources of close to 5 percent of the net administrative budget were identified through this process. The bulk of these savings would be used to help meet the new priorities highlighted in the Global Policy Agenda and in Management’s Key Goals, while preserving room at the departmental level to further reduce work pressures, phase in the new streamlining measures and, more generally, cope with business uncertainties and unanticipated demands. This robust prioritization effort implies difficult trade-offs and the willingness to cut lower-priority activities in order to create space for new initiatives.

- **For FY 17–18, as a baseline assumption, a flat real budget envelope as well.** Against the backdrop of a robust income position, the Fund’s medium-term budget formulation is guided primarily by considerations of prudence and credibility. The medium-term spending path will depend on new demands placed on the institution, and the scope for further reprioritization, and will be reassessed in the context of the FY 17–19 budget.

**Gross expenditures** are expected to level off in FY 16, reflecting the tapering off in donor-financed capacity development (CD) activities. The strengthened governance framework for CD will help ensure that CD activities remain aligned with institutional priorities.

The proposed **FY 16 capital budget** is slightly higher than the medium-term plan presented in the FY 15–17 MTB. The capital budget targets needed building facility repairs and improvements, enhancements to audio visual capabilities, strategic IT initiatives and IT security.

Approved By  
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## THE BUDGET IN THE FUND'S STRATEGIC CONTEXT

**1. Global activity remains divergent and tenuous.** Despite the boost from cheaper oil prices and stronger US growth, sharp movements in commodity and foreign exchange markets and deflationary pressures are creating new challenges. Heightened geopolitical tensions, stagnant activity in many advanced economies and a decline in potential growth in emerging markets further cloud the outlook.

**2. The FY 16–18 medium-term budget (MTB) has been formulated within the Fund's strategic planning framework, with the overall envelope and resource allocation set to ensure the delivery of the institution's priorities** (Box 1). The Fund's strategic directions have been set out in the Managing Director's Global Policy Agenda (GPA).<sup>1</sup> The GPA identifies actions the Fund will take to help the membership secure lasting global growth and macroeconomic stability. Its main elements are as follows:

- **Lifting growth:** bolster country-specific advice on macro-critical structural reforms needed to make growth balanced, sustainable, job-rich and inclusive; expand work on macro-critical structural policies (e.g., labor market reforms); and help countries design growth-friendly fiscal policies while addressing public debt overhangs where needed.
- **Building resilience:** help member countries deal with the challenges of asynchronous monetary policy normalization, as well as exchange rate and capital flow volatility, and contribute to shaping the future regulatory landscape.
- **Achieving coherence:** continue to foster policy cooperation, including by promoting coherent global structural, financial, and demand policies, and advance the implementation of quota and governance reforms.

**3. Institutional objectives laid out in the GPA have been translated into Management's Key Goals (MKGs) for FY 16** (Appendix I). Specific high-level MKGs help align individual departments' objectives with broader institutional priorities through the Accountability Framework (AF). In particular, the MKGs emphasize: (i) the *provision of policy solutions for the membership*, including by offering cutting-edge analysis in the strategic areas identified in the GPA and deepening engagement with Arab Countries in Transition and low-income and fragile countries; (ii) the need to *improve our core outputs*, by further integrating multilateral work and risk and spillover analysis into bilateral surveillance, and mainstreaming macro-financial surveillance; and (iii) efforts to *strengthen governance and boost resources*, notably by advancing quota reform and maintaining adequate financial capacity. The MKGs also specify internal objectives aimed at *creating an enabling environment for staff*, including by providing a safe and inclusive workplace and managing resources efficiently. The FY 16–18 budget envelope has been formulated against the backdrop of departmental strategies that translate these goals into concrete actions.

<sup>1</sup> Managing Director's Global Policy Agenda, October 2014: *The Managing Director's Global Policy Agenda to the IMFC: Aiming Higher, Trying Harder* (10/3/2014) <http://www.imf.org/external/np/pp/eng/2014/100314.pdf>, and April 2015: *Confront Global Challenges Together* (4/16/2015) <http://www.imf.org/external/np/pp/eng/2015/041315.pdf>.

**Box 1. The Fund’s Strategic Planning Cycle**

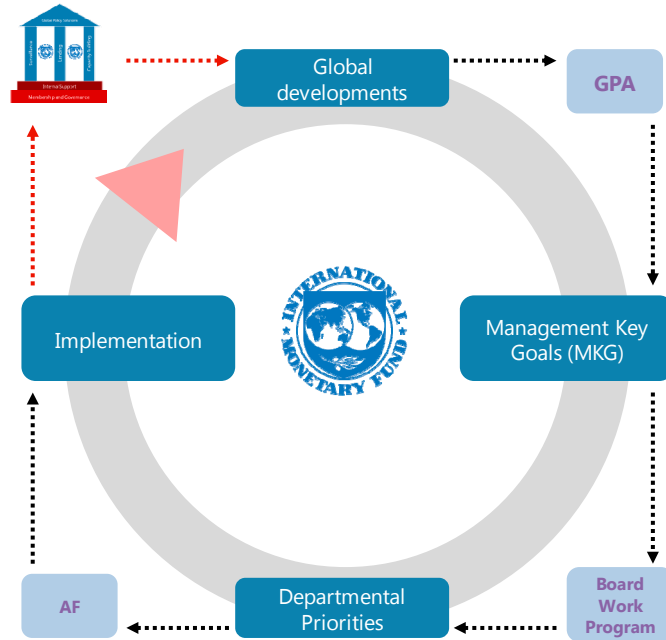
The annual planning cycle starts with the elaboration of Management’s strategic priorities in the context of the GPA. Drawing on the GPA, Management then translates institutional objectives into MKGs for the coming financial year. The GPA and guidance from the IMFC are embodied in the Executive Board’s Work Program.

The next phase of the planning process is structured around the AF, which provides for regular discussions between Heads of Departments and Management on key departmental objectives, including on budget and HR priorities.

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. The governance framework for capacity development activities has also been strengthened to ensure closer alignment with institutional objectives.

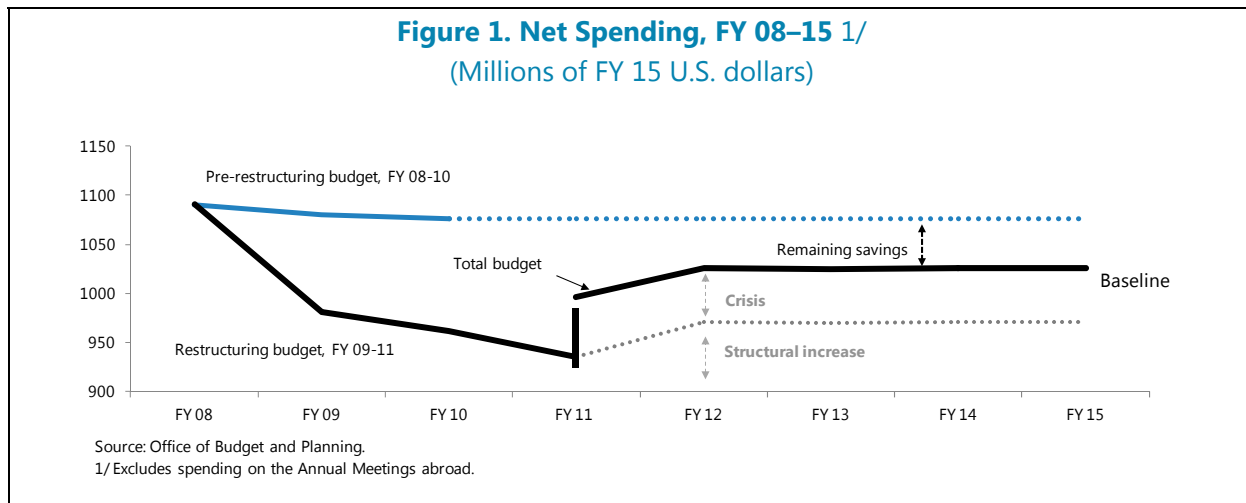
Within the Accountability Framework, Management holds semi-annual discussions with each Department Head to discuss progress made on current strategic priorities and to review performance against budget and people management indicators. New goals and targets are also discussed for the period ahead.

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.



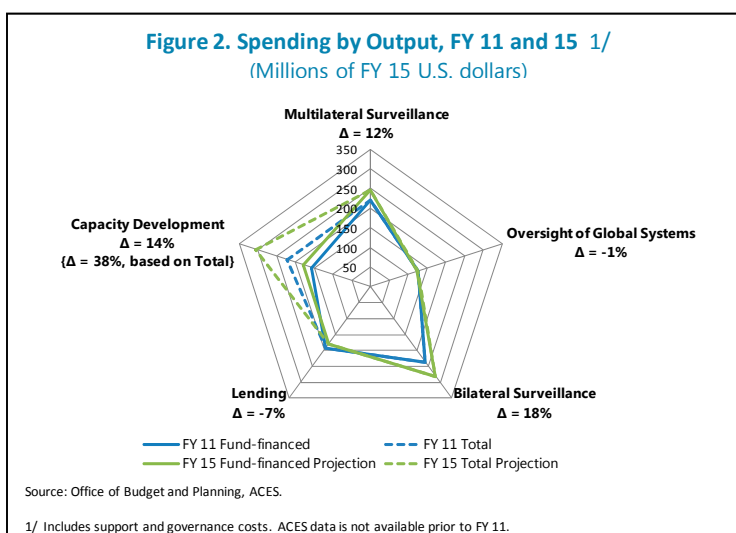
**THE OVERALL BUDGET PICTURE**

**4. The net administrative budget has been flat in real terms since FY 12, and remains significantly below pre-crisis levels.** In FY 11, in the midst of the global financial crisis, an additional allocation of \$52 million in crisis resources was mobilized to help the institution cope with its substantially higher workload. In FY 12, in recognition of the Fund’s enhanced role in the global economic arena, the Executive Board approved a 3 percent structural budget increase, and retained the crisis allocation. Following three years of zero-real growth, the FY 15 budget remains 6 percent below its pre-restructuring level, implying that savings of about \$65 million (in FY 15 dollars), some 40 percent of the original target, have been preserved (Figure 1).



**5. The Fund has made considerable efforts to reallocate resources and operate more efficiently to meet new demands within a fixed envelope.** Over the past few years, some \$35 million were reallocated to departments through the release of various central margins and institutional policy actions. These included a reduction of the contingency reserve, real savings generated by a change in the budget deflator methodology, an adjustment to the grossing up formula for the Staff Retirement Plan (SRP), a freeze in nominal travel budgets, and an overhaul of overseas allowances. Departments also made significant efforts in reallocating their resources from lower to higher priority activities.<sup>2</sup> In addition, for the past two years, more flexible budget rules have allowed departments to increase their staffing by hiring temporarily above their budgeted positions while keeping annual personnel spending within budget allocations. This helped to reduce both the vacancy rate—which had spiked at close to 15 percent in the wake of the 2008 downsizing—and the high rate of overtime; excess overtime (defined as overtime higher than 10 percent) peaked at the equivalent of 80 staff years in FY 13.

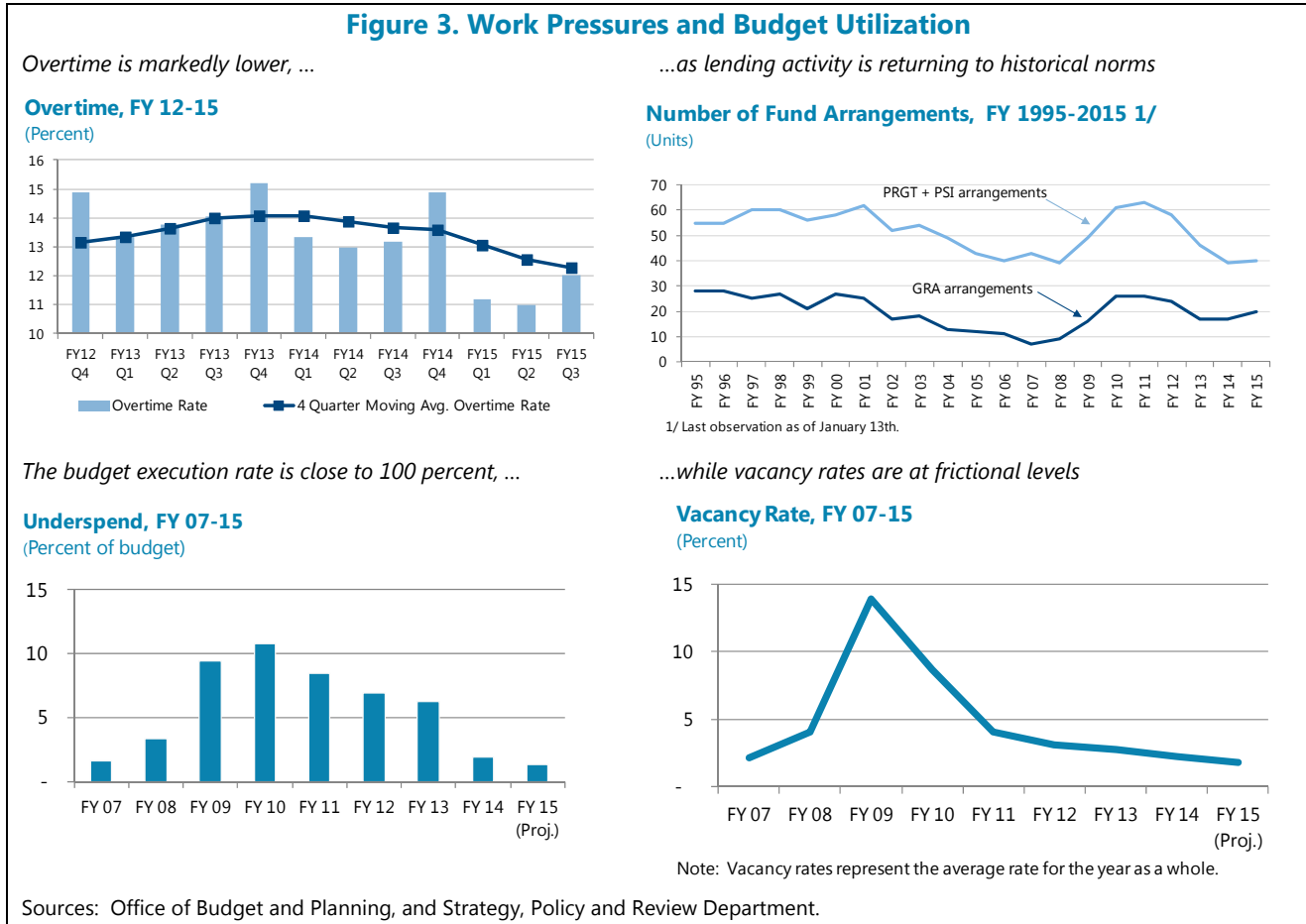
**6. Shifts in the Fund’s outputs illustrate the institution’s response to the evolving needs of the membership** (Figure 2). Lending activities have declined from their crisis peak as the number of programs has reverted to historical norms—although still higher than the pre-crisis trough. The shift out of program work has freed up resources for crisis prevention through enhanced bilateral and multilateral surveillance. While work on oversight of global systems has



<sup>2</sup> See [FY2015–FY2017 Medium-Term Budget](#) for a detailed discussion of these efforts.

remained broadly constant, capacity development increased significantly, even more when considering activities financed by donors.

**7. Excessive work pressures are now receding** (Figure 3). In spite of an uptick in the third quarter of FY 15, the reported overtime rate has declined markedly in the past year in line with the reduction in crisis-related activities and also the more efficient use of available resources. Aided by the added flexibility in hiring, the vacancy rate has fallen to frictional levels, with some departments operating at (or even above) full capacity, and the budget execution rate is expected to be close to 100 percent in FY 15 (Appendix II).



## THE FY 16–18 MEDIUM-TERM BUDGET

**8. Against the backdrop of a robust income position, the Fund’s medium-term budget formulation is guided primarily by considerations of prudence and credibility.** Consistent with the objectives of the New Income Model (NIM), adopted in 2008, the Fund’s income sources have been broadened to reduce reliance on lending income to finance non-lending activities. While income projections have been revised down from last year, primarily as a result of a lower projected path for Fund credit outstanding, sizeable surpluses will continue over the medium term, and long-term scenarios suggest that current real spending levels can be financed even under conservative lending



assumptions (see section on updated income projections). At the same time, the Fund needs to lead by example to be credible in advocating budgetary prudence to its members. Hence, even though new demands have arisen, these should be funded as much as possible within an unchanged budget envelope, but without creating unfunded mandates or a reemergence of excessive work pressures.

**9. With margins depleted, accommodating new priorities within a flat budget envelope will require a strengthening of efforts to reprioritize, reallocate, and achieve efficiency gains.**

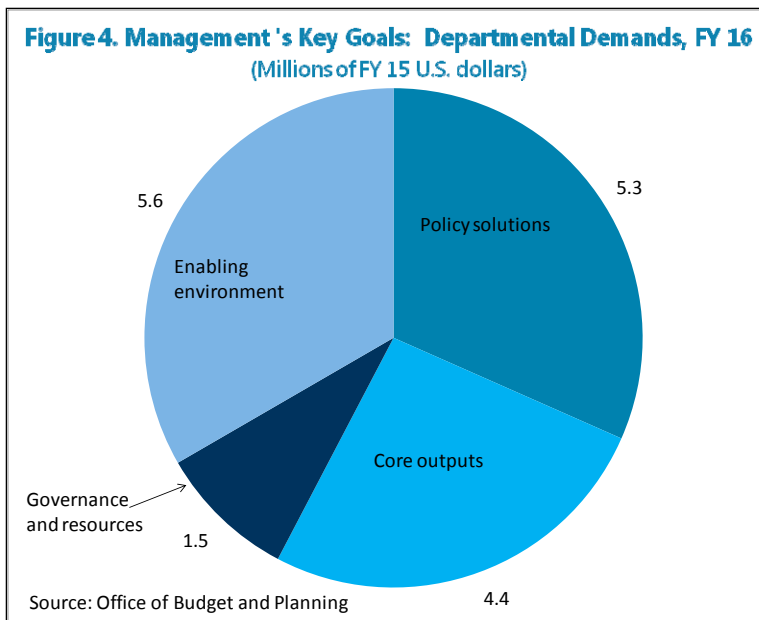
To this end, two innovations to the budget formulation process were introduced this year. First, the prioritization process within departments was formally incorporated into the Accountability Framework by requiring departments to explicitly identify and quantify lower priority activities and efficiency gains along with requests for new resources. Second, an Advisory Group (AG) composed mainly of Senior Budget Managers was tasked with identifying cross-cutting efficiencies and streamlining opportunities. These efforts imply difficult trade-offs and the willingness to cut lower-priority activities. Together, they would allow the Fund to focus on key priorities while further reducing work pressures and allowing the budget to remain flat for a fourth consecutive year.

**A. New Demands from Departments**

**10. With work pressures coming down, demands for additional resources from departments were relatively modest** (Figure 4). Abstracting from the recommendations of the

Triennial Surveillance Review (TSR) and initiatives to enhance macro-financial surveillance, which were costed separately given their cross-cutting nature, gross new demands amounted to about \$17 million. About a third of these demands (\$5.3 million) falls into the broad area of design and provision of policy solutions for the membership (MKGs 1–8), while roughly a quarter (\$4.4 million) is related to improvements in core outputs (MKGs 9–12). New work on strengthening governance and

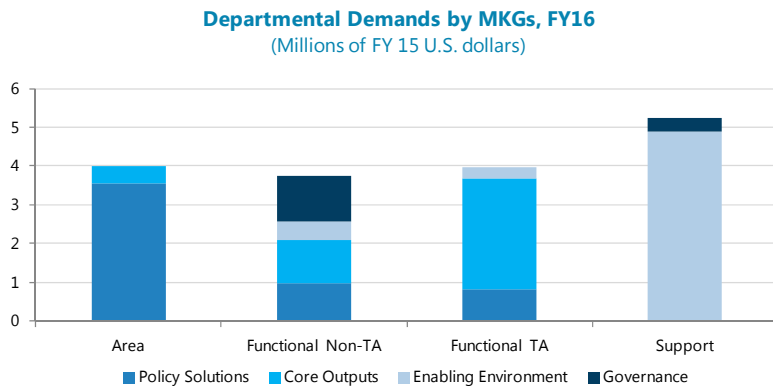
boosting resources (MKGs 17–19) accounts for 10 percent of additional requests (about \$1.5 million). The remaining third covers activities linked to creating an enabling environment for staff (MKGs 13–16). Box 2 provides a further breakdown of new demands by department type.



**Box 2. Management’s Key Goals: Demands by Department Types**

Apart from resource needs arising from the TSR and the enhancement of macro-financial surveillance, the bulk of new gross demands from **area departments** would be allocated to the design and provision of *policy solutions for the membership*. About two-thirds of these resources would be used to help low-income countries sustain their growth performance (AFR, APD) and deepen engagement with fragile countries and Arab Countries in Transition, including by strengthening field presence (AFR and MCD). Additional resources are also requested to *improve core outputs* by providing country teams with additional analytical support and fostering cross-country work (AFR, APD, and WHD).

A third of new gross demands from functional non-TA departments<sup>1</sup> pertains to strengthening governance and boost resources, notably by advancing quota and governance reform, carrying out the review of the SDR basket and expanding the Investment Unit (FIN). RES and SPR are requesting resources to improve the Fund’s core outputs, including help to area departments to apply new models and tools to their country work. Demands related to policy solutions for the membership include FIN’s request for resources to implement its concessional financing work program and SPR’s plans for work on trade issues.



Source: Office of Budget and Planning.

Close to three-quarters of new resource requests from **functional TA departments** (excluding the TSR and enhanced macro-financial work) were accounted for by MCM’s efforts to *improve the Fund’s core outputs* by ensuring the adequate staffing of the large number of upcoming systemic FSAPs and increased support to country teams, including more participation in Article IV missions to emerging markets and LICs. To strengthen the provision of *policy solutions for the membership*, FAD requested resources to fund additional research assistants to improve synergies between TA and policy work and enhance knowledge management, while MCM sought additional resources for its work on macro-prudential policies, including for the non-bank financial sector. ICD requested gross resources to revamp internal training as part of the Fund’s effort to *create an enabling environment for staff*.

Over 80 percent of new resource requests from **support departments** relate to the objective of creating an *enabling environment for staff* by having efficient IT systems and ensuring that physical and IT security needs are met (TGS). Specifically, new resource requests reflect the impact of several AV and IT projects coming on stream and heightened security requirements for high-risk locations.

<sup>1</sup> Functional non-TA departments are comprised of COM, FIN, RES and SPR; TA departments include FAD, ICD, LEG, MCM, and STA while HRD, OBP, OIA, SEC and TGS are classified as support departments.

**11. At the same time, a stronger internal prioritization process made room for these new needs.** To provide clarity about the areas and extent of prioritization, departments were asked to submit separate requests for new gross resources and recommendations for savings. The addition of visible traffic lights to assess demands and savings against quantitative indicators further strengthened the process.

	Demands	Savings
Red	> 2%	< 1%
Yellow	1 – 2 %	
Green	<1%	>2%

**12. This strengthened process prompted a more in-depth examination of departmental budgets, and led to proposals for net savings of \$5 million.** In area departments, the process started with a re-evaluation of staffing needs relative to a benchmark model that links country resource allocations to the intensity of its engagement with the Fund.<sup>3</sup> In addition, those departments at the forefront of the response to the global financial crisis undertook a careful assessment of the scope for savings from an unwinding of this work. Finally, all departments identified areas of internal streamlining and efficiency gains to reallocate resources to new tasks (see Box 3 for specific examples). Overall, this prioritization process generated departmental gross savings of \$22 million, more than enough to cover the \$17 million of new demands.

**Box 3. Examples of Streamlining and Efficiency Gains within Departments**

**Area departments’** staffing levels are re-evaluated annually, relative to a benchmark model that links country staffing allocations to the size of an economy and the intensity of the Fund’s engagement. As a result of this process, and reflecting the unwinding of program and intensive post-program work, **EUR’s** structural budget will be reduced by 10 full-time equivalents (FTEs), with a further reduction of 8 FTEs envisaged over the medium term, subject to economic developments in Europe.

Among **functional departments**, **MCM** will save 6 FTEs by streamlining or eliminating lower-priority policy and analytical work, reducing country work on advanced economies, and generating efficiencies in internal processes. **FAD** reviewed its country assignments and identified scope to reduce its crisis-related support to area departments, generating 2 FTEs in gross savings. **SPR** will generate savings from a 3.5 FTE reduction in crisis-related work, and **FIN** will save 5 FTEs from reduced lending-related activities and a range of streamlining measures. **ICD** will also use internal efficiency gains and reallocations to generate the resources needed to revamp internal training.

In **support departments**, **TGS** has been actively reviewing the services it provides in the interest of delivering them more efficiently. Collectively, this will result in \$6.5 million in gross savings in FY 16, which fully offset additional IT and security costs. Examples of this include rebidding some key IT and other general services contracts, and savings from retiring older IT systems.

**B. New Institution-Wide Demands**

**13. However, net resource pressures of about \$17–19 million are emerging from new institution-wide priorities** (Table 1). These include recommendations from the TSR, the Categories of Employment reform, as well as the rebuilding of central contingency reserves.

	Departments 1/	Institutional	Total
Demands	17	21-23	38-40
Savings	22	4	26
Net new demands	(5)	17-19	12-14

Source: Office of Budget and Planning.  
1/ Excludes TSR-related needs and savings overlapping with the AG proposals included in departmental submissions to avoid double-counting.

<sup>3</sup> See [FY2015–FY2017 Medium-Term Budget](#) for a description of the staffing model.

- *Some \$7–9 million are needed to support the implementation of the recommendations from the TSR, including further steps to mainstream macro-financial surveillance.*<sup>4</sup> Key actions include: (i) rolling out models and analytical tools to assess risks and vulnerabilities; (ii) work on measuring potential output and strengthening the efficiency of labor markets; and (iii) enhancing knowledge-sharing on cross-country policy experience. Additional steps to strengthen macro-financial analysis include: (i) enhancing and mainstreaming existing tools to support policy-oriented macro-financial analysis, (ii) expanding data coverage; (iii) increasing functional departments' support to area departments; and (iv) building macro-financial capacity in area departments.
- *Some \$10 million are required for other institution-wide initiatives.* These include the implementation of the recent reform to the Fund's categories of employment, which aims to better align the employment framework with institutional priorities. As part of that reform, about 120 additional staff positions will be provided to carry out work currently performed by contractual employees, implying a net budget cost of \$2 million in FY 16. Additional costs will be incurred in FY 17–18. The free data initiative was launched in January 2015 to provide statistical databases free of charge to the public. New resources are also needed to accommodate remaining staffing needs of the Risk Management Unit, to further the work on the Common Surveillance Database—which will facilitate cross-country analysis—improve IT connectivity in field offices, and strengthen security services in high-risk locations.
- *A doubling of the ex-ante contingency reserve will require an additional \$4 million.* This will increase budgetary margins from \$4 million to \$8 million—close to 1 percent of the net administrative budget—providing an additional cushion to cope with uncertainties.
- *Partly offsetting the above financing needs are central savings measures of some \$4 million.* These include real savings stemming from holding the travel deflator flat for the fourth year in a row, the proposed suspension of the increase in the Medical Benefit Plan premium, and efficiencies in the use of commercial data services.

## C. Cross-Cutting Streamlining Measures

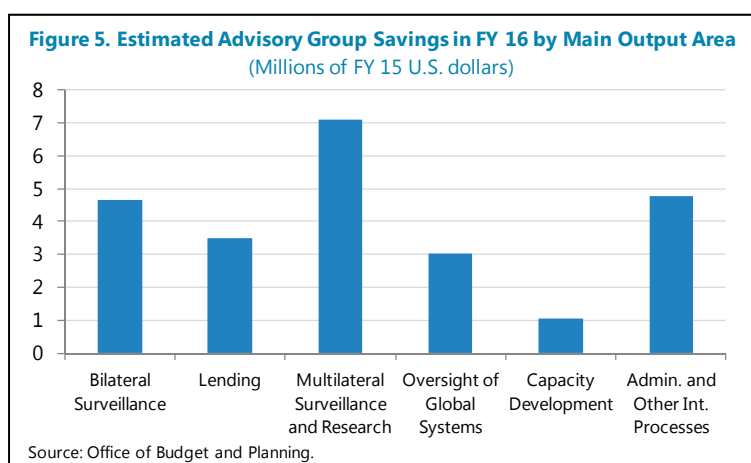
**14. In recognition of a likely need to achieve further savings and create space for new initiatives in the future, an Advisory Group composed mostly of Senior Budget Managers was established to identify cross-cutting streamlining opportunities.** The AG's work was based on the understanding that departments' ability to realize large efficiency gains on their own is limited in the absence of more fundamental and cross-cutting operational changes. Its proposals aim at a

<sup>4</sup> *2014 Triennial Surveillance Review— Managing Director's Action Plan for Strengthening Surveillance*, (IMF Policy Paper, November 21, 2014) was costed at \$2.5–3 million, excluding measures to strengthen macro-financial surveillance. The latter were finalized subsequently and imply additional cost of \$4.5–6 million, including a total of 8–11 FTEs in both area and functional departments. Some of these are expected to be transitional while macro-financial capacity is mainstreamed in area departments, data limitations are addressed, and tools for macro-financial analysis are developed and refined. Steady-state costs will be assessed following the completion of some 20 pilot cases.

more strategic allocation of Fund resources across the spectrum of activities to complement departments' own internal savings efforts discussed above.

**15. Based on the work of the AG, it is proposed to implement streamlining and efficiency measures yielding estimated gross savings of \$20–27 million in FY 16** (Figure 5). The efficiency gains are generated by: (i) taking a more risk-based approach to the Fund's work and resource allocation; (ii) better exploiting synergies and reducing excessive duplication; and (iii) making products and processes more cost effective. The package identified by the AG is broadly balanced and comprises 22 measures across six broad areas, for proposed implementation in FY 16. They feature the following actions (see Appendix III for further details):

- In the area of *bilateral surveillance* the proposals envisage streamlined processes for Article IV consultations with stable, non-systemic economies.
- Proposals on *lending* involve a closer alignment of program and post-program requirements to relevant risk factors, for example by requiring an explicit justification for resource-intensive quarterly program reviews.
- Proposed savings in *multilateral surveillance* include reforms to streamline a range of outputs, including flagship products. Moreover, *general research and analytical work* would be consolidated and focused on strategic priorities.
- Proposals under *oversight of global systems* include moving most policy reviews from a fixed schedule to an as-needed basis.
- Savings in the area of *capacity development* would result from limiting the use of internal funding for technical assistance to advanced economies.
- Efficiency gains would also be achieved in *administrative and other internal processes*.



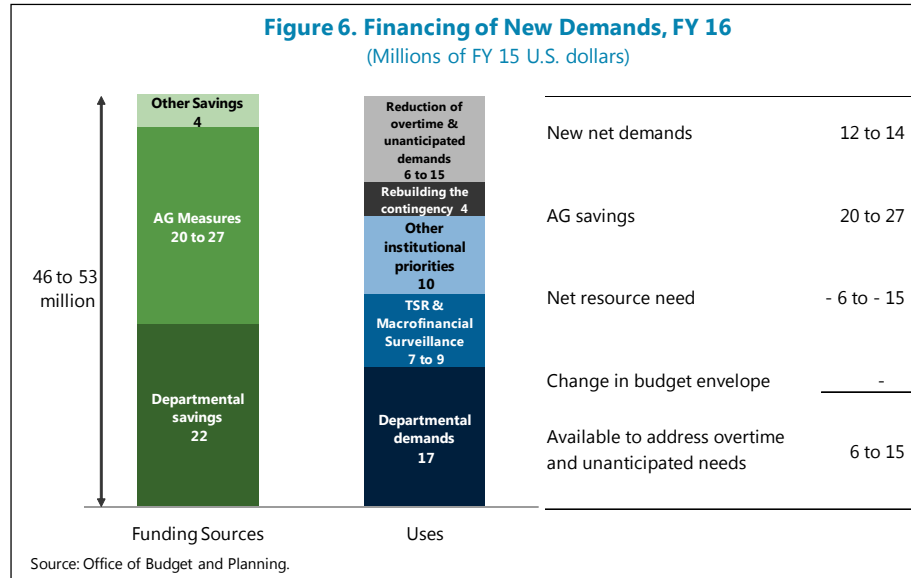
**16. Additional savings could be achieved over the medium-term**, including by tightening safeguards assessments, strengthening the recovery of overhead costs for externally-funded capacity development, and streamlining back-office processes. The potential yield could be \$10–15 million, but this estimate is highly tentative, as the feasibility and impact of these measures will need to be assessed during FY 16.

**17. Provided the Board agrees with the package of reforms, staff will move ahead with its implementation.** Relevant specifics and decisions are included in a supplement to this budget paper for Board approval.

## D. Proposed Budget for FY 16 and Outlook for FY 17–18

**18. Taking this range of actions implies a reallocation of resources of close to 5 percent of the overall net administrative budget, and would deliver a flat budget.**<sup>5</sup> If implemented as

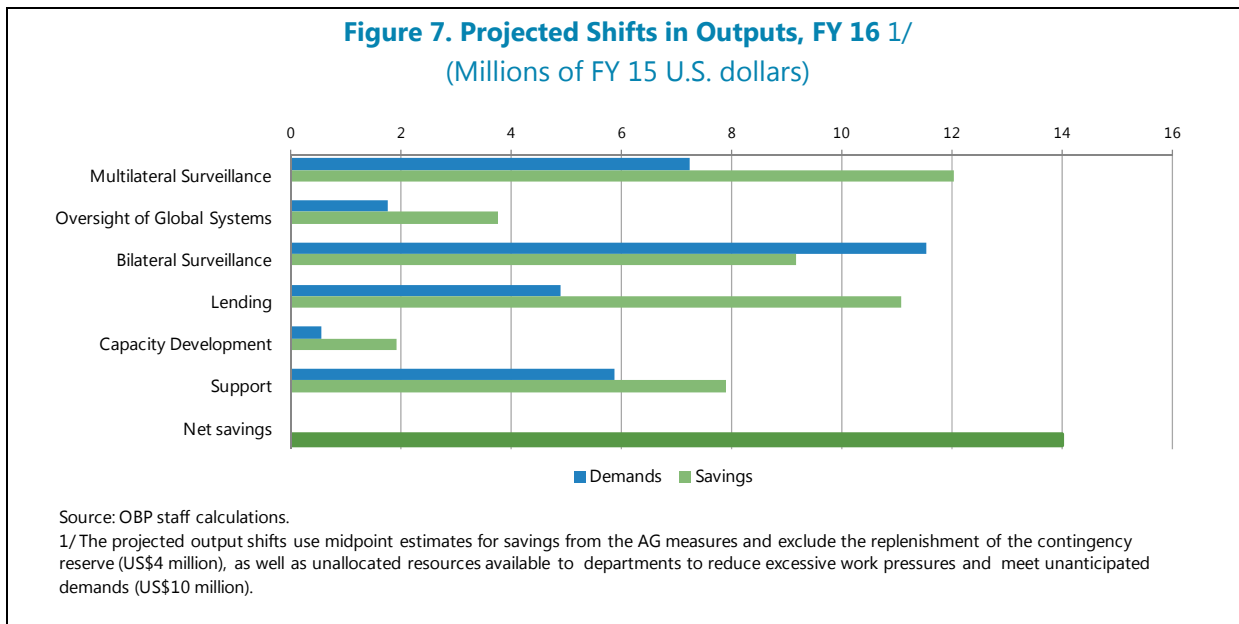
envisaged, the proposed reallocation would cover the remaining resource needs for FY 16 related to implementing the TSR recommendations and the strengthening of macro-financial surveillance, while allowing departments to further reduce excessive work pressures, phase in the new streamlining measures and, more generally, cope with business uncertainties



and unanticipated demands (Figure 6). Among these, a reduction in uncompensated overtime alone to no more than 10 percent in all departments would absorb staff time equivalent to about \$10 million. Given uncertainties stemming from the yield of the measures put forward by the AG, the resource needs associated with new priorities, and the unsettled global economic environment, full implementation of the package is key to secure this outcome.

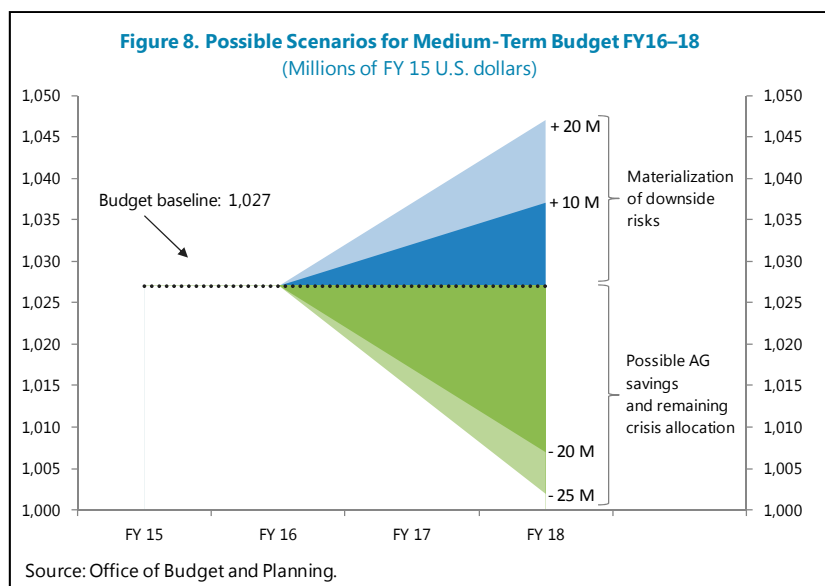
**19. In terms of outputs, the budget proposal implies a shift of activities toward bilateral surveillance.** The savings from the proposed streamlining of Article IV processes for stable non-systemic economies would not be sufficient to meet the additional needs arising from enhanced macro-financial surveillance and the implementation of other TSR recommendations. All other output areas, in contrast, would see a reduction to meet unallocated institutional demands, such as the rebuilding of the contingency reserve. Lending-related activities and multilateral surveillance would show the largest decline, reflecting the expected fall in the number of active programs and the streamlining of resources devoted to general research and the Fund’s flagship products and policy reviews (Figure 7). The resulting net savings of \$14 million correspond to the unallocated resources, including the increase in the contingency reserve and the space available to reduce uncompensated overtime and meet unanticipated needs.

<sup>5</sup> Budgets for the Offices of the Executive Directors (\$69 million) and for the Independent Evaluation Office (\$6 million) are excluded from this calculation.



**20. The medium-term spending path will depend on new demands placed on the institution, and the scope for further reprioritization.** The AG measures proposed for the medium

term could yield further savings of \$10–15 million, though the precise measures and their yield will need to be determined. In addition, the estimated scope for further unwinding of crisis-related work is limited to \$10 million (less than 1 percent of the net administrative budget), as nearly all resources provided initially on a temporary basis have been absorbed by other needs that will persist (Box 4). At the same time, the outlook



is subject to considerable downside risks—including further volatility in global financial markets and commodity prices, the impact of geo-political developments, and stagnation in a number of major economies. The materialization of these risks could ramp up the demand for Fund financing, reversing the gradual reduction in arrangements currently underway. Should these risks materialize in FY 16, the additional resource needs could be accommodated by drawing down the proposed central contingency reserve of \$8 million. However, a persistently higher number of arrangements would require additional resources in the medium term that could well outweigh possible savings. As an illustration, supporting new programs for one quarter to one half of countries currently under either intensive surveillance or in near-program status would require an additional \$10–20 million (Figure 8). Moreover, work on new priorities may require additional resources going forward.

Nevertheless, given the uncertainties, an unchanged budget envelope in real terms is assumed for the medium term at this time.

#### Box 4. The Crisis Allocation

In FY 11, \$52 million of crisis-related resources were made available to the Fund's administrative budget to meet the increased institutional demands resulting from the global financial crisis. In addition, in FY 12 the Executive Board approved a 3 percent structural budget increase, equivalent to \$28 million. The crisis allocation was to be reduced as the crisis receded.

The Fund's activities and priorities have evolved since FY 12 reflecting changes in the global economic environment:

- The number of Fund arrangements has reverted to historical norms that are much higher than what was assumed when the crisis allocation was introduced;
- Bilateral and multilateral surveillance were enhanced to strengthen crisis prevention;
- Capacity development (CD) activities have expanded sharply, with both direct and knock-on effects on the Fund's budget, including through unrecovered overhead costs of externally-financed CD;
- The costs of ensuring physical and IT security have substantially increased;
- Under-investment in human capital during the crisis needed to be corrected.

As discussed in the [FY2015–FY2017 Medium-Term Budget paper](#), the total cost of these new priorities was estimated at about \$54 million. With partially offsetting efficiency gains, a squeezing of budget margins and a depletion of the contingency, the maximum level of remaining temporary resources that could be drawn down over the medium term were estimated at \$20 million.

Based on a revised assessment of the global economic outlook, the FY 16 budget incorporates an explicit reduction in crisis resources of about \$10 million. A similar amount could thus be available for reallocation in the medium term, although the latter is not included in the budget baseline in light of the uncertainty surrounding the pace of the European recovery. Going forward, overall budget needs will be assessed holistically, based on their alignment with strategic priorities, and streamlining opportunities will continue to be pursued vigorously, consistent with the strengthened process put in place this year.

## E. Staffing Implications

**21. Following several years of increases, total staff positions in FY 2016 will be at roughly the same level as in FY 15** (Table 2).<sup>6</sup> This reflects the confluence of three factors: (i) a downward adjustment in staff positions (15) as a net impact of the above-mentioned streamlining measures, including the winding down of crisis-related work in Europe; (ii) the impact of the Categories of Employment reform, which over the medium term creates some 120 staff positions for work currently performed by contractual employees; of these 104 are Fund-financed, with an increase of 36 positions in FY 16, concentrated for the most part in functional departments; and (iii) a rebasing

<sup>6</sup> Over the past several years, additional staff positions were made available to strengthen engagement with countries in the Middle East and in Europe, as well as to support the expansion of regional technical assistance and training centers. Additional positions were also provided to address security and staff learning and training needs.



of personnel budgets in three TA departments to better align their budgets with actual spending patterns by shifting budgetary resources from staff to contractual uses.<sup>7</sup>

	FY 15 Approved Budget	Adjustments, FY 16			Proposed 1/		
		New FTEs	Impact of CoE	Rebasing	FY 16 Budget	FY 17 Budget	FY 18 Budget
<b>Area</b>	<b>797</b>	<b>(8)</b>	-	-	<b>789</b>	<b>784</b>	<b>782</b>
AFR	213	(2)	-	-	211	211	211
APD	108	4	-	-	112	112	112
EUR	206	(10)	-	-	196	191	188
MCD	137	-	-	-	137	137	138
WHD	133	-	-	-	133	133	133
<b>Functional Non-TA</b>	<b>479</b>	-	<b>11</b>	-	<b>490</b>	<b>497</b>	<b>497</b>
COM	86	1	4	-	91	93	93
FIN	122	1	4	-	127	131	131
RES	103	-	2	-	105	107	107
SPR	168	<b>(2)</b>	-	-	166	166	166
<b>Functional TA</b>	<b>681</b>	<b>(4)</b>	<b>17</b>	<b>(20)</b>	<b>674</b>	<b>707</b>	<b>717</b>
FAD	146	(3)	8	(8)	143	156	160
ICD	112	-	4	-	116	123	123
LEG	72	-	2	-	74	78	80
MCM	213	(1)	1	(7)	206	212	216
STA	138	-	3	(4)	137	139	139
<b>Support/Main Offices</b>	<b>482</b>	<b>(4)</b>	<b>8</b>	-	<b>486</b>	499	<b>503</b>
TGS	314	<b>(6)</b>	4	-	312	318	322
HRD	79	1	2	-	82	85	85
SEC	58	1	2	-	61	63	63
OBP	16	-	-	-	16	16	16
OIA	15	-	1	-	16	17	17
<b>Others</b>	<b>90</b>	<b>1</b>	-	-	<b>91</b>	91	<b>91</b>
<b>OED/IEO</b>	<b>254</b>	-	-	-	<b>254</b>	<b>254</b>	<b>254</b>
<b>Total</b>	<b>2,782</b>	<b>(15)</b>	<b>36</b>	<b>(20)</b>	<b>2,784</b>	<b>2,832</b>	<b>2,844</b>

Source: Office of Budget and Planning.  
 Note: Figures may not add to totals due to rounding.  
 1/ Excludes the creation of staff positions under the CoE that are dedicated to donor-funded activities.

<sup>7</sup> This realignment of personnel budgets with actual uses will facilitate the parallel implementation of tighter monitoring of spending in different personnel categories, following the adoption of the new categories of employment.

**22. Workforce simulations suggest that new hiring needs will remain broadly in line with those in recent years** (Appendix IV). Based on the assumption of unchanged headcount levels, and incorporating retirement and separation projections, the following trends are expected:

- Some 30 percent of staff would leave the Fund in the next five years, creating scope to recruit new talents and skills.
- Workforce flexibility will also increase as a result of the introduction of *term* appointments that carry no presumption of “conversion” to open-ended status. As a result, the number of employees on flexible appointment types (contractual and term) is projected to rise to 33 percent of the total workforce by FY 20, compared with 25 percent (contractual and limited-term) currently.
- The majority of recruitment will continue to relate to contractual positions. Contractual employees are projected to comprise only 14 percent of the Fund’s workforce by FY 20, but will account for 60 percent of all hiring, owing to their much higher turnover rate.
- The Fund could face recruitment challenges in the event of shocks. The simulated shocks include an accelerated retirement scenario and an increase in Fund-supported programs, consistent with the scenarios outlined above. Should these shocks occur simultaneously, hiring activity would have to rise significantly.

## UPDATED MEDIUM-TERM INCOME AND EXPENDITURE OUTLOOK<sup>8</sup>

### A. Setting the Nominal Budget Envelopes

**23. The Global External Deflator (GED) is used to determine the budget envelope in nominal terms.** (Table 3). The proposed nominal gross and net budget envelopes are shown in Table 4.<sup>9</sup>

<sup>8</sup> A fuller discussion is provided in *The Consolidated Medium-Term Income and Expenditure Framework*, ([www.imf.org](http://www.imf.org)) under Policy Paper, April 27, 2015).

<sup>9</sup> The budget envelope includes net expenditures of \$70.5 million for the Offices of the Executive Directors (OED), based on a zero real growth envelope.

**Table 3. Net Administrative Budget, FY 15–18**  
(Millions of U.S. dollars, unless otherwise noted)

	FY 15	FY 16	FY 17	FY 18
	FY 15 dollars			
Proposed FY 16–18 MTB	1,027	1,032	1,027	1,027
<i>of which:</i> Annual Meetings		5		
	Current dollars			
Proposed FY 16–18 MTB				
Net budget envelope		1,052	1,070	1,095
<i>of which:</i> Annual Meetings		5.0		
<i>Memorandum items:</i>				
Global external deflator		1.9	2.2	2.4
Personnel component (70 percent) 1/		2.4	2.4	2.4
Non-personnel component (30 percent) 2/		0.6	1.8	2.4

Source: Office of Budget and Planning.

1/ The personnel component represents the proposed structure salary increase and is subject to approval by the Executive Board; the outer two years are held constant.

2/ The non-personnel component is based on the projected U.S. CPI in the April WEO.

**Table 4. Proposed Budget Envelope, FY 16–18**  
(Millions of U.S. dollars)

	Proposed 1/		
	FY 16	FY 17	FY 18
<b>Total gross expenditures</b>	<b>1,248</b>	<b>1,269</b>	<b>1,300</b>
Personnel 2/	910	934	960
Travel 3/	131	125	126
Buildings and other expenses	197	200	204
Contingency reserves 4/	10	10	10
<b>Less: Receipts</b>	<b>(196)</b>	<b>(200)</b>	<b>(205)</b>
<b>Total net expenditures</b>	<b>1,052</b>	<b>1,070</b>	<b>1,095</b>

Source: Office of Budget and Planning.

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

1/ Budget composition by category is tentative pending finalization of donor-funded activities.

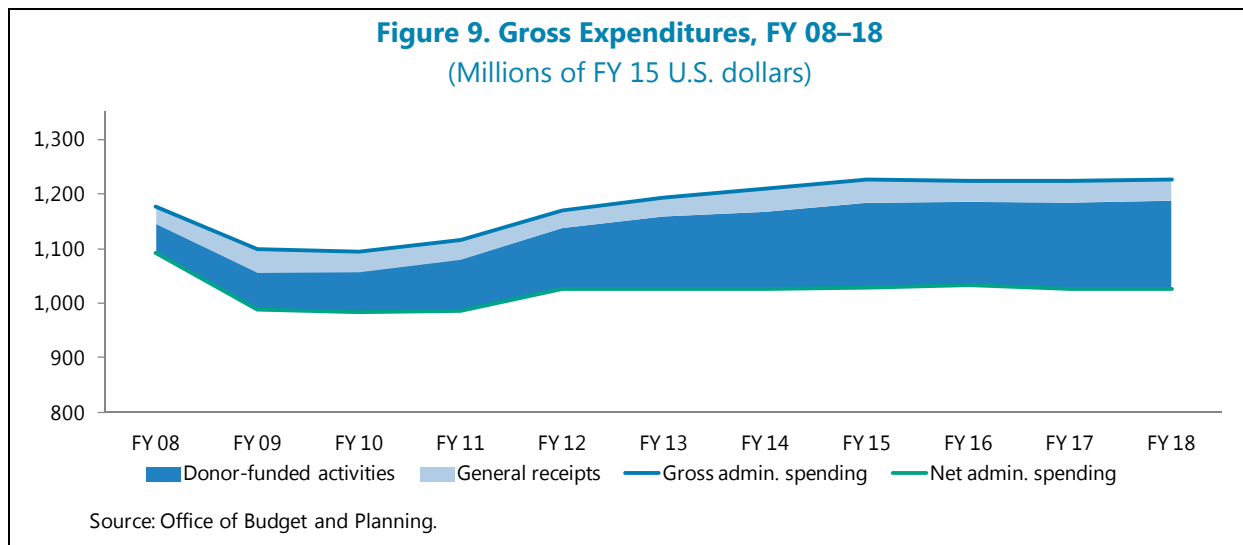
2/ All Fund employees, including those in overseas offices.

3/ In FY 16, includes the Annual Meetings abroad.

4/ Includes contingency reserves for OED, IEO, and staff.

**24. The budget will need to provide resources to cover the costs of holding the FY 16 Annual Meetings in Lima.** As these costs are only incurred when the Annual Meetings are held outside Washington every three years, a specific allocation based on estimated travel costs will be included in the FY 16 budget. The proposed allocation for FY 16 is \$5 million (of which about 30 percent is for the Offices of Executive Directors) to cover the direct costs of travel of staff and the members of the Executive Board to Lima. This compares with \$6 million in actual expenditures in 2012 for the Tokyo Annual Meetings.

**25. The expansion in donor-financed capacity development activities is tapering off, slowing the growth of gross expenditures** (Figure 9). The limit on donor-financed CD activities is based on a zero-real growth assumption, in line with the net administrative budget. Maintaining CD activities at this level will require sustained fundraising efforts over the medium term. The strengthened governance framework for CD helps firmly anchor these activities in the Fund’s strategic planning process, ensuring their alignment with institutional priorities (Box 5). Accordingly, providing adequate support to program countries, as well as to other countries facing significant vulnerabilities, will continue to be a key part of the Fund’s CD activities, with volumes linked to the number of programs. At the same time, engagement with fragile states, including Arab Countries in Transition and low-income countries, will remain a priority for CD delivery. While CD in the fiscal sector is expected to continue to account for the largest share of Fund CD activities, the Fund is also responding to the growing demands by the membership for support on macro-financial and financial issues. Recent trends and Fund CD priorities are discussed in greater detail in Appendix V.



### Box 5. Capacity Development Governance

The governance of Fund capacity development (CD)—technical assistance and training—has been strengthened in line with the Executive Board’s review of the Fund’s CD strategy in June 2013.<sup>1</sup>

**Revised policy statement for CD.**<sup>2</sup> A statement on the “IMF Policies and Practices on Capacity Development” was discussed and approved by the Executive Board in 2014. The statement consolidates the principles approved by the Board in 2013 and earlier with the policies and practices that are within Management’s authority and are followed by staff in carrying out CD activities.

**Integration of CD in the Fund’s strategic planning process.** As described in the CD policy statement, the Board provides strategic direction and oversight through regular reviews of, and policy guidance for, CD activities and the budget process. In the regular policy reviews, the Board receives information on the key features of the Fund’s CD activities, analysis of the implementation of existing policies and principles governing CD work, and information on the evaluation of CD activities. The Board then takes decisions on the policy changes and, respecting the demand-driven nature of CD activities, expresses views on broad medium-term priorities. As part of the annual budget process the Board is provided information on CD outturn and on planned CD financing and delivery.

Management translates the strategic direction and the overall Fund budget set by the Executive Board into procedures and practices that govern CD activities through an integrated Fund-wide process for setting priorities in departmental accountability frameworks and budget formulation.

Every fall, the interdepartmental Committee on Capacity Building (CCB) takes stock of member countries’ evolving demands and of Fund priorities, as set out in the IMFC communiqués, the Global Policy Agenda, the Executive Board’s Work Program, and Management’s Key Goals; and considers implications for CD priorities. The CCB’s conclusions then feed into the Fund-wide planning and budget discussions. This process helps align CD activities with broader institutional priorities.

Given the CD priorities, a detailed plan of missions for the coming financial year is agreed in the Resource Allocation Plan (RAP) between area and TA departments by the end of each financial year.

Every July, CD delivery during the prior financial year is reviewed by the CCB against the plans set for that financial year. Every March, the CCB reviews fundraising activities and sets objectives for the period ahead.

**Other recent developments** to strengthen governance and improve prioritization of CD include:

- **Review process for new donor-financed initiatives.** A process for approving new donor-financed initiatives was established in May 2014. The goal of the new review process is to ensure consistency with the Fund’s institutional and CD priorities and budget objectives, and to promote transparency through adequate consultation among relevant Fund departments.
- **Better use of Regional Strategy Notes (RSNs) to prioritize CD.** Since Fall 2014, the timing of preparing RSNs has moved to November to make these documents a more effective part of the strategic planning process. RSNs, which reflect country demands and area departments’ priorities, are a key input for the November CCB.

<sup>1</sup> *The Fund’s Capacity Development Strategy—Better Policies Through Stronger Institutions* (IMF Policy Paper, May 21, 2013) and *Executive Board Review of the Fund’s Capacity Development Strategy* (PIN No. 13/72, 06/27/13).

<sup>2</sup> *IMF Policy and Practices on Capacity Development* IMF Policy Paper, August 26, 2014.

## B. Updated Income Projections

**26. Net operational and surcharge income is projected to remain positive over the medium term albeit lower than in April 2014** (Table 5).<sup>10</sup> The downward revision in projected lending income follows a lower path for credit outstanding, reflecting inter alia advance repurchases by Ireland and Portugal. Non-lending income is also projected to be lower over the medium term compared with April 2014, mainly reflecting a further downward shift in SDR interest rates.<sup>11</sup> As a result, operational income is projected to decline and turn slightly negative in FY 16, before rising in FY 17 due to new commitment fees from the recent renewal of two precautionary arrangements. Surcharge income remains strong notwithstanding the lowering of the projections over the medium term (Figure 10). The pace of reserve accumulation is projected to be slower than estimated in April but remains robust as net operational income and surcharges continue to contribute significantly to the accumulation of precautionary balances.

**Table 5. Consolidated Income and Expenses, FY 15–25**  
(Millions of U.S. dollars, unless otherwise stated)

	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 25
<b>Current quotas and thresholds 1/</b>								
I. Operational income	2,154	976	1,572	1,289	1,449	1,485	1,522	1,377
Lending income	1,938	904	1,341	704	662	579	462	201
Non-lending income	216	72	231	585	787	906	1,060	1,176
II. Administrative expenses	1,114	1,126	1,148	1,172	1,177	1,200	1,225	1,319
Of which: Net administrative budget	1,019	1,052	1,070	1,095	1,116	1,137	1,159	1,249
III. Net operational income (I-II)	1,040	-150	424	117	272	285	297	58
<i>Memorandum items:</i>								
Surcharges	2,167	1,228	983	991	1,052	879	549	0
Fund credit (average stock, SDR billions)	74.3	52.1	46.8	46.3	44.1	39.1	31.2	10.0
Precautionary balances (end of period, SDR billions) 2/	14.0	14.8	15.7	16.5	17.4	18.1	18.7	10.0

Source: Finance Department.

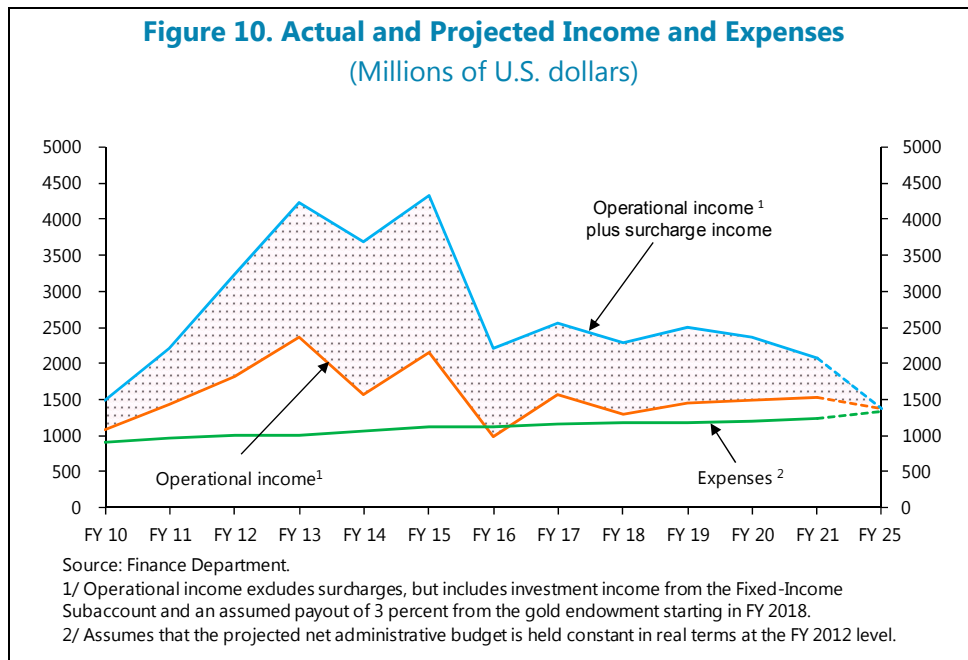
1/ The projections are based on the assumption that quotas and Fund policies on surcharges and commitment fees remain unchanged in the medium term.

2/ Annual net operational income and surcharges add to the level of precautionary balances each year. The assumed U.S. dollar/SDR exchange rate is 1.48.

<sup>10</sup> *The Consolidated Medium-Term Income and Expenditure Framework* (IMF Policy Paper, April 22, 2014).

<sup>11</sup> Consistent with the NIM, the contribution of investment income to operational income is expected to rise steadily over time.

**27. The long-term position between income and expenditures would remain balanced, even under conservative scenarios.** An illustrative long-run steady state projection (now assumed to be reached in FY 25, when drawings under current arrangements have largely been repurchased), assuming very low levels of credit outstanding (SDR \$10 billion) and constant expenditures in real terms, yields a positive income-expenditure position in which the Fund would not be relying on lending income to finance its non-lending activities. In an alternative steady-state scenario in which the number of arrangements is set at the average of the past ten years (17 arrangements) and the spending assumptions are unchanged, lending income would be about 80 percent higher by FY 25, increasing net operational income by about \$150 million.



## THE FY 16–18 CAPITAL BUDGET ENVELOPE

**28. This paper seeks Executive Board approval for \$42 million in capital funding for FY 16, slightly higher than the \$41 million assumed in the FY 15–17 MTB.** The capital budget targets needed building facility repairs and improvements, enhancements to the Fund’s audio visual (AV) capabilities, and strategic information technology (IT), including IT security. The budget appropriation for each component is shown in Table 6. The IT component is \$1 million higher than the budget previously presented to the Executive Board, to cover a required expansion of the off-site IT Recovery Center. This is based on a just-completed review of the Fund’s IT recovery priorities as part of the broader business continuity plan.

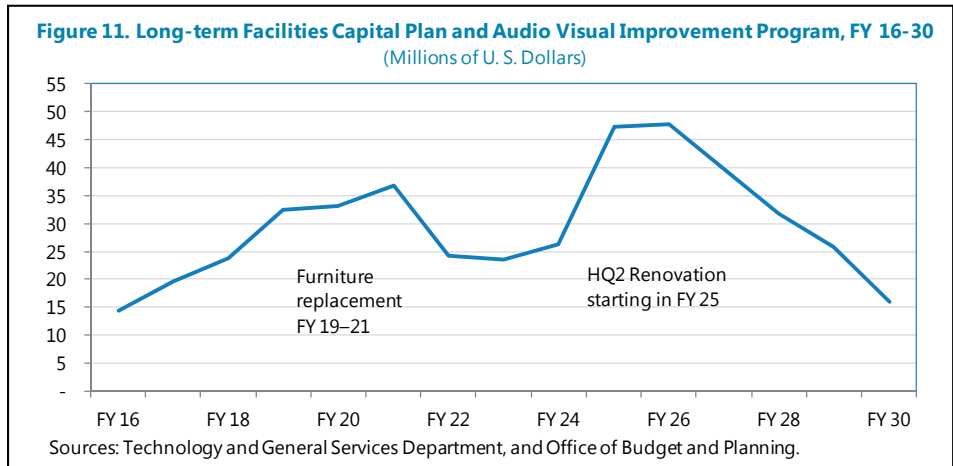
**Table 6. Medium-Term Capital Budgets, FY 16–18**  
(Millions of U.S. dollars)

	FY 15	Proposed		
		FY 16	FY 17	FY 18
<b>Total</b>	<b>52</b>	<b>42</b>	<b>46</b>	<b>49</b>
Building facilities	22	14	20	24
<i>Of which: audio visual</i>	11	6	10	5
Information technology	30	28	27	25

Sources: Office of Budget and Planning, and Technology and General Services Department.  
 Note: Figures may not add due to rounding.

**29. The budget for building facilities is guided by the long-term facilities capital plan and the AV improvement program (Figure 11):**

- Facility repairs and improvements follow a long-term plan based on the age and life cycle of all facility components. The plan is reviewed and updated each year as needed; it is adjusted if a building system



requires replacement earlier than anticipated or if a planned replacement can be deferred. Nevertheless, over the long-term, the plan forms the baseline assumption. The plan for FY 16–18 remains largely unchanged from what was presented in the FY 15–17 MTB, and accordingly reflects a gradual increase in the facilities capital budget. This increase is mainly related to planned work to optimize building systems efficiencies and controls to enable enhanced building management, and also reflects the cost in FY 18 of refitting HQ2 offices when the lease to the World Bank ends. Following a 2014 facility condition assessment, conducted by an external facilities service consultancy using an industry-wide assessment methodology, the plan has been updated to reflect expected HQ2 end-of-life building systems replacements starting in FY 21, ahead of the major HQ2 renovations expected to begin in FY 25. The first major capital expenditures will be the replacement of furniture, which is scheduled to start in FY 19.

- The AV improvement program is designed to address shortcomings in Fund communication and collaboration capabilities.<sup>12</sup> Due to the pace of change in the industry, AV investments are based on a seven-year rolling plan, which helps ensure that obsolete technologies are replaced and that needed improvements are scheduled and funded. The HQ1 renovation presents a unique opportunity to implement major components of the AV program as the construction takes place.

**30. The FY 16 capital budget includes \$14 million for building facilities as follows:**

- \$8 million for facilities capital projects, which includes: an upgraded facility control system across HQ1 and HQ2 to ensure that lighting and ventilating systems in public spaces are optimized; improvements in HQ2 mechanical, electrical and plumbing systems to reduce energy consumption and improve performance; minor building modifications to accommodate

<sup>12</sup> The Fund formally began to include AV as a component of the capital budget in FY 14. Prior to this, funding for AV came from a combination of the administrative and capital budgets.



changing business needs; and some landscaping work to provide a more efficient watering system and better aesthetics.

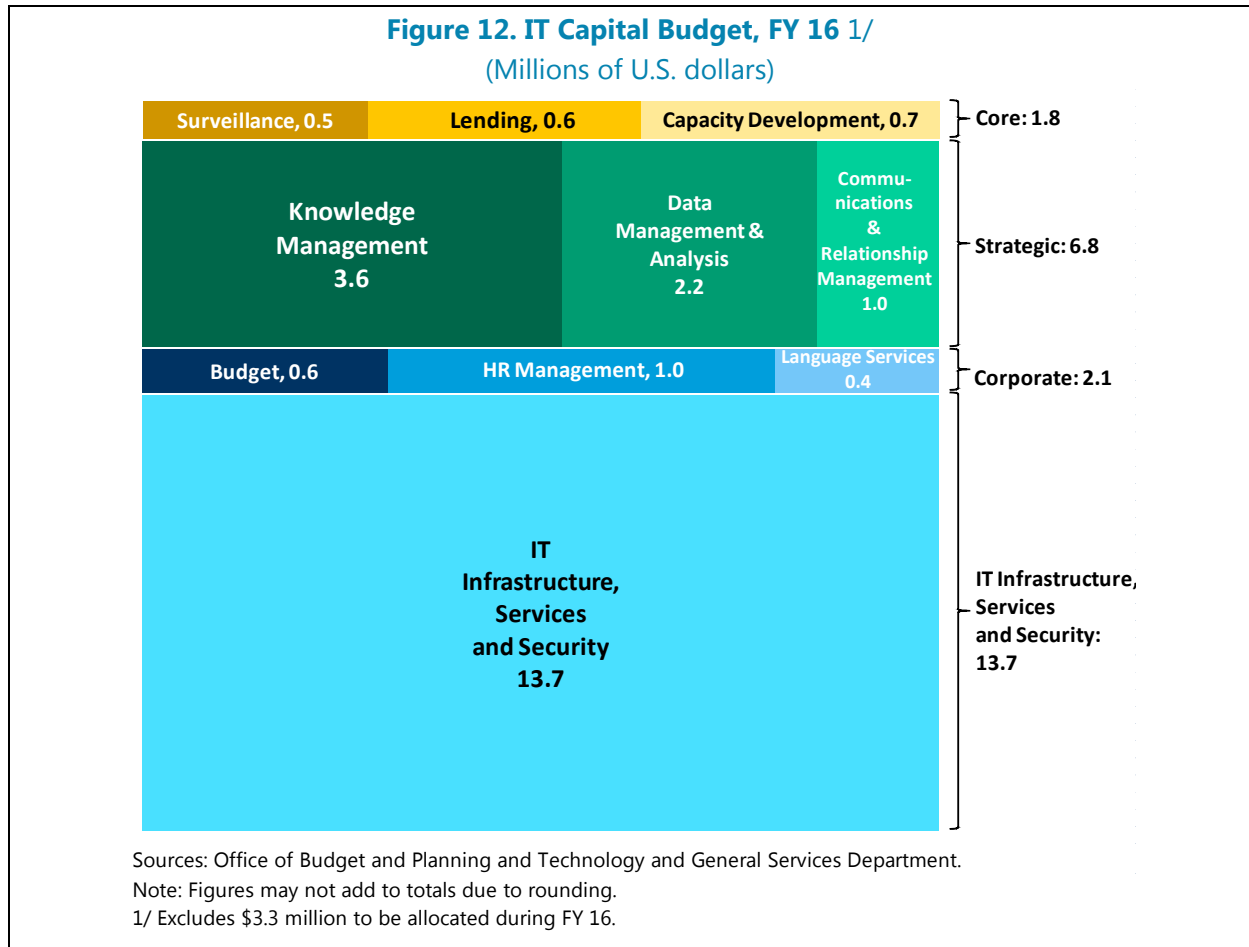
- \$6 million for AV improvements, which includes: a new media center with broadcast studio and upgraded AV equipment, network and control systems in multipurpose venues in HQ1 for conferences and events; and upgraded conference rooms with latest AV technology. In addition to meeting the daily demands of the institution, these systems will also help to support the Spring and Annual Meetings in 2016 and beyond.

**31. Investments in IT are guided by the Committee on Business & Information Technology (CBIT).** CBIT is a senior level committee composed of several department directors and chaired by management. It establishes the IT investment priorities, allocates resources across portfolios, and approves investments following completion of extensive assessments. Projects compete for funding in part by demonstrating close alignment with the Fund’s institutional objectives, and taking into account the MKGs and the Business Technology Strategy. The latter emphasizes investments in technologies that support the Fund’s core and strategic capabilities, while pursuing opportunities to improve and streamline corporate functions, and safeguarding the Fund’s IT infrastructure and information assets.<sup>13</sup> Projects are also assessed on the expected business value; total cost of ownership, including impact on future administrative cost; and implementation risks.

**32. The proposed FY 16 IT capital budget totals \$28 million** (Figure 12). This portfolio will support several initiatives that aim to strengthen the Fund’s core business capabilities, including: funding for development of models to quantify sovereign debt risks; further implementation of a tool to gather, analyze and disseminate data on the performance of revenue administrations, which is used in the provision of TA; new tools for reporting TA results; and improvements to the system used to manage financial transactions and information related to the Fund’s lending operations. The capital budget will also address a broad range of strategic capabilities, with a particular focus on knowledge and data management. This includes replacing the document management system and improving document search capabilities; and implementing an economic data registry that will facilitate improved access to data across the Fund. Several projects will be funded to help address the Fund’s corporate services, including an upgrade to the core HR system along with improvements to help address recent recommendations made by the Office of Internal Audit (OIA). Investments in the underlying infrastructure include end-of-life replacements of core components; improvements to the IT performance in field offices; and completing the upgrade of Microsoft Office. IT infrastructure investments also include an expansion of the applications available at the off-site IT Recovery Center.

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<sup>13</sup> Core capabilities provide direct benefits to the membership (surveillance, lending, and CD activities) and strategic capabilities position the institution for the future (knowledge management, data management and analysis, and communications and relationship management). Corporate capabilities are essential for running the Fund, but are not unique to the Fund (e.g., HR and budget management).

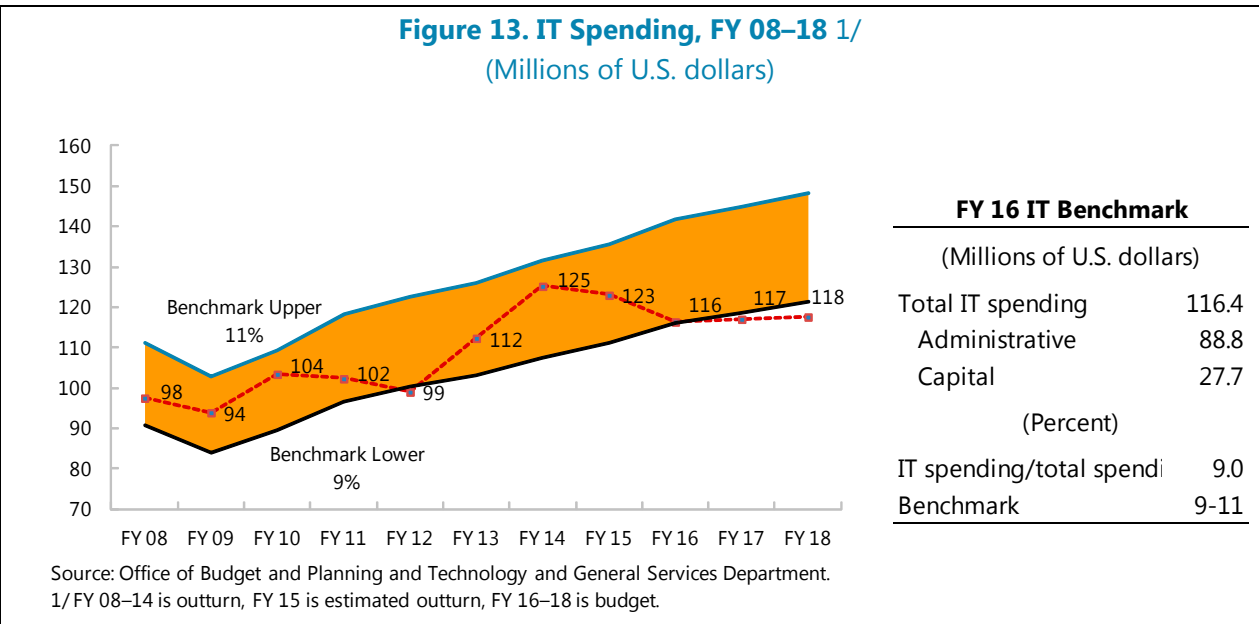


**33. The IT capital budget proposal includes funding for IT security, in line with the comprehensive five-year plan that was developed in FY 13.** Halfway through implementation and given the rapidly changing nature of IT security threats, a review will be conducted to ensure that the plan remains appropriate. IT threats are inherent in today’s world and the Fund’s IT security posture will need to be reassessed continually and funded accordingly.

**34. In the steady-state, when the planned IT projects are fully implemented, the recurrent IT administrative support costs of this portfolio of projects will total about \$1.1 million.** The support costs include new licensing fees, software upgrades, and regular IT maintenance; these costs are then netted against savings that are achieved from replacing old technologies and decommissioning systems to arrive at the steady-state increase. These costs will need to be financed in future administrative budgets and met either through reallocation from other areas, or a real increase in the budget.

**35. The Fund’s total IT spending is expected to remain in line with the benchmark range that has served as a barometer for many years, albeit at the lower end of the range** (Figure 13). IT spending is also benchmarked against other international financial organizations (IFIs). This compares the total IT spending of the institutions relative to their overall expenditure and also the

amount spent to support each workstation. On both counts the Fund’s IT spending has remained within the thresholds established during the benchmark exercise. A recent external review of the Fund’s IT also validated that the institution’s overall IT spending is appropriate.



**36. A long-term IT capital plan will be developed during FY 16 and presented as part of the FY 17–19 MTB.** Like the Long-Term Facilities plan, an IT capital plan would help to signal in advance when IT hardware and major applications would be replaced or upgraded based on industry norms. The plan would also identify the capital funding needed to continually upgrade the IT security tools used to safeguard the Fund’s IT and information assets and respond to new threats. Such an approach would ensure that needed funding is provisioned for major replacements and IT security projects without requiring them to compete for capital funding with other administrative, financial or economic data projects.

**37. All capital expenditures have an impact on the Fund’s net income but the timing of the recognition of those expenditures varies depending on the nature of the investment.** The expenditures for some projects are reflected in net income when the cost is incurred (i.e., expensed), while the expenditures for other projects are capitalized and spread over a longer period of time (i.e., depreciated). Table 7 provides a breakout of the building facilities and IT assets that comprise the FY 16 budget by the period over which the expenses will be recognized in the Fund’s financial statements in accordance with International Financial Reporting Standards.

**Table 7. Financial Treatment of Capital Projects with FY 16 Funding 1/**  
(Millions of U.S. dollars)

Asset Category	Period over which Expenses are Recognized						Total
	When Spent	3 years	5 years	7 years	14 years	21 years	
FY 16 Capital Appropriations	10.7	13.8	6.9	7.5	2.7	0.5	42.1
Building Facilities Projects 2/	3.7			7.5	2.7	0.5	14.4
Information Technology Projects	7.0	13.8	6.9				27.7
Feasibility Studies/In-House Development	7.0	--	--	--	--	--	7.0
Hardware - Equipment	--	9.6	--	--	--	--	9.6
Software - Upgrades/Purchases	--	4.2	6.9	--	--	--	11.1

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

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

1/ The financial treatment of the proposed FY 16 budget envelope and when its impact on net income will be reflected is determined by International Financial Reporting Standards (IFRS). Projects are either expensed in the year of funds outlay or are capitalized over a period based on the type of project. Buildings are depreciated over the remaining useful life: 14 years for HQ1; 30 years for HQ1 Renewal, 28 years for Concordia; and 21 years for HQ2. Furniture is depreciated over 7 years, equipment over 3 years, and software upgrades over 3 years. Software purchases or new software developments are depreciated over 5 years. Unallocated funds are assumed to be expensed. Financial treatment is re-examined after funds are allocated to projects.

2/ Building Facilities projects include the Audio Visual Capital Investment Program.

## Proposed Decisions

Within the total administrative appropriation, separate appropriations and expenditure ceilings are proposed for the Offices of the Executive Directors (OED), the Independent Evaluation Office (IEO), and other administrative expenditures in the Fund (Table 8). As described in the previous section, the capital budget is made up of two components: building facilities and information technology.

**Table 8. Proposed Appropriations, FY 16**  
(Millions of U.S. dollars, unless otherwise noted)

	Other	OED	IEO	Total
Net administrative budget	975.1	70.5	5.9	1,051.5
Receipts	194.6	1.2	-	195.8
FY 15 Carry forward (upper limit)	28.6	13.6	0.3	42.5
Total gross expenditures (limit)	1,198.3	85.3	6.2	1,289.8
Capital budget for projects starting in FY 16				42.1
Information Technology				27.7
Building facilities				14.4
<i>Memorandum items:</i>				
FY 15 Net administrative budget	953.5	67.8	5.7	1,027.0
FY 15 Carry forward (upper limit, in percent)	3.0	20.0	5.0	n.a.

Source: Office of Budget and Planning.

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

Accordingly, the following 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 the Fund, FY 2016

- A. Appropriations for net administrative expenditures for Financial Year 2016 are approved in the total amount of US\$1,051.5 million, of which: (a) up to US\$70.5 million may be used for the administrative expenditures of the Offices of Executive Directors, (b) up to US\$5.9 million may be used for the administrative expenditures of the Independent

Evaluation Office, and (c) up to US\$975.1 million may be used for the other administrative expenditures of the Fund.

B. In addition to the amounts for net administrative expenditures appropriated under paragraph A, amounts appropriated for net administrative expenditures for Financial Year 2015 that have not been spent by April 30, 2015 are authorized to be carried forward and used for administrative expenditures in Financial Year 2016 in a total amount of up to US\$42.5 million, with sub limits of (a) US\$13.6 million for the Offices of Executive Directors, (b) US\$0.3 million for the Independent Evaluation Office, and (c) US\$28.6 million for the other administrative expenditures of the Fund.

C. A limit on gross administrative expenditures in Financial Year 2016 is approved in the total amount of US\$1,289.8 million, with sub limits of (a) US\$85.3 million for the administrative budgets of the Offices of Executive Directors, (b) US\$6.2 million for the administrative expenditures of the Independent Evaluation Office, and (c) US\$1,198.3 million for the other administrative expenditures of the Fund.

## **Decision No. 2: Capital Budgets for Projects Beginning in Financial Year 2016**

Appropriations for capital projects beginning in Financial Year 2016 are approved in the total amount of US\$42.1 million and are applied to the following project categories:

- (i) Building Facilities: US\$14.4 million
- (ii) Information Technology: US\$27.7 million

## Appendix I. Management's Key Goals for FY 16

### **Provide policy solutions for our membership**

1. Help the recovery gain strength
2. Offer cutting-edge policy analysis
3. Partner with Arab countries in transition
4. Sustain growth in low-income countries
5. Deepen engagement with fragile countries
6. Complete the financial sector reform agenda
7. Become a thought leader on long-term global challenges
8. Communicate effectively and transparently

### **Improve our core outputs**

9. Strengthen Article IV reports
10. Provide coherent multilateral messages
11. Ensure adequacy of the global safety net
12. Promote capacity development

### **Create an enabling environment for staff**

13. Strengthen people management
14. Provide for a safe and inclusive workplace
15. Manage resources more efficiently
16. Maintain first rate IT systems and facilities

### **Strengthen governance and boost resources**

17. Advance quota reform
18. Maintain adequate financial capacity
19. Manage risks in a more systematic way

## Appendix II. FY 15 Projected Outturn: Overview<sup>1</sup>

This appendix provides an overview of projected spending for FY 15 as a whole. It also presents an overview of capital investments related to major building works and information technology.

### 1. Current trends in expenditures and receipts point to close to full budget utilization

**in FY 15.** Over the past two years, previously unspent central provisions were reallocated to departments to help meet new demands. These releases, together with more flexible budget rules that allowed departments to temporarily hire above their budgeted staff positions (FTE limits), led to more effective utilization of available budget appropriations and increased the net budget utilization rate to 98 percent in FY 14, relative to 94 percent in FY 13. Most core departments are now fully staffed, while spending on travel is projected to be just below planned levels. Higher-than-budgeted spending on building operations and other expenses is expected mainly because of higher overseas operating costs, including for IT and physical security. With regards to receipts, these are projected to fall short of planned levels, largely because of lower-than-planned donor-funded capacity development activities and as a result of the free-data initiative that became effective on January 1, 2015.

**Table 1. Net Administrative Budget, FY 14–15 (Projected)**  
(Millions of U.S. dollars)

	FY 14		FY 15					
	Budget	Outturn	Approved Budget			Estimated Outturn		
	Total	Total	Fund-financed	Donor-funded	Total	Fund-financed	Donor-funded	Total
<b>Gross expenditures</b>	<b>1,186</b>	<b>1,148</b>	<b>1,070</b>	<b>154</b>	<b>1,224</b>	<b>1,056</b>	<b>136</b>	<b>1,191</b>
Personnel	861	829	792	105	896	771	88	859
Travel	123	117	87	41	128	87	39	126
Buildings and other expenses	190	203	185	8	193	197	9	206
Contingency 1/	12	-	7		7	...	...	...
Receipts	(179)	(160)	(43)	(154)	(197)	(36)	(136)	(172)
<b>Net expenditures</b>	<b>1,007</b>	<b>988</b>	<b>1,027</b>		<b>1,027</b>	<b>1,020</b>		<b>1,019</b>
<i>Memorandum items:</i>								
Carry forward from previous year	42		42		42			
Total net available resources	1,049		1,069		1,069			

Sources: Office of Budget and Planning and PeopleSoft Financials.

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

1/ Represents the contingencies for staff, OED and IEO.

### A. Personnel

**2. Fund-financed spending on personnel is projected to end the year about \$20 million below budget.** Two factors would contribute to this outcome: remaining frictional vacancies and lower-than-budgeted average salaries paid.

<sup>1</sup> Prepared by Rebecca Brofft, Greg Conway, Gisela Ulmschneider, Barrie Williams, and Jiu Hong Zhou.

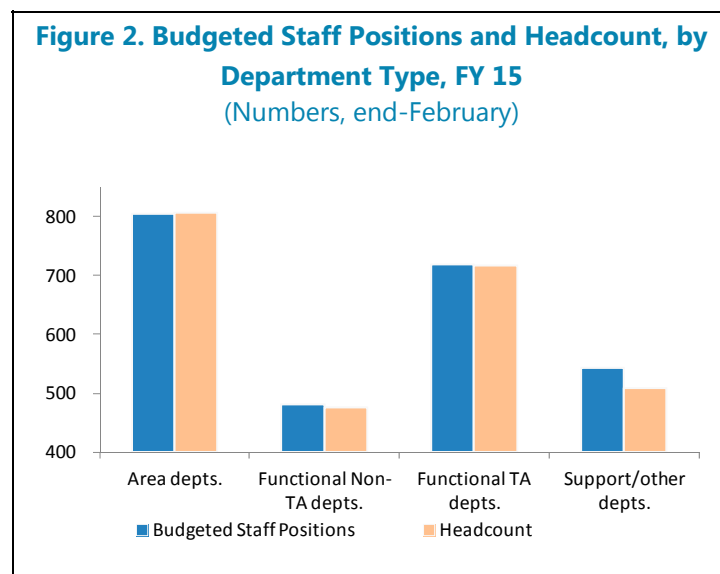
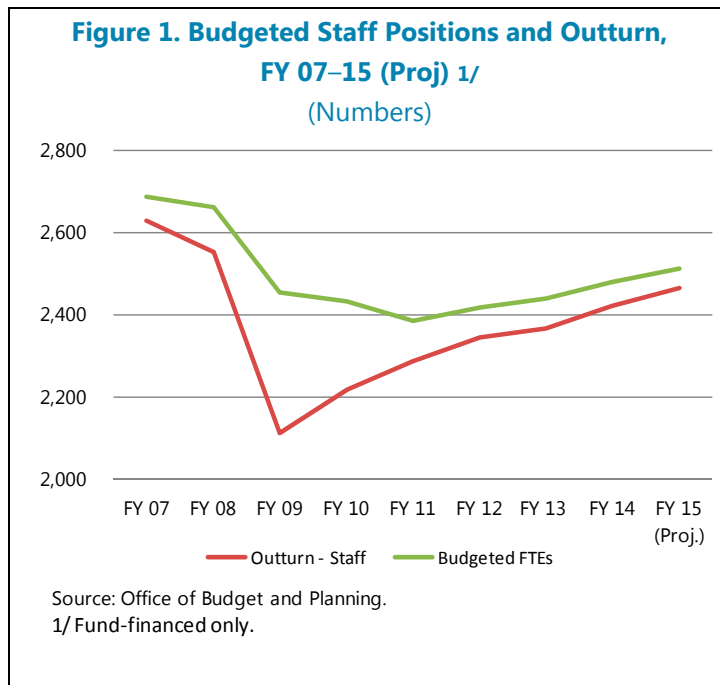


**3. Staffing levels have gradually increased to budgeted levels with vacancies now at historical lows**

(Figure 1). The average vacancy rate for FY 15 is projected at 1.8 percent, some 0.4 percent lower than in FY 14 and slightly lower than the rate observed in FY 07. Vacancy rates vary among department types (Figure 2). Area and most functional departments are practically fully staffed, while some support departments show lingering difficulties in filling existing vacancies. Many departments increasingly made use of the provided flexibility to temporarily hire above their A-level FTE limits in order to compensate for and reduce vacancy lags; however, vacancies for more specialized needs continue to take longer to fill. Going forward, close monitoring will be needed to ensure that departments remain within their FTE budget space, given limited capacity for offsetting savings elsewhere.

**4. The average salary paid is expected to be lower than the budgeted average salary.**

This is consistent with past years; as turnover occurs during the year, more senior staff are replaced with hires whose salaries are below the respective grade midpoint, causing the average salary to fall below the budget allocation. While this erosion in the average salary contributes to the underspend in the salary budget envelope, it provides for merit pay, effective July 1 of the following financial year.



## B. Travel

### 5. Travel expenses are projected to end the year just below budget

(Table 2). Overall, business travel expenses are slightly below planned levels as not all missions were able to take place, in large part due to security-related concerns. This shortfall was partly offset by additional mission security costs.

### 6. The cost per mile for business travel continues to decline as departments strive to improve their travel management practices

(Table 3). Beginning with FY 13, it has been possible to create savings by not adjusting real travel budgets by the deflator, as departments continued to streamline and seek efficiencies to better utilize existing travel resources. For example, departments have combined missions into single trips thereby reducing the number of trips and cost per trip. Departments have also secured better ticket prices by improving on advance ticketing (Table 4). Also, initial indications point to efficiencies from the new airline contracts which not only provide a wider coverage of destinations but more importantly, include an additional sixteen mission cities with non-stop service from Washington.

**Table 2. Gross Travel Expenditures, FY 14–15**  
(Millions of U.S. dollars)

	FY 14		FY 15	
	Budget	Outturn	Budget	Est. Outturn
<b>Total</b>	<b>122.9</b>	<b>116.7</b>	<b>127.5</b>	<b>126.2</b>
Business	94.4	91.7	99.7	97.9
Seminars/Participants	13.5	12.0	15.4	14.8
Settlement	9.5	9.7	9.0	10.3
Miscellaneous travel	5.4	3.4	3.4	3.3

Source: Office of Budget and Planning.

**Table 3. Average Cost per Mile, FY 11–15**

	FY 11	FY 12	FY 13	FY14 1/	FY 15 2/
Average cost per mile 3/	0.42	0.41	0.39	0.41	0.39

Source: Technology and General Services Department (Transportation Section)

1/ Costing methodology for cost-per-mile changed beginning with FY 14. Under the previous method cost per mile was 0.38.

2/ Captures travel from May 2014–January 2015.

3/ Indicator is based on international travel only.

**Table 4. Advance Ticketing, FY 12–15**  
(Days)

	FY 12	FY 13	FY 14	FY 15 1/
Fund-wide	18.8	22.0	22.7	24.3
Area	19.3	23.1	23.2	24.3
Functional	17.2	23.2	21.9	25.6
Functional TA	18.1	20.5	21.7	22.6
Support	26.9	33.4	29.1	37.6

Source: Office of Budget and Planning.

1/ Trips through January 2015.

## C. Building and Other Expenses

**7. Spending on buildings and other expenses is expected to exceed the approved budget appropriation** (Table 5). Increased spending is projected in the area of information technology (IT) due to higher administrative support costs for new IT capital initiatives moving into production, IT security, and replacement of older iPads, as well as physical security costs to improve protection for Fund staff, experts and local staff posted in overseas locations, which were somewhat offset by savings in other areas under building occupancy. Higher-than-planned spending is also expected for interpretation and translation services as well as the Annual and Spring Meetings due to the HQ1 Renewal program.

**Table 5. Gross Administrative Expenditures: Buildings and Other Expenditures, FY 14–15**  
(Millions of U.S. dollars)

	FY 14		FY 15	
	Budget	Outturn	Budget	Outturn
<b>Total buildings and other expenses</b>	<b>190</b>	<b>203</b>	<b>193</b>	<b>206</b>
Building occupancy	58	62	60	62
Information technology	54	59	57	60
Subscriptions and printing	20	19	20	20
Communications	8	9	7	9
Supplies and equipment	9	8	6	6
Miscellaneous	42	46	42	49

Source: Office of Budget and Planning.

## D. Receipts

**8. Combined receipts from donor-funded capacity development activities and the Fund's own operations are estimated to be about \$25 million below budget** (Table 6). The shortfall is mostly the result of lower-than-planned externally financed capacity development activities due to security and health risk issues in a few countries, but also implementation and operational delays of a trust fund and in a number of RTACs. The shortfall in general receipts for the most part relates to the publications revenue surrendered under the free data initiative. Expected receipts related to secondments are also estimated to be lower than planned, as staff preferences have migrated to other more flexible programs, such as leave-without-pay and swaps with other institutions.

**Table 6. Receipts, FY 14–15 1/**  
(Millions of U.S. dollars)

	FY 14		FY15	
	Budget	Outturn	Budget	Est. Outturn
Total	179	160	197	172
Externally-financed capacity development (direct costs only)	137	124	154	136
General Receipts	41	36	43	36
<i>Of which:</i>				
Administrative and trust fund management fees 1/	10	9	11	9
Publications income	6	6	6	3
Fund-sponsored sharing agreements 2/	5	4	5	4
HQ2 leasing	4	4	4	4
Secondments	2	1	2	1
Concordia apartment	3	2	3	3
Parking	3	3	3	3

Source: Office of Budget and Planning.

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

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

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

## E. Capital Investments

**9. Major capital investments continue** (Table 7). The Concordia renovation project was closed as planned, well within budget and on time; the building was returned to service in April 2013. The HQ1 Renewal Program continues to make progress: staff has returned to the renovated Concourse level, and construction work is advancing in the new atrium, cafeteria, bistro, meeting rooms, and the third and fourth floors. Quarterly updates are provided to the Board on project activity. Implementation of the facilities capital budget has seen some delays. In particular, the planned consolidation of HQ1 and HQ2 data centers is being reviewed. Moreover, while work is proceeding on the audio visual program, its implementation schedule has been adjusted to take advantage of the HQ1 renovation. The IT capital plan for FY 15 focused on further improving the reliability and performance of the IT infrastructure, continuing the implementation of the IT security program, upgrading the core financial and administrative systems, and improving economic, financial analysis and data management applications.

**Table 7. Capital Expenditures, FY 15 1/**  
(Millions of U.S. dollars)

	Facilities	Information Technology	HQ1 Renewal	Concordia Renovation	Total
FY 15 Budget Appropriations	22.0	29.8	0.0	0.0	51.8
+ Unspent FY 13 and FY 14 Funding	19.2	12.8	313.1	4.5	349.6
= Total Available Funding in FY 15 2/	41.2	42.6	313.1	0.6	397.5
Expenditures FY 15 (Est.)	10.0	33.4	106.0	0.6	150.0

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

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

2/ Unspent Concordia Renovation funds appropriated in FY 12 expired at the end of FY 14 with the exception of \$0.6 million that was specifically reappropriated for FY 15 to complete the remaining work.

## Appendix III. Proposals on Cross-Cutting Efficiency and Streamlining Initiatives<sup>1</sup>

### A. Background and Summary

1. With a view to redirecting resources towards new priorities, and recognizing departments' limited ability to realize large efficiency gains after years of operating within a flat budget, Management asked OBP to work with an Advisory Group (AG) of Senior Budget Managers from departments to identify cross-cutting streamlining initiatives and efficiencies related to ongoing Fund work.<sup>2</sup> The AG's proposals, which have been endorsed by management, would complement departments' own internal savings efforts included in their FY 16 budget submissions. **They yield gross savings of about \$20–27 million (including the equivalent of some 55–77 FTEs) in FY 16, with some scope for further savings over the medium-term.**

2. The proposed savings are generated by: (i) taking a more risk-based approach to the Fund's work and resource allocation; (ii) better exploiting synergies across the institution; and (iii) making products and processes more cost effective. The gross savings would free staff resources to meet commitments arising from the Triennial Surveillance Review and other new strands of work; finance new resource needs already in the pipeline; and further reduce excess work pressures in departments—all within a flat budget.

### B. Approach

3. The AG was guided in its approach by the following assessment of the context in which budgetary and work pressures have arisen in recent years:

**Country work in area departments**—Coping with expanded mandates:

- Increased focus on macro-financial linkages and structural reforms
- Cross-country analyses and support for multilateral products

**Multilateral work**—Upgrading of analytical tools and increased attention to risks and spillovers:

- Expansion of flagships/multilateral products with significant coordination costs
- Challenges of prioritizing and avoiding duplication

**Capacity development**—Supporting a donor-funded surge in technical assistance:

- Large unsatisfied demands from recipient countries and associated prioritization challenges
- Incomplete cost recovery of donor-financed technical assistance

<sup>1</sup> Prepared by Samuele Rosa.

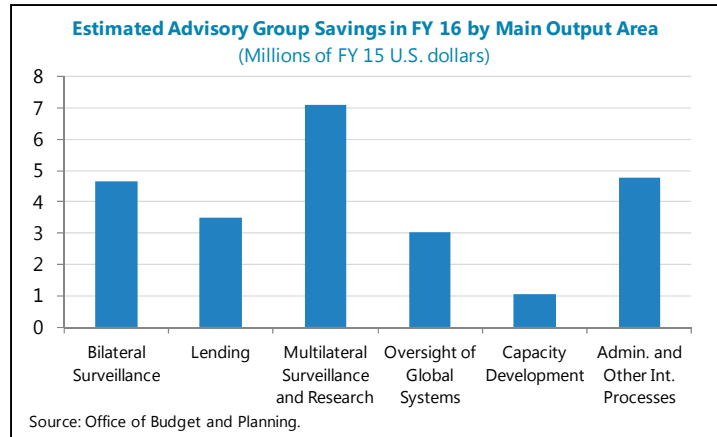
<sup>2</sup> The members include Andreas Bauer (SPR), David Hawley (COM), Jin Leong (TGS), Ron van Rooden (EUR), Ratna Sahay (MCM), and Abebe Selassie (AFR).

**Administrative and other internal processes**—Complex IT and HR systems and unexploited synergies:

- Customized systems and procedures with limited standardization
- Time-consuming processes with hard-to-measure benefits

### C. Proposals

4. The AG’s proposals entail a package of measures that is broadly balanced across departments and main areas of activity for proposed implementation in FY 16 (Table 1). The measures would yield estimated gross savings of about \$20–27 million, including the freeing up of staff resources equivalent to some 55–77 staff years. Other proposals—mainly in the areas of capacity development and administrative processes—will need more time for specification and implementation. Once fully specified, they could yield further potential savings of perhaps \$10–15 million that could be realized over the medium-term.



**Table 1. Summary of Proposed FY 16 Efficiency and Streamlining Measures**

Output Area/Activity	Gross Savings					
	FTE			Sm 1/		
<b>Bilateral Surveillance:</b> <i>Reduce administrative costs by enhancing risk-based resource allocation to surveillance and keeping country engagement</i>	11	—	17	4	—	5
• Streamline Article IV to stable, nonsystemic countries	11	—	17	4	—	5
<b>Lending:</b> <i>Ensure a closer alignment of program and post-program work to relevant risk factors</i>	9	—	12	3	—	4
• Limit high-frequency program reviews and ease LOT restrictions	5	—	6	2	—	2
• Increase threshold for post-program monitoring and eliminate EPAs	5	—	6	1	—	2
<b>Multilateral Surveillance and General Research:</b> <i>Leverage synergies, streamline outputs, and drop lower-value activities</i>	20	—	26	6	—	8
• Streamline work on flagship publications and spillover/external sector analysis	13	—	15	4	—	5
• Consolidate general analytical work and strengthen link to strategic priorities	8	—	10	2	—	3
<b>Oversight of Global Systems:</b> <i>Streamline Policy Review Work</i>	7	—	9	3	—	3
• Shift most reviews from a fixed schedule to an as-needed basis	7	—	9	3	—	3
<b>Capacity Development:</b> <i>Create space for reprioritization, while containing overall level and costs</i>	0	—	5	0	—	2
• Limit Fund-financed TA to advanced economies	0	—	5	0	—	2
<b>Administrative and Other Internal Processes:</b> <i>Pursue more cost-effective approaches</i>	7	—	8	4	—	5
• Reduce cost of IT support	...	—	...	2	—	3
• Develop more efficient APR process	...	—	...	...	—	...
• Consolidate work on risk and early-warning analysis	2	—	2	1	—	1
• Streamline internal surveillance meetings	5	—	6	2	—	2
<b>Total (range estimate)</b>	<b>55</b>	<b>—</b>	<b>77</b>	<b>20</b>	<b>—</b>	<b>27</b>

1/ Includes savings on travel and other non-personnel costs.

5. The measures and estimated yields are discussed below and summarized in an attachment to this appendix. While some are within management’s purview, others in the area of bilateral surveillance, lending, and oversight of global systems, imply policy changes that require the approval of the Board. For these, the relevant specifics and associated decisions are presented in a supplement to this budget paper for Board approval.<sup>3</sup>

## **Bilateral Surveillance and Lending**

### ***Article IV Consultations***

6. Surveillance under Article IV consultations is the backbone of the Fund’s work on safeguarding the stability of its members and the international monetary system. It is conducted through careful assessments of each member’s economic and financial policies with a view to highlighting risks to stability and advising national authorities on needed policy adjustments. The Executive Board papers on the Fund’s Mandate called for more flexibility in the way bilateral surveillance is undertaken to ensure a risk-based approach.<sup>4</sup>

7. Staffing for individual countries typically reflects this approach, but surveillance processes do not. While teams working on systemic or vulnerable countries are almost always larger than those on non-systemic and stable economies, there is little differentiation in the Article IV consultation process, implying scope for a more efficient use of resources.

8. To allocate resources to the most critical tasks—including those related to the implementation of the TSR recommendations—it is proposed to exercise flexibility provided under the policy to adopt a more risk-based approach to Article IV surveillance, focusing resources and reducing the burden for teams working on stable, non-systemic economies (see Supplement for details). In addition to generating resource savings, this approach will allow staff to work in parallel on multiple countries, contributing to professional enrichment and cross-country learning that would benefit the quality of the policy advice. (*Estimated FY 16 savings: \$3.7–4.7 million.*)

### ***Program and Post Program Work***

9. The Fund’s close involvement is particularly critical in countries that are engaged in, or have recently exited from, a Fund-supported program. As is the case for surveillance, the intensity of engagement should be aligned with the risks, both to the country’s economy, to other members, and to the Fund. A number of policies have been developed over the years to differentiate programs according to country circumstances and provide for more systematic learning. These include a broader menu of facilities, the option of adjusting the frequency of program reviews, special policies for exceptional access, and rules for *ex post* assessments and evaluations. *However*, while these

<sup>3</sup> See companion Staff Paper on Selected Streamlining Proposals Under the FY16–18 Medium-Term Budget—Implementation Issues.

<sup>4</sup> See [The Fund’s Mandate—An Overview](#); [The Fund’s Mandate—Modernizing the Surveillance Mandate and Modalities](#); and [The Fund’s Mandate—The Legal Framework](#).

policies were designed for a pre-crisis environment, members' needs during the crisis and in an interconnected world have continued to evolve. As a result, some of the requirements under current policies may now appear disproportionate to the risks involved for the member or the Fund. The following measures are proposed to achieve a better prioritization within this strand of work (see Supplement for more details):

- Enforce the systematic application of the presumption of semi-annual *program review cycles* as the norm, with quarterly reviews requiring an explicit justification in the policy note and staff report at program inception and at each review. (*Estimated FY 16 savings: \$1.6–1.9 million.*)
- Allow program reviews on a *lapse-of-time (LOT)* basis for exceptional access cases and make more effective use of the provision to permit LOT consideration of reviews where minor conditions are not met. (*Estimated FY 16 savings: \$0.2–0.3 million.*)
- *Increase the Post-Program Monitoring (PPM)* threshold from 200 to 500 percent of quota for programs supported under the GRA and to 250 percent for PRGT-supported programs. The number of countries with outstanding credit above the threshold would drop from currently 17 to 3, with 2 countries (Portugal and potentially Jordan) subject to PPM in FY16. (*Estimated FY 16 savings: \$1.0–1.3 million.*)
- *Abolish Ex Post Assessments (EPAs)* while continuing to discuss relevant lessons from the past in the staff report accompanying a program request. (*Estimated FY 16 savings: \$0.2–0.3 million.*)
- *Reassess the Ex-Post Evaluation (EPE)*<sup>5</sup> criteria for implementation in FY 17–18, in recognition of the growing number of countries with exceptional access and the fact that some are slated for their third evaluation. (*Possible savings in FY 17–18.*)
- Use the opportunity of the FY 16 review of the *Safeguards Policy*<sup>6</sup> to derive criteria for calibrating the assessment procedures according to relevant risk factors, such as: the degree of assessed safeguards risk; progress on previous safeguards recommendations (where applicable); and the elapsed time since the previous assessment. The existing risk-based criteria for monitoring would also be refined to identify areas where the work can be further streamlined. Starting in FY 17, the proposed changes would be expected to generate measurable savings above those expected from lower lending activity. (*Potential medium-term savings to be identified.*)

<sup>5</sup> *Ex Post Evaluations (EPEs)*, introduced in 2002, are required within a year after the end of a GRA-supported program with exceptional access (defined as more than 200 percent of quota annually or 600 percent cumulatively). Their intention is to provide accountability and extra scrutiny to high-exposure cases. As the number of EPEs (22 for 20 countries) has not been excessive, and their general purpose remains sound from a risk-management perspective, no changes are proposed at this stage.

<sup>6</sup> *Safeguard assessments* were introduced in 2000, in the wake of instances of misreporting and allegations of misuse of IMF resources. Since then, some 260 assessments were completed covering more than 90 countries.



## Multilateral Surveillance and General Research

10. A significant part of the Fund's resources is dedicated to multilateral surveillance and general research which together account for a similar share of the Fund's output as bilateral surveillance. Cross-country, regional, and global economic analysis and outreach are critical inputs and complements to the Fund's bilateral support to member countries, as well as its Global Policy Agenda. But just as in the area of bilateral work, there is room for prioritization and efficiency gains.

- *The Fund's flagship publications (WEO, GFSR, and Fiscal Monitor) are critical outlets for multilateral analysis and policy advice, but are also absorbing considerable resources across departments. To streamline this work, it is proposed to produce the Fiscal Monitor with a conjunctural fiscal analysis only once a year, reflecting the slow-moving nature of fiscal variables which limits the need for high-frequency reporting. The issue prepared in the off-cycle will only cover selected structural fiscal issues. WEO chapter 2 on regional trends would be abolished to eliminate duplications with REOs, and the GFSR would be cut in size and made more accessible to a wider audience. The process for quarterly WEO updates/WEMD presentations in January and July would be streamlined. Finally, hard-copy publications of flagship products would be reduced to the extent possible, after careful study of the impact. (Estimated FY 16 savings: \$2.8–3.5 million.)*
- *Spillover and (Pilot) External Sector Reports (ESR) were established in 2011 and 2012, respectively, as complements to the WEO and bilateral staff reports of systemic countries. Consistent with the Integrated Surveillance Decision, both reports seek a better integration of bilateral and multilateral perspectives. While Spillover Reports are focused on a systematic coverage of outward spillovers from domestic economic policies in the largest economies, External Sector Reports assess the external positions and exchange rates of systemically large economies in a globally consistent setting. Both reports have been successful in raising the attention of economic policymakers in systemic economies to the global impact of their domestic policy decisions. As a result, it should now be possible to streamline the analysis, with substantially shorter reports, drawing on previous findings, and discontinuation of associated outreach travel. For the *Spillover Report*, it is further proposed to fold the analysis into the WEO starting in calendar year 2016. The ESR would remain a separate report, although a similar approach could be considered at a later stage. (Estimated FY 16 savings: \$1.1–1.3 million.)*
- *Analytical work is the bedrock on which the Fund's policy advice is based and thus critical to its effectiveness and relevance. The possibility to do (and occasionally publish) individual research is also important for maintaining the attractiveness of the Fund for talented economists. At the same time, not all of the analytical work that finds its way into working papers is of the highest quality or of relevance to the Fund. There is scope to reduce resources devoted to general analytical work, while improving quality, by aligning topics more closely with strategic priorities, avoiding duplication, and strengthening incentives for quality control. To this end, it is proposed that: (i) all planned Staff Discussion Notes (SDNs) be listed in departmental accountability frameworks; and (ii) all new proposals for working papers require *ex ante* approval by a dedicated senior staff in each department and listing*

on a Fund-wide ongoing project website, with line managers held accountable for the quality and relevance of the final research product. In addition, it is proposed to consolidate resources devoted to general and crisis-related analytical work in several functional departments. (*Estimated FY 16 savings: \$2.4–3.0 million.*)

- *General outreach* has grown considerably over the past years, reflecting the need to provide a global perspective during the crisis, as well as efforts to better communicate the Fund's position to a regional and global audience. At the same time, given the high cost of organizing major events (such as the recent conferences in Jordan and Mozambique), strategic planning and coordination are important. To maximize their individual impact, it is proposed to limit such major conferences to one a year, rotating among regions, and to conduct more systematic impact analysis for these and other significant outreach events. In addition, a continuation of recent efforts to streamline seminars at Annual and Spring Meetings, avoiding overlaps and making them more strategic, will also be important to maximize the benefits of these events, relative to their costs. (*Potential savings relative to a less disciplined approach.*)

## Oversight of Global Systems

11. The Fund can also achieve efficiency gains in its oversight role by adopting a more deliberate approach to the review of its policies. *Policy reviews* are typically prepared on a fixed schedule that varies from two to five years. Currently, some 25 policies are subject to regular review, in addition to 15 standard reports prepared periodically. Together these cover a wide range of topics including, for example, quarterly reports on delayed Article IVs, reviews of Bank-Fund collaboration (every three years), and transparency policy reviews (every five years). While it is important to step back occasionally and assess whether existing policies should be adjusted, the current approach can be streamlined.

12. To avoid time-consuming routine reviews of policies that are not in need of reform, it is proposed to shift most reviews from a fixed schedule to a five years or more, as-needed basis, except for the *Comprehensive Surveillance Review* (CSR) and *Conditionality Review* (CR), as well as a number of mandatory or operationally relevant reports (see Table 2 and Supplement for details). A number of reviews with similar coverage would also be merged with the CSR or CR. In addition, it is proposed to reduce the frequency of periodic reports and streamline them where possible (see Table 3 for details). (*Estimated FY 16 savings: \$2.7–3.3 million.*)

Table 2. Policy Reviews 1/

	Policy Review	Dept	Frequency	Next	Format	Proposal
	<b>Surveillance</b>					
1	Comprehensive Surveillance Review (CSR)	SPR	Every 5 years	2019	Discussion	No change
2	Surveillance Interim Progress Report	SPR	Every 5 years	2017	Discussion	No change
3	Financial Sector Assessment Program Review (FSAP)	MCM	Every 5 years	2019	Discussion	Incorporate into CSR (#1)
4	Review of Mandatory Financial Stability Assessments under Financial Sector Assessment Program (FSAP)	MCM	Every 5 years	2018	Discussion	Incorporate into CSR (#1)
5	Transparency Policy Review	SPR	Every 5 years	2018	Discussion	5 years or more, as needed
6	Review of the Role of Trade in the Work of the Fund	SPR/XU	Every 5 years	2015	Discussion	5 years or more, as needed
7	Excessive Delays in Completion of Article IV Consultations Review	SPR	Every 3 years	2017	Discussion	5 years or more, as needed
8	Review of Standards and Codes Initiative	SPR and Functional	Every 5 years	2016	Discussion	5 years or more, as needed
9	Review of Fund's Data Standards Initiative	STA	Every 2 years	2014 (delayed)	Discussion	5 years or more, as needed
10	Review of Data Provision to the Fund for Surveillance Purposes	SPR and STA	Every 5 years	2017	Discussion	5 years or more, as needed
	<b>Use of Fund Resources (UFR) Issues</b>					
11	Review of Conditionality and Design of Fund-Supported Programs	SPR	Every 5 years	2017	Discussion	No change
12	Review of the Policy on Public Debt Limits in Fund-Supported	SPR	Every 3 years	2018	Discussion	Incorporate into CR (#11) (after the next review)
13	Review of Fund's Facilities for Low-Income Countries	SPR	Every 5 years, earlier if warranted	2018	Discussion	5 years or more, as needed
14	Review of the Policy Support Instrument (PSI)	FIN/LEG/ SPR	At least every 5 years	2015	Discussion	Incorporate into review of Fund's Facilities for Low-Income Countries (#13)
15	Review of Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), Rapid Financing Instrument (RFI) 2/ 3/	FIN/LEG/ SPR	Every 3 years	2016	Discussion	5 years or more, as needed (after the next review)
16	Review of Access Policy (including Exceptional Access)	FIN/ SPR	Every 5 years	2015	Discussion	5 years or more, as needed
17	Review of Fund's Strategy on Overdue Financial Obligations	FIN/LEG/ SPR	Every 3 years	2015	LOT	5 years or more, as needed
18	Review of Poverty Reduction and Growth Trust (PRGT) Eligibility	SPR	Every 2 years	2015	Discussion	No change (Operational relevance for sustainability of the Trust)
19	Review of PRGT Interest Rates	FIN	Every 2 years	2016	LOT	No change
20	Safeguards Assessment Review	FIN	Every 5 years		Discussion	5 years or more, as needed
21	Debt Sustainability Framework for Low Income Countries	SPR	Every 3 years	2016	Discussion	No change
	<b>Other</b>					
22	General Review of Quotas	FIN/SPR	Every 5 years	2015	Discussion	No change (Required under Articles of Agreement)
23	SDR Valuation Basket and SDR Rate of Interest Review	FIN/SPR	Every 5 years	2016	Discussion	5 years or more, as needed
24	Review of the Fund's Capacity Development Strategy	ICD	Every 5 years	2017	Discussion	No change
25	Review of Bank-Fund Collaboration	SPR/LU	Every 2 years	2012 (delayed)	Discussion	5 years or more, as needed
26	Review of the Effectiveness of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Program	LEG	Every 4 years	2018	Discussion	5 years or more, as needed

1/ A number of policy reviews, such as on charges and maturities, EFFs, lending into arrears, and misreporting are not included in this table, as they are already on an as-needed basis.

2/ Given the major reforms, the Executive Board requested the next review to be conducted within three years of implementation from the date of effectiveness of the new reforms.

3/ Under the current proposal the presumption of an earlier FCL/PLL/RFI policy review in case where the aggregated outstanding credit and commitments under the FCL and PLL reach SDR 150 billion would remain unchanged.

**Table 3. Periodic Reports and Operational Reviews**

	Report	Dept	Frequency	Next	Format	Proposal
<b>Surveillance</b>						
1	Key Trends in the Implementation of the Fund's Transparency Policy (every July)	SPR	Annual	2015	For info	Streamline preparation (automate information collection)
2	Report on Delayed Article IV Consultations	SPR	Quarterly		For info	Annual, for information only
<b>UFR Issues</b>						
3	Reviews of Overdue Financial Obligations to the Fund (by country)	FIN and AD	Mostly 6 months (status dependent)		LOT	Annual and streamline (exception for status changes)
4	Report on the Incidence of Longer-Term Program Engagement	SPR/LU	Annual	2015	For info	Discontinue (Abolish EPAs)
5	Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries 1/	FIN	Every 6 months		LOT	Annual
6	Safeguards Assessment Update	FIN	Annual		For info	Every two years
<b>Other</b>						
7	Annual Report on Exchange Arrangements and Exchange Restrictions	MCM	Annual		Publication	Streamline drastically to focus only on Art. XIV restrictions (required annually under Articles of Agreement)
8	Status of Voluntary SDR Trading Arrangements and SDR Designation Plan	FIN	Quarterly		LOT	Annual (requires amendment to the rule P-5 of the Rules and Regulations) 2/
9	Financial Transactions Plan and NAB Resource Mobilization Plan	FIN	Quarterly		LOT	Semi-annual frequency, once 14th review of quotas is effective and Fund is no longer reliant on borrowed resources (requires amendment to the rule O-10(a) of the Rules and Regulations)
10	The Fund's Liquidity Position - Review and Outlook	FIN	Every 6 months		For info	Annual frequency, once 14 <sup>th</sup> review of quotas is effective and Fund is no longer reliant on borrowed resources
11	Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations	OIA	Annual		LOT	Streamline
12	Annual Report of the IMF Committee on Balance of Payments Statistics	STA	Annual		For info	Streamline
13	Report on Operations of the Staff Retirement Plan (SRP) and the Retired Staff Benefit Investment Account (RSBIA)	HRD	Annual		For info	No change
14	Report of the Investment Account and Trust Accounts	FIN	Every 6 months		For info	Annual frequency

1/ Update on the Fund's Concessional Assistance to LICs includes the semi-annual reviews of the MDRI Trusts and of the HIPC Initiative. Thus, the proposed change in frequency of the Update would change the frequency of both the HIPC Initiative and of the MDRI-II Trust reviews.

2/ Although Status of Voluntary SDR Trading Arrangement and SDR Designation Plan is issued as a single report only the frequency of the SDR Designation Plan is regulated by the Rule P-5.

## Capacity Development

13. Capacity development has grown significantly in the past years to become the Fund's single largest output. While this strand of work is highly valued by member countries, the Fund's ability to manage ever rising levels of technical assistance is limited and prioritization has proven challenging. To contain the cost imposed on the Fund's own resources, it is proposed to:

- *Limit the use of internal funding for technical assistance to advanced economies.* Such TA should be limited to crisis situations where needs are urgent and no external funding is available. Wherever possible, however, TA to advanced economies should be funded by the recipients or regional bodies, to avoid crowding out Fund-financed TA to countries that could not otherwise afford it. (Estimated FY 16 savings: \$0–2.1 million.)
- *Review the cost-recovery model of externally-funded capacity development.* While donor funding has allowed the Fund to significantly expand its support to member countries, unrecovered overhead costs (estimated to average 9 percent of total cost of delivery) are a burden on the Fund's own resources. A review of the cost-recovery model will need to be undertaken in consultation with donors and informed by practices of other IFIs, with a view to implementing any change starting FY 17. (Possible savings in FY 17–18.)

## Administrative and Other Internal Processes

14. A number of measures are proposed to achieve efficiency gains in administrative processes and internal work arrangements.

- *Streamline Administrative Processes.* There is scope for efficiency gains in IT and back-office functions, while maintaining a quality of service that is comparable to peer organizations. Some of these—such as certain proposals resulting from a recent zero-based review of IT services—can be implemented right away, while others, that may involve consolidation or possible outsourcing, will require further study to be implemented over the medium term. In addition, it is proposed to streamline the administrative burden of the Fund's Annual Performance Review (APR) without compromising its value as an assessment and development tool. Specific suggestions to streamline the process and eliminate non-valued added elements of the APR will be developed by HRD, in consultation with all relevant stakeholders, over the course of FY 16 for subsequent implementation. (Estimated FY 16 savings: \$2.3–2.8 million; potential further savings in FY 17–18.)
- *Consolidate work on risk and early-warning analysis.* Work in this area has been significantly enhanced in recent years to strengthen the analytical framework for crisis prevention. For this purpose, a number of cross-departmental groups (risk group, early-warning exercise group, and tail risk group) were established to develop tools and processes. After an initial period of development and experimentation, it is now proposed to exploit synergies and achieve efficiency gains by merging the risk and early-warning exercise groups. The tail risk

group would continue to work as a separate entity, given its specific focus, but coordinate its work closely with the merged risk group. (*Estimated FY16 savings: \$0.5–0.6 million.*<sup>7</sup>)

- *Streamline internal “surveillance meetings”.* These meetings take place routinely on a weekly basis to review recent developments and discuss analytical work of staff. They are held with participation of management and a large number of senior and junior staff, with the latter participating in a separate preparatory meeting. To streamline internal processes, while maintaining this useful venue of exchange, it is proposed to move the management-led meetings routinely from a weekly to a bi-weekly cycle. (*Estimated FY 16 savings: \$1.5–2.1 million.*)<sup>8</sup>

## D. Implementation

15. The proposals present a balanced package of reforms that seeks to create space for priority measures through efficiency gains and streamlining of activities with lower pay-offs, while preserving the quality of the Fund’s outputs. Most measures will require certain sacrifices from different stakeholders and inevitably involve compromises and trade-offs. Without them, the Fund will not be able to meet important new demands without additional resources. For these reasons, maintaining the balance of the overall package is critical to the credibility of the exercise and its successful implementation. Equally critical is the discipline of changing work practices, as proposed.

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<sup>7</sup> This activity is classified under Multilateral Surveillance according to the Fund’s output hierarchy. The approach of the AG was to focus mainly on internal working arrangements, thereby classifying these savings under administrative and other internal processes.

<sup>8</sup> See previous footnote.

## Attachment. Summary of Proposals

Output Area	FY 16 Proposals	FY 16 Savings		FY 17–18 Proposals	Rationale	Needs Board Approval Y/N
		FTE	\$m			
<b>Bilateral Surveillance/Lending</b>						
<b>Article IV Consultations</b>	<ul style="list-style-type: none"> <li>24-month cycle or streamlined Article IV consultations every other year for non-vulnerable and non-systemic countries.</li> </ul>	11–17	3.7–4.7		Strengthen risk-based resource allocation to surveillance, while keeping engagement with country authorities.	Y
<b>Program and Post Program Work</b>	<ul style="list-style-type: none"> <li>Reduce frequency of <b>program reviews</b>; enforce the systematic application of the presumption of semi-annual reviews by requiring explicit justification for quarterly reviews, as the exception.</li> </ul>	4.1–5.0	1.6–1.9		Streamline internal processes for all but the most intensive program cases, while maintaining the needed country engagement.	Y
	<ul style="list-style-type: none"> <li>Allow <b>LOT consideration for reviews</b> under arrangements involving exceptional accesses; and make a more effective use of existing LOT procedures.</li> </ul>	0.9–1.1	0.2–0.3		Limit the need for Board discussions to controversial reviews and those with substantive implications.	Y
	<ul style="list-style-type: none"> <li>Revisit policy on <b>safeguards assessments</b> to link procedures to relevant risk factors.</li> </ul>	...	...	Implement proposals tailoring <b>safeguards procedures</b> to identified risk-based criteria.	Strengthen risk-based approach in recognition of widespread improvement in international standards.	

Output Area	FY 16 Proposals	FY 16 Savings		FY 17–18 Proposals	Rationale	Needs Board Approval Y/N
	<ul style="list-style-type: none"> <li>Raise the threshold on outstanding credit for <b>post-program monitoring</b> to 500 percent of quota for GRA and to 250 percent of quota for PRGT-supported programs.</li> </ul>	3.6–4.4	1.0–1.3		Strengthen the link of PPMs to safeguarding Fund resources.	Y
	<ul style="list-style-type: none"> <li>Abolish <b>EPAs</b> for longer-term program engagements.</li> </ul>	0.9–1.1	0.2–0.3		Limited additional insights and lessons from EPAs after many years of implementation.	Y
	<ul style="list-style-type: none"> <li>Assess scope for making the criteria for <b>EPEs</b> more risk-based.</li> </ul>	...	...		Apply highest level of scrutiny only to exceptional cases, reflecting the heavy resource intensity of EPEs.	
<b>Multilateral Surveillance/General Research/Outreach</b>		<b>FTE</b>	<b>\$m</b>			
<b>Flagships</b>	<ul style="list-style-type: none"> <li>Issue <b>Fiscal Monitor</b> with conjunctural analysis only once a year. Prepare issue on structural issues in the off-cycle.</li> </ul>	2.5–3.0	0.7–0.9		Recognize relative stability of fiscal variables and limited case for high-frequency reports in this area.	N
	<ul style="list-style-type: none"> <li>Abolish <b>WEO chapter 2</b></li> </ul>	2.0–2.4	0.5–0.7		Eliminate overlap with REOs.	N
	<ul style="list-style-type: none"> <li>Cut length of <b>GFSR</b> to no more than 125 pages (a reduction of one-third on the latest version).</li> </ul>	2.8–3.5	0.8–1.0		Reduce complexity and improve accessibility to wider audience.	N



Output Area	FY 16 Proposals	FY 16 Savings		FY 17–18 Proposals	Rationale	Needs Board Approval Y/N
	<ul style="list-style-type: none"> <li>Streamline quarterly <b>WEO updates/WEMD presentations</b> in January and July.</li> </ul>	1.9–2.4	0.6–0.7		Respond to a less volatile global economic environment.	N
				Study scope for reducing <b>hard-copy publication</b> of flagships.	Outdated practice, given global audience's electronic access.	
<b>Vulnerabilities, Spillovers</b>	<ul style="list-style-type: none"> <li>Limit chapeau of <b>Spillover Report</b> to 15 and total report to 50 pages (2 background studies); eliminate separate travel and outreach</li> </ul>	1.3–1.6	0.3–0.4	Fold <b>spillover analysis</b> as separate short chapter into Fall WEO, starting 2016	Improve integration and exploit synergies with WEO	N
	<ul style="list-style-type: none"> <li>Shorten stand-alone <b>External Sector Report</b> to no more than 15 pages; eliminate separate travel and outreach.</li> </ul>	2.1–2.6	0.7–0.9		Leverage past analyses to focus on new findings.	N
<b>Analytical work/ research</b>	<ul style="list-style-type: none"> <li>Align production of <b>working papers</b> with departmental priorities by requiring ex ante approval of dedicated senior staff; to minimize duplication, post all approved WPs on Fund-wide ongoing project website; list all proposed <b>SDNs</b> in departmental accountability framework.</li> </ul>	4.0–6.0	1.4–1.7		Strengthen the link between analytical work and strategic objectives, while improving the quality of WPs.	N

Output Area	FY 16 Proposals	FY 16 Savings		FY 17–18 Proposals	Rationale	Needs Board Approval Y/N
	<ul style="list-style-type: none"> <li>Streamline resources for general or crisis-related analytical work.</li> </ul>	3.6–4.4	1.0–1.3		Strengthen coordination and avoid duplications.	N
<b>General Outreach</b>	<ul style="list-style-type: none"> <li>Reduce number of high-profile conferences to no more than one major event a year. Continue streamlining of seminars at Annual and Spring Meetings, to avoid overlap and make them more strategic.</li> </ul>	Savings dependent on counter-factual			Prioritize costly outreach events and deepen their link to strategic objectives.	N
				<ul style="list-style-type: none"> <li>Develop and implement proposals to improve TRACES reporting and <b>impact measurement</b> to systematically scrutinize cost and benefits of significant outreach events (in progress).</li> </ul>	Enhance systematic assessment of impact to support ongoing re-alignment of outreach-related resources to strategic priorities.	
<b>Oversight of Global Systems</b>		<b>FTE</b>	<b>\$m</b>			
<b>Policy Reviews</b>	<ul style="list-style-type: none"> <li>Eliminate <b>fixed review schedules</b> for all but Surveillance and Conditionality Reviews (every 5 years) and short mandatory products; prepare other reviews on as needed basis and merge those with similar coverage.</li> </ul>	7.5–9.1	2.7–3.3		Replace unnecessary routine reviews with needs-based assessment of policies and minimize the resource implications of mandatory products.	Y

Output Area	FY 16 Proposals	FY 16 Savings		FY 17–18 Proposals	Rationale	Needs Board Approval Y/N
<b>Capacity Development</b>		<b>FTE</b>	<b>\$m</b>			
<b>TA Delivery</b>	<ul style="list-style-type: none"> <li>Limit Fund-financed TA to advanced economies</li> </ul>	0–4.5	0–2.1		Prioritize TA funding to countries with greatest financial constraints.	N
				Task CCB to review the <b>cost-recovery</b> model of externally-funded capacity building, taking account of practices of other IFIs.	Place capacity development on a sustainable funding basis, to avoid crowding out of other Fund activities.	
<b>Administrative and other Internal Processes</b>		<b>FTE</b>	<b>\$m</b>			
<b>IT</b>	<ul style="list-style-type: none"> <li>Implement relevant proposals from <b>zero-based review</b>: Competitively source IT staff augmentation; slightly reduce Helpdesk response time and move more agents to offsite locations.</li> </ul>	...	2.3–2.8		Achieve savings, while maintaining high quality of IT-related services.	N
<b>Back-Office Functions</b>				<ul style="list-style-type: none"> <li>Streamline administrative/back-office processes through centralization and/or outsourcing.</li> </ul>	Realize possible synergies and efficiency gains.	
<b>APR</b>	<ul style="list-style-type: none"> <li>Develop a more efficient process for annual performance assessments.</li> </ul>	...	...	<ul style="list-style-type: none"> <li>Streamline APR process.</li> </ul>	Reduce the administrative burden of current APR system.	

Output Area	FY 16 Proposals	FY 16 Savings		FY 17–18 Proposals	Rationale	Needs Board Approval Y/N
<b>Risk work</b>	<ul style="list-style-type: none"> <li>Merge <b>Risk and EWE groups</b>.</li> </ul>	1.6–2.0	0.5–0.6		Achieve efficiency gains and exploit synergies.	N
<b>Meetings</b>	<ul style="list-style-type: none"> <li>Reduce frequency of internal management-led <b>surveillance meetings</b> (every 2 weeks instead of weekly).</li> </ul>	5.3–6.5	1.5–2.1		Streamline internal processes and strengthen focus on high-priority and high-quality analysis.	N
<b>Total</b>		<b>55–77</b>	<b>20–27</b>			

## Appendix IV. Workforce Planning Considerations in the Medium-Term Budget and Beyond<sup>1</sup>

### A. Overview and Key Findings

**1. The purpose of this annex is to examine the Fund’s workforce in the context of the medium-term budget and the Categories of Employment (CoE) reforms.** The CoE reforms will replace the previous *fixed-term* and *limited-term* appointments by a new *term* appointment for all staff joining the Fund, and will also result in the creation of some 120 staff positions for work currently performed by contractual employees. The gradual adoption of the new staffing model is analyzed, together with normal dynamics of separation and hiring, to determine recruitment levels and the resulting flexibility of the workforce.

**2. The simulations for FY 16–20 incorporate the medium-term budget proposal and, for illustrative purposes, flat staffing levels beyond the medium term.** Based on assumptions, summarized in Box 1, for retirement, other separations, and retention rates for new recruits, the simulations suggest the following conclusions:

- Hiring levels will remain fairly smooth over the coming years, but will increase toward the end of the five-year projection period. This is largely due to the projected increase in retirement ratios, as a direct reflection of staff demographics.
- The majority of recruitment will continue to relate to contractual positions. This is due to the high turnover rate of this employee type. Contractual employees are expected to comprise only 14 percent of the Fund’s workforce by FY 20, but will account for 60 percent of all hiring.
- The flexibility of the Fund’s workforce will increase significantly. Between FY 16 and FY 20, about 30 percent of current staff will need to be replaced, presenting significant opportunities for skill renewal, and the number of employees on flexible appointment types will have increased from currently 25 to 33 percent of the total workforce.
- The Fund could face serious recruitment challenges in the event of shocks. The simulated shocks include an accelerated retirement scenario and an increase in the number of Fund-supported programs, consistent with the scenarios discussed in the main paper. Should these shocks occur simultaneously, hiring levels would have to increase significantly.

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<sup>1</sup> Prepared by Taha El Hajji, Barrie Williams, and Jiu Hong Zhou.

### Box 1. Key Assumptions Underlying Workforce Projections for FY 16–20

The following assumptions are used to generate projections for new hiring, differentiated by the main job categories (economist, specialized career stream, and support) and appointment types:

- Calculations are based on headcounts, which are derived from the FY 15 approved FTE budget and an assumed stable vacancy rate of about 1½ percent.
- FTE projections correspond to the budget paper, with a net reduction of 15 FTEs in FY 16 and an unchanged level in the subsequent years, except for the impact of the CoE. The latter implies the creation of about 120 staff positions during FY 16–17 for work currently performed by contractual employees.<sup>1</sup>
- Retirement is assumed at the earliest eligibility milestone (rule of 85 or normal retirement at age 62), implying rates that closely mirror historical trends.
- Separation is modeled on the basis of assumed retention rates for staff in different appointment types, mirroring historical trends, i.e., a separation rate of about 16 percent for staff on limited-term appointment; 5 percent for fixed-term appointees; and 2 percent for staff on open-ended status.
- For the new term appointment, it is assumed that 70–90 percent of staff will subsequently receive an open-ended appointment, with 80 percent as the illustrative baseline assumption.
- The level of contractual appointments is projected to remain constant after the CoE implementation, with an average term of about 2 years for professional staff, 2.4 years for HQ-based experts, and 2.2 years for support staff, consistent with historical trends. The maximum term is 4 years.
- It is assumed that 75 percent of new B-level vacancies are filled by internal promotion and 25 percent by external hiring.
- The intake of new participants in the Economist Program (EP) is assumed to rise from 20 in FY 16 to 25 in FY 17–18, and 30 in FY 19–20, implying a broadly stable ratio of about one-third to two-thirds between EP and mid-career economist hires.

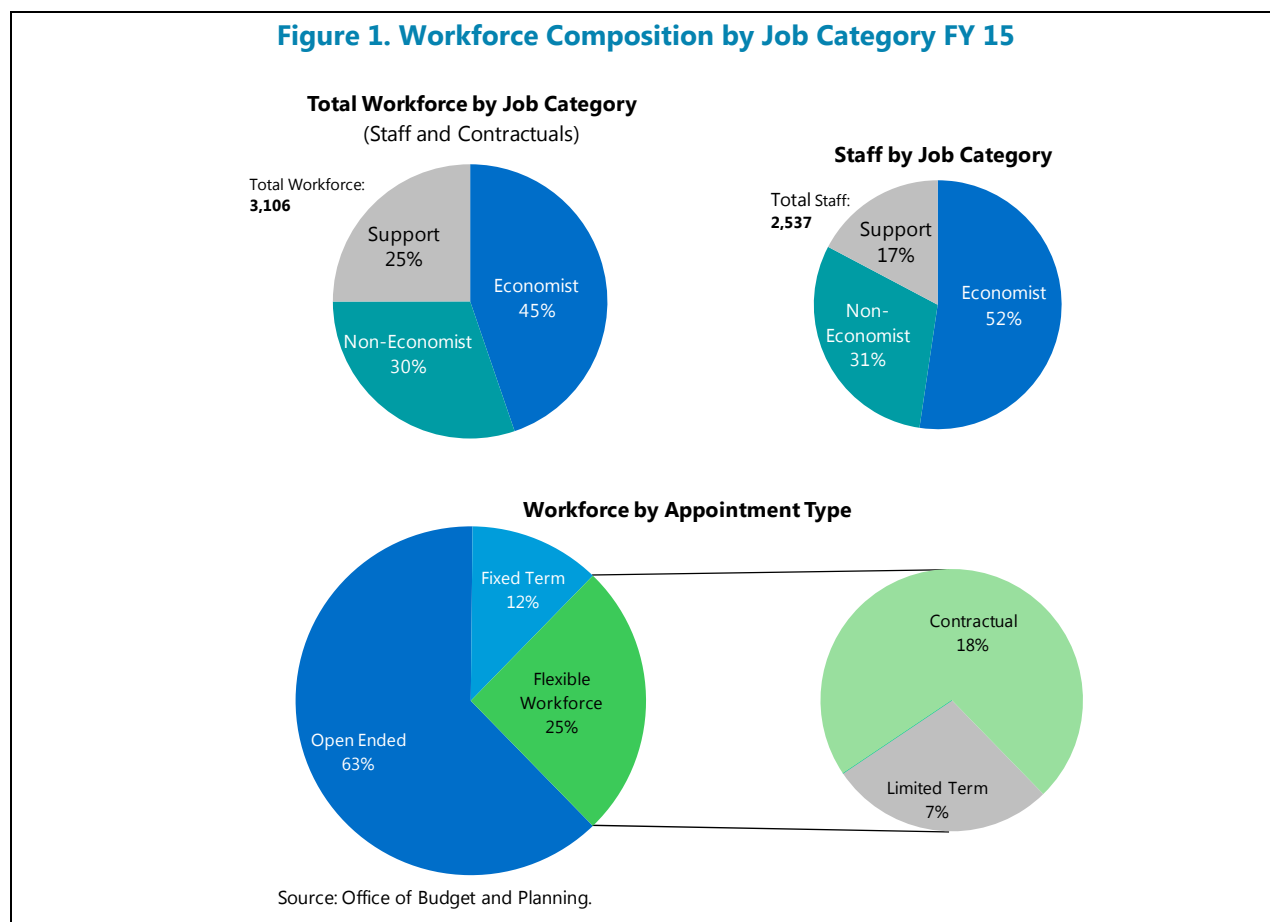
<sup>1</sup> As the creation of staff positions occurs throughout the two years, the full budgetary impact will only be realized in FY 18, based on the following path: 44 FTEs in FY 16; 61 in FY 17; and another 16 in FY 18.

## B. Baseline Simulations

**3. The Fund’s workforce comprises three main professional groups (Figure 1).** Economists represent about 45 percent of the Fund’s overall workforce and slightly more than half of Fund staff. The share of specialized career stream (SCS) professionals is about 30 percent, with support staff accounting for the rest (25 percent of the total workforce and 17 percent of staff).

**4. Around 25 percent of the Fund’s personnel are currently employed under flexible employment contracts.** For the purpose of this analysis, the flexible category is defined to include both long-term contractual employees (with appointments of at least one year) and staff on limited-term appointment. Staff on fixed-term and open-ended contracts are not included. With the replacement of fixed- and limited-term by term appointments that carry no presumption of “conversion” to open-ended status, all staff on term appointment will be considered part of the flexible workforce.

**Figure 1. Workforce Composition by Job Category FY 15**



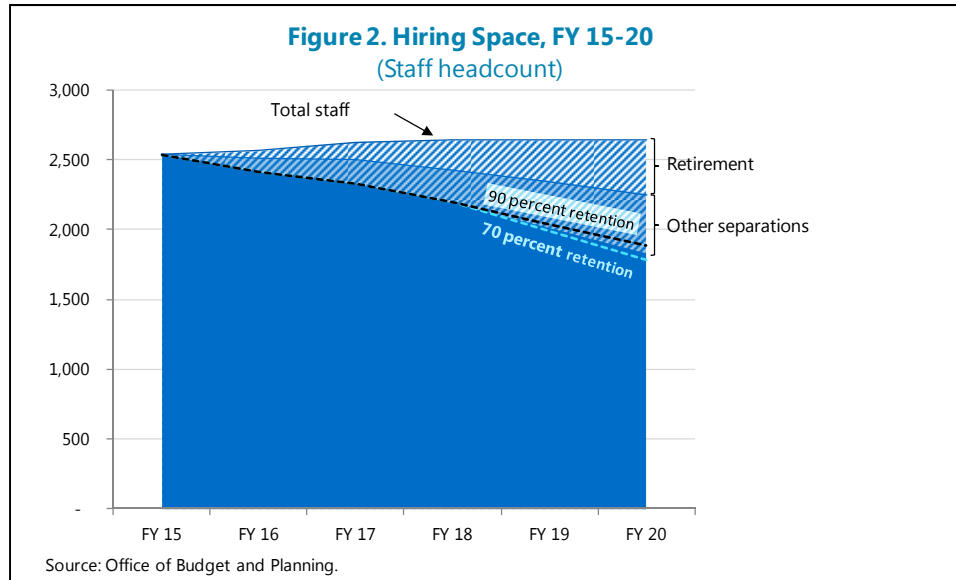
**5. The central assumption of the baseline analysis is that total workforce levels will remain stable.** In FY 16 there are expected to be 3,091 Fund personnel, excluding short-term contractuels and vendors—15 below the FY 15 headcount.<sup>2</sup> The analysis assumes that the headcount level and the composition of the workforce between staff and contractuels and by job group (economists, SCS, and support staff) will remain unchanged in the years to FY 20. Under these assumptions, the space for new hiring and the changes in the composition of staff by appointment type are driven entirely by separation and retention decisions.

<sup>2</sup> This figure includes both Fund-financed and donor-financed positions, but excludes members of the Executive Board and their staff, Fund management, and staff on leave-without-pay

**6. Based on the assumptions summarized in Box 1, the Fund will have significant scope for workforce renewal.**

Figure 2 illustrates the cumulative hiring space for staff created as a result of the projected outflows over the next five years. The forecast outflows are fairly stable across years, fluctuating between 150 and 180 staff.

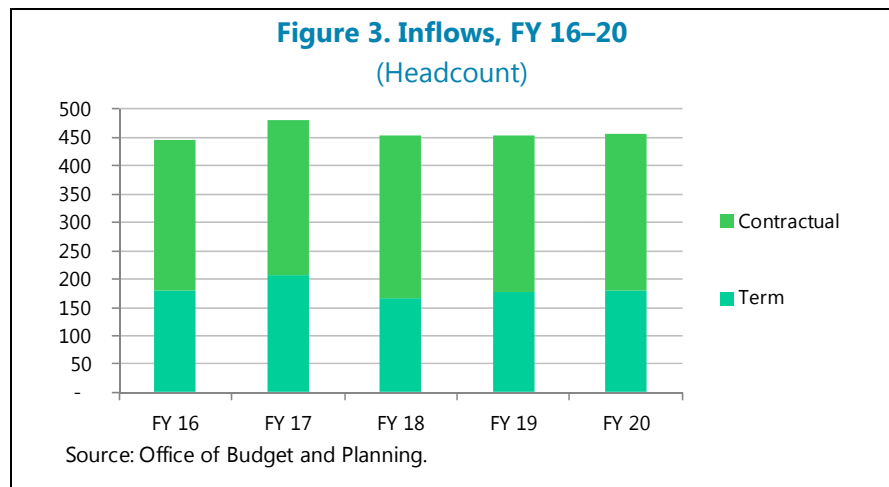
Cumulatively however, the simulations imply that by FY 20, about 30 percent of current staff will have left, creating significant scope to recruit new talent and skills, or to reduce the workforce, if needed. Different assumptions about the retention rate for staff at the end of their term



appointment (80 percent in the baseline) would not change this result significantly; a reduction (increase) in the retention rate by 10 percentage points would imply higher (lower) outflows by 15–18 staff a year. A one percentage point higher (lower) separation rate for open-ended staff would have a similar impact, raising (lowering) annual outflows by about 20.

**7. Comparing staff inflows to total hiring demonstrates the impact of the high turnover rate of contractual employees.**

Following the implementation of the CoE reforms, contractual employees will comprise only 14 percent of the Fund’s workforce, but will account for 60 percent of all hiring (Figure 3). This statistic underlines the importance of ensuring that the administrative processes for the hiring and management of contractual employees are as streamlined as possible.

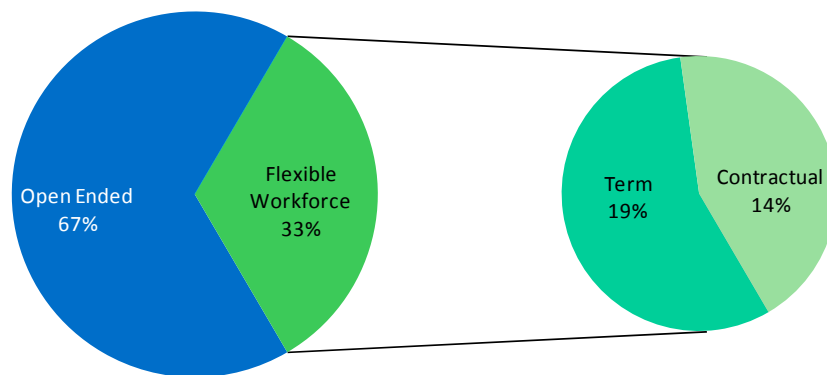


**8. Following implementation of the CoE reforms, the share of the Fund’s workforce employed under flexible contract terms is projected to increase to 33 percent**

(Figure 4). This increase results from the adoption of term appointments, which carry the possibility, but not the presumption, of leading to an open-ended employment contract. The flexible nature of the Fund’s new employment model will further increase its ability to adjust the size, composition, and skill mix of its workforce in response to changes in the needs of the membership.



**Figure 4. Composition of Workforce by Appointment Type, FY 20**



Source: Office of Budget and Planning.

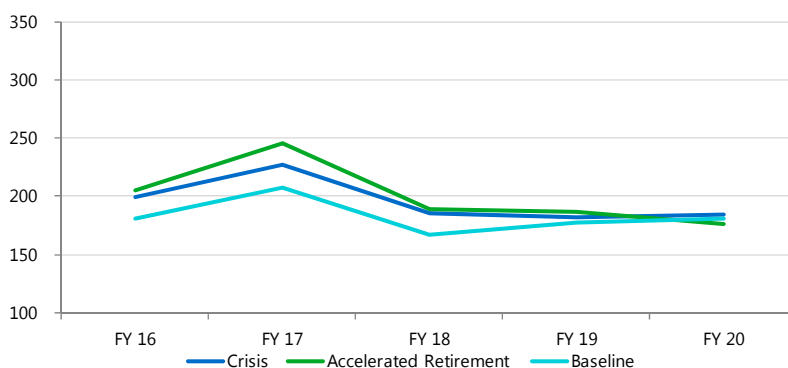
### C. Scenario Analysis

**9. The key drivers of the Fund’s workforce dynamics are separations (dominated by retirements) and changes in the membership’s demand for the Fund’s services.** To illustrate potential recruitment challenges as a result of changes in these two parameters, the analysis compares the impact of two scenarios: (i) average retirement at one year earlier than assumed in the baseline; and (ii) a severe crisis (consistent with the worse-case scenario illustrated in the main paper) whereby half of the countries currently under intensive surveillance or near-program status request a Fund-supported program, requiring an additional 56 FTEs. Both scenarios are phased in over three years.

**10. Figure 5 illustrates the impact of these shocks on hiring levels.** Under the forecast

assumptions, the accelerated retirement scenario would result in the most significant impact on recruitment in the short run, requiring the Fund to hire above the baseline by about 15 percent between FY 16 and FY 18. By comparison, the crisis scenario would elevate hiring needs by about 10 percent in each of the three years. In both cases, the effect of these shocks stabilizes by FY 19.

**Figure 5. Staff Inflows, FY 16–20 (Headcount)**



Source: Office of Budget and Planning.

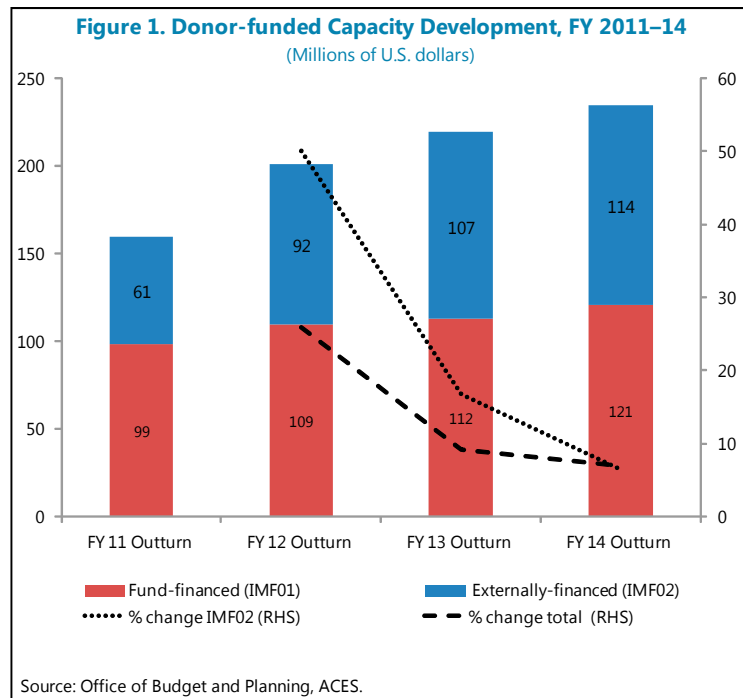
**11. A combination of these two shocks would result in significant recruitment challenges.** The level of new hiring needed to replace separated staff, while also meeting new crisis demands, would peak at 264 staff in FY 17—almost identical to the 263 hires in FY 10, the year with the highest annual recruitment level after the downsizing. That said, in the event of a severe crisis, the incentives for advancing retirement would arguably diminish, making a combination of these shocks less likely.

## Appendix V. Recent Trends in Capacity Development Activities<sup>1</sup>

The sharp increase in the Fund’s Capacity Development (CD) activities in recent years, supported largely by external financing, is tapering off. This section reviews current CD trends and provides an update on CD governance and policies.<sup>2</sup>

### 1. The sharp expansion in donor-financing that allowed the Fund to significantly scale up CD delivery is tapering off.

Estimates using the Analytic Costing and Estimation System (ACES) indicate that total (externally and Fund-financed) CD activities reached \$235 million in FY 14, up by 7 percent from \$219 million in FY 13 (Figure 1). Growth of externally-funded CD fell to 6 percent in FY 14 from 17 percent in FY 13 and 50 percent in FY 12. Data for the first nine months of FY 15 confirm the slowdown in growth of CD spending (Table 1). As a whole, CD spending accounts for 26 percent of the Fund’s direct spending—the largest of the Fund’s expenditure categories.



### 2. CD spending on program countries, which had risen during the crisis, is now easing off.

CD spending on program countries fell by 2.1 percent in FY 14 owing, in part, to a reduction in the number of program countries, including in Europe; at the same time, CD spending on surveillance countries has increased by 26 percent (Figure 2). Data for the first nine months of FY 15 confirm these trends with CD spending on program countries declining by 39 percent, compared with the first

**Table 1. Capacity Development Spending in FY 14 and FY 15**  
(Millions of U.S. dollars)

	Nine months outturn	
	FY 14	FY 15
Fund-financed (IMF 01)	83.2	84.5
Externally Financed (IMF-02)	70.4	72.1
Total	153.6	156.6

Source: Office of Budget and Planning, ACES.

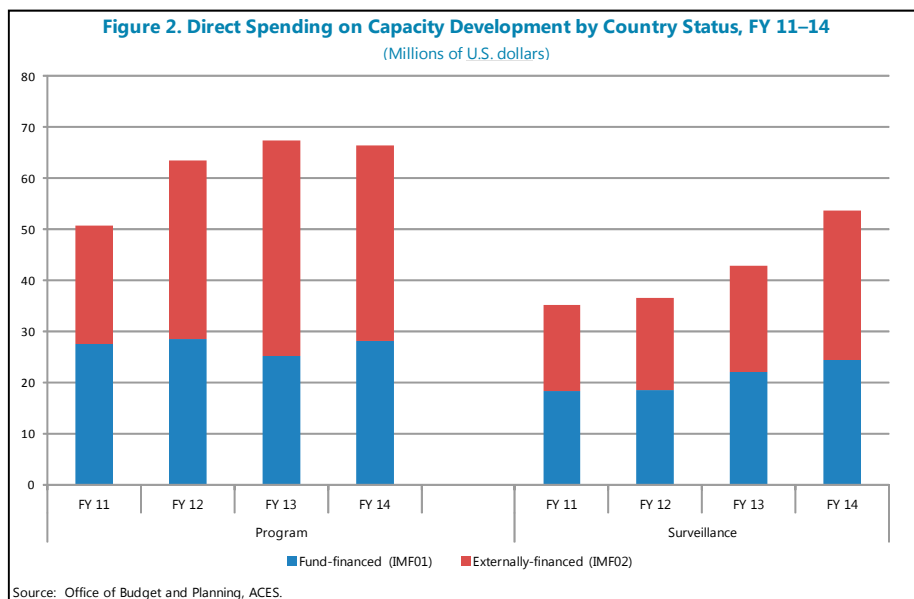
<sup>1</sup> Prepared by Robert Powell, Michael Tharkur and Anna Twum (ICD) and Rebecca Brofft, Sepideh Khazai and Benjamin Shoemsmith (OBP).

<sup>2</sup> See *IMF Policies and Practices on Capacity Development* (IMF Policy Paper, August 26, 2014).

nine months of FY 14. In FY 16–FY 18, providing adequate CD support to program countries, as well as to other countries facing significant vulnerabilities, will remain a key part of the Fund’s CD activities, with volume depending in part on the number of programs.

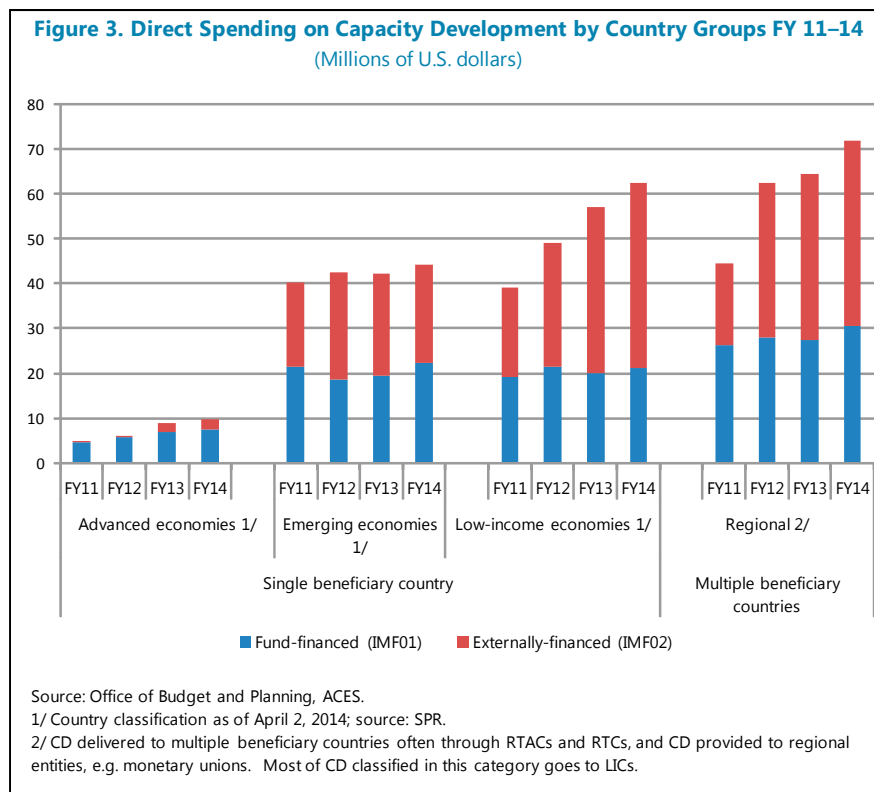
**3. Engagement with fragile states is a Fund priority that has, and will continue to be, reflected in CD delivery.** CD provided to fragile states accounted for 25 percent of all CD provided

by the Fund during FY 11–14. While CD actually delivered to fragile states has tended to fall short of planned provision, this reflected continued security challenges in various countries, including in Arab Countries in Transition, as well as recent health-related risks in the Ebola-affected countries of West Africa.

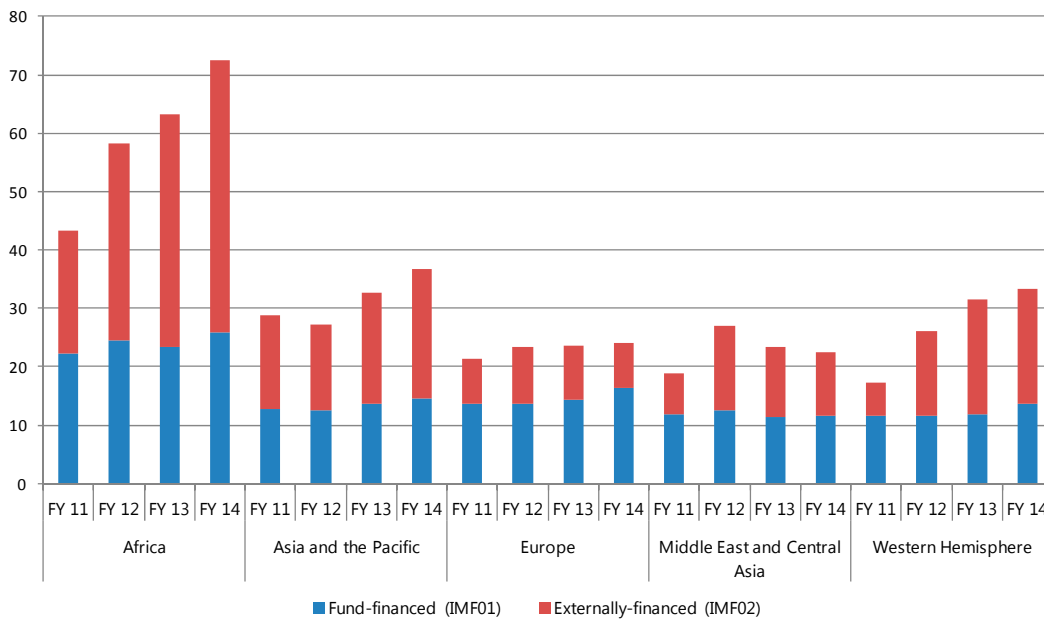


**4. Over half of all IMF CD continues to go to Low-Income Countries (LICs)** (Figure 3). On a regional basis, Africa accounts for the largest share of CD spending, reflecting the high number of LICs in this region

(Figure 4). The increase in CD to Africa in FY 13 and FY 14 is in part related to the opening of AFRITAC West 2 in FY 14, completing the network of Regional Technical Assistance Centers (RTACs) in the region, and the Africa Training Institute. Provision of CD to small states also remains a priority, with about 16 percent of all CD being delivered to these countries during FY 11–14.



**Figure 4. Direct Spending on Capacity Development by Region, FY 11–14 1/ 2/**  
(Millions of U.S. dollars)



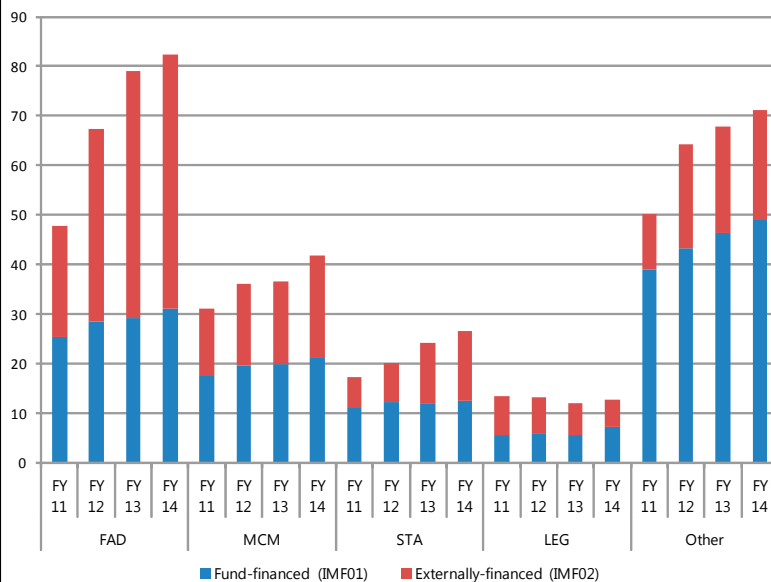
Source: Office of Budget and Planning, ACES.

1/ Direct spending on Fund-financed and externally-financed capacity development (CD) that can be assigned to regions.

2/ Each region includes countries, Regional Technical Assistance Centers (RTACs), where present, and other institutions through which capacity development from the Fund is channeled.

**5. The largest share of Fund CD is in the fiscal sector** (Figure 5). Given the continued large demand for TA in this sector, this pattern is likely to continue. However, in line with global economic developments and greater financial integration of a larger number of countries, the membership’s demand for support on macro-financial, statistical, and financial issues is increasing. The Fund will continue its efforts to respond to these demands.

**Figure 5. Direct Spending on Capacity Development by Department, FY 11–14 1/ 2/**  
(Millions of U.S. dollars)



Source: Office of Budget and Planning, ACES.

1/ Direct spending for Fund-financed and donor-financed expenses on capacity development (composed of technical assistance and training).

2/ Includes CD provided through Regional Technical Assistance Centers (RTACs) and Regional Training Centers (RTCs).

3/ In FY 13, the Office of Technical Assistance Management (OTM) and IMF Institute (INS) merged to create the Institute for Capacity Development (ICD). FY 11 and FY 12 reflect data for OTM and INS.





April 9, 2015

## SELECTED STREAMLINING PROPOSALS UNDER THE FY16-18 MEDIUM-TERM BUDGET—IMPLEMENTATION ISSUES

### EXECUTIVE SUMMARY

Streamlining some Fund policies and procedures will help the Fund take a more risk-based approach and redirect resources to new priorities within a flat budget. To this end, staff formulated a package of measures that will help adapt our work to changes in members' needs and the global environment, without jeopardizing the quality of Fund work. These include:

- Adopting a risk-based approach to surveillance by streamlining Article IV consultations every other year for some countries and making more use of the 24-month consultation cycle for others, with safeguards to maintain the quality of core surveillance.
- Applying more systematically the presumption of semi-annual reviews for GRA arrangements, while reserving resource-intensive quarterly reviews for the most vulnerable cases, namely those facing substantial uncertainties concerning major economic trends or policy implementation.
- Increasing the post-program monitoring (PPM) threshold from 200 to 500 percent of quota for members with outstanding credit to the GRA only, and to 250 percent for members with credit outstanding to the PRGT or to both the GRA and the PRGT. This would better align PPMs with risks to the Fund.
- Abolishing EPAs, while continuing to draw lessons from past programs and using these in the design of new ones.
- Allowing LOT consideration of reviews under programs with exceptional access, as potential concerns about increased risks to the Fund can be adequately addressed by the additional safeguards that apply in exceptional access cases and the remaining LOT criteria for completing program reviews.
- Modifying the LOT criteria for PPMs to align them with the LOT criteria for Article IV consultations and program reviews.
- Lengthening the periodicity for policy reviews to five years, and have them undertaken on an as needed basis, except for the major surveillance and conditionality reviews, the general review of quotas, and reviews related to PRGT eligibility and interest rates.
- Lengthening the periodicity of periodic Fund reports and operational reviews and streamlining them where possible.

Approved By  
**Sean Hagan and  
 Siddharth Tiwari**

Prepared by LEG and SPR in consultation with Area Departments and  
 OBP

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## INTRODUCTION

1. **This paper supplements the FY16-18 Medium-Term Budget document, which proposes a flat resource envelope for the fourth year in a row.**<sup>1</sup> A key plank of this proposal involves the reallocation of close to 5 percent of the overall net administrative budget to high-priority tasks and new initiatives by utilizing efficiency gains and streamlining opportunities within departments and across the Fund. This robust prioritization effort implies difficult trade-offs and the willingness to cut lower-priority activities in order to create space for new priorities, such as those stemming from the Triennial Surveillance Review.
2. **To this end, the budget proposal includes a broad package of cross-cutting streamlining measures across the spectrum of Fund activities.** Based on the recommendations of an Advisory Group of senior staff, the package aims at taking a more risk-based approach in our work and enhancing our effectiveness. Importantly, these measures have been formulated so as not to jeopardize the quality of Fund work. Instead these are steps designed to adapt our work to changes in member countries' needs and the global environment, and to ensure that the institution can effectively safeguard global stability.
3. **This paper sets out the specifics of those proposals that require Board approval to:** (i) adopt a more risk-based approach in Article IV consultations; (ii) adapt our lending policies to the changing environment; and (iii) increase the efficiency of Fund policy reviews and reporting mechanisms.

## RISK-BASED ARTICLE IV CONSULTATIONS

4. **The Fund's strategy since the crisis has been to reorient surveillance towards the major risks to individual economies and the global system—an approach known as risk-based surveillance.** The 2011 Triennial Surveillance Reviews (TSR) identified operational priorities to advance this agenda including expanding coverage of interconnectedness and spillovers, and substantially strengthening risk assessments in Article IV consultations.<sup>2</sup> The 2014 TSR put forward proposals to integrate and deepen risk and spillovers analysis. This has entailed subjecting systemic or highly vulnerable members to greater scrutiny.
5. **Alongside efforts to direct resources to where the risks are most acute, the Board papers on the Fund's Mandate called for more flexibility in the way bilateral surveillance is undertaken.**<sup>3</sup> The recommendation to expand LOT conclusion of Article IVs has been implemented to some extent, although the use of extended Article IV consultation cycles by non-

<sup>1</sup> See [FY2016–18 Medium-Term Budget](#).

<sup>2</sup> This section uses the terms Article IV and Article IV Consultation interchangeably.

<sup>3</sup> See [The Fund's Mandate—An Overview](#); [The Fund's Mandate—Modernizing the Surveillance Mandate and Modalities](#); and [The Fund's Mandate—The Legal Framework](#).



program countries has declined,<sup>4</sup> and consideration has been given to moving more Pacific islands off the 24-month cycle due to their vulnerabilities.<sup>5</sup>

**6. This section reconsiders the scope for flexibility within the existing framework, while ensuring adequate safeguards to support core surveillance functions.**<sup>6</sup> New tools and approaches developed over the past few years (e.g., vulnerability exercises, risk assessment matrices) could inform decisions on the modalities for and resource intensity of Article IV consultations. Staff proposes for certain countries with low vulnerabilities to use streamlined processes for Article IV consultations every other year. Based on preliminary assessments, this could apply to about 40 members from all income groups and regions.<sup>7</sup> Ultimately, staff's proposals for the modalities of streamlining individual countries' Article IV consultations will be based on discussions between area departments and SPR. It is worth noting that risk-based surveillance does not mean a focus on large economies, since any economy (whether small or large, low-income or advanced) could be vulnerable. To obtain some of the resource savings without undermining the quality of Article IV consultations, the formal requirements for Article IV staff reports would need to be modified (see ¶11). However, all Article IVs will continue to cover all macro-critical issues, in line with the Integrated Surveillance Decision (ISD) and associated guidance, and the Fund's communication strategy will strive to ensure that this initiative does not stigmatize certain members.

**7. The new tools for assessing risk are also expected to provide a better framework for the selection of countries on an extended cycle.** No change of policy is being proposed but rather the existing flexibility will be better employed. For example, while there is flexibility under the current policy, no new non-program countries have been put on the 24-month cycle in recent years, as staff has not yet developed an operational framework for assessing the suitability of consultation cycles, has been concerned about the impact on engagement, and internalized the likelihood that members would not consent. However, staff expects that for about 15 countries within the low vulnerability group for which streamlined consultations would be appropriate, but which are considered at low risk and/or have strong buffers to withstand those

<sup>4</sup> Currently, six non-program countries are on the 24 month cycle (Bhutan and five Pacific island countries) compared with 17 before the global crisis. A number of small European countries—Malta, San Marino, and Slovenia—were moved off the 24-month cycle as the crisis intensified, followed by Norway, Denmark and Finland in 2014 after they were classified as having systemically important financial sectors. Consultation discussions with some dependent territories of Fund members also take place every 24 months, including Aruba, Curacao and Sint Maarten as part of the Article IV consultations with the Kingdom of the Netherlands and Macao SAR (as part of the Article IV consultation with the People's Republic of China).

<sup>5</sup> Vulnerabilities arise from their geographical isolation and dispersion, narrow export and production bases and scope for economies of scale, limited access to international capital markets, exposure to shocks (including climate change), and reliance on aid.

<sup>6</sup> In addition to generating resource savings, the proposals would also allow staff to work in parallel on multiple countries, contributing to professional enrichment and cross-country learning, which would benefit the quality of policy advice.

<sup>7</sup> The number and affected countries could vary over time and their choice will be based on discussions between country teams and SPR reviewers.

risks, consideration could be given for use of longer consultation cycles instead. As highlighted above, this would be done within the existing framework. In particular, no changes are proposed to the criteria for use of an extended consultation cycle, and members would continue to need to agree on being placed on a longer consultation cycle.

## A. Implementing Streamlined Article IV Consultations\*

**8. Article IV consultations could be undertaken every other year in a modality that is less resource intensive for certain members facing lower vulnerabilities.** Specifically, this could apply to members whose vulnerabilities are limited (but which may be exposed to risks)<sup>8</sup> and which fulfill the criteria for lapse of time consideration.<sup>9</sup>

**9. The Fund has had mixed results in previous experiments with streamlined Article IVs.** In 2006, as part of the medium-term strategy, 35-50 countries were identified as potential candidates for streamlined Article IV consultations. The quality of the reports varied, in part due to very tight word limits that prevented staff from addressing some macro-critical issues, and shorter reports did not generate large resource savings. Streamlined consultations were discontinued as the Fund refocused on the global financial crisis.<sup>10</sup>

**10. However, staff now believes streamlining should be reconsidered with adequate safeguards in place to ensure quality.** The Fund has developed new tools and approaches for early detection of vulnerabilities and risks for the whole membership, which would help guide the selection process. In line with the Integrated Surveillance Decision (ISD) and associated guidance to staff, streamlined Article IV consultations would need to address all macro-critical threats to stability, but staff would not normally engage in areas outside the core area of surveillance identified in the ISD. For instance, staff would normally not provide advice on issues that do not impact macroeconomic and financial stability. Staff will continue to have the flexibility to tailor staff reports, while ensuring coverage of macro-critical threats to stability. Selected Issues Papers would not normally be prepared for streamlined consultations, and it is envisaged that there

<sup>8</sup> This paper draws a distinction between *vulnerabilities*, which represent weak economic and financial fundamentals, and *risks*, which are potential shocks that have some probability of materializing with an impact on macroeconomic or financial conditions (see [Guidance Note for Surveillance under Article IV Consultations](#)).

\* This proposal was not endorsed by the Executive Board.

<sup>9</sup> Article IVs are presumed to be completed on a lapse of time basis if they meet certain substantive and procedural criteria. The substantive criteria include that there are no acute or significant risks, or general policy issues requiring Board discussion; that policies or circumstances are unlikely to have significant regional or global impact in the near term; that in the event a parallel program review is being completed, it is also being completed on a LOT basis; and that the use of Fund resources is not under discussion or anticipated. The procedural criteria include that LOT would not be used if the last Article IV consultation was concluded on a LOT basis; if more than 24 months has elapsed since Board discussion of an Article IV consultation; or if the member is on a 24-month consultation cycle and has not been considered by the Board under a program review in the preceding 12 months.

<sup>10</sup> Of 50 countries considered internally by staff for streamlined consultations in FY2007 and FY2008, 13 subsequently have had Fund arrangements.

would be shorter missions or fewer team participants. The Article IV staff report would normally be proposed for LOT consideration by the Board.

**11. Accordingly, staff proposes to revise the formal requirements for Article IV staff reports to limit the procedural requirements for streamlined Article IV consultations.**<sup>11</sup> In particular, staff proposes to give area departments greater discretion on including follow-up on past policy advice, appendices on Fund relations and Bank-Fund collaboration, and the table on Sustainable Development Goals for PRGT-eligible countries in streamlined Article IV staff reports. While these topics provide important information in Article IV staff reports, they would be covered as needed in the body of the staff report. Management would revise the guidance note for surveillance under Article IV consultations accordingly.

### ***Issues in Streamlined Consultations***

**12. Staff and management would normally decide a year in advance if they intended to streamline the next Article IV consultation,** and would inform the country authorities during the Article IV consultation. This will help country authorities plan ahead, and also support the Fund's resource management.

**13. Flexibility would need to be retained, so that planned streamlined consultations could be conducted as standard consultations if country circumstances changed.**

Streamlining will be most appropriate when country vulnerabilities *and* policies are stable, and risks are low to moderate. However, vulnerabilities and risks can appear quickly; and countries can also change policies abruptly, even if vulnerabilities are not an issue (for example, policy reversals following a change of government). In such cases, standard consultations would be more appropriate.

## **B. Making More Use of the 24-Month Consultation Cycle<sup>12\*</sup>**

**14. The new risk tools can also inform the consideration for proposing countries for an extended consultation cycle.** The Fund must continue to fulfill its obligation under the Articles of Agreement to conduct surveillance and must take into account country-specific circumstances in setting criteria for establishing consultation cycles for categories of members. While, in principle, Article IV consultations are expected to take place on an annual cycle, non-program countries can be placed on a longer cycle, under certain circumstances, if they are neither systemic nor seen at risk (see Box 1).<sup>13</sup> Countries whose vulnerabilities are limited or that have substantial buffers (see Figure on Risk-Based Approach)—and which are also neither systemic,

<sup>11</sup> The formal requirements have been endorsed by the Board in various summings up and are identified in Annex III of the [Guidance Note for Surveillance under Article IV Consultations](#) (see Annex I of this paper).

<sup>12</sup> This section uses the terms 24-month consultation cycle and 24-month cycle interchangeably.

\* This proposal to make greater use of the 24-month consultation cycle by setting operational criteria was not endorsed by the Executive Board.

<sup>13</sup> Decision No. 14747-(10/96), as amended.

nor of regional importance—could thus be assessed on a 24-month cycle, as biannual consultations would be sufficient for the Fund to conduct effective surveillance.<sup>14</sup>

**15. Compared to the countries currently on a 24-month cycle, staff believes that additional countries might meet the criteria for a longer cycle.** Some such countries have strong policy frameworks, and the capacity to conduct their own research and develop effective responses if new shocks were to arise. In any case, the Fund would remain engaged through staff visits—and technical assistance for countries with less capacity—in between consultations in a way that is flexible and responds to the authorities’ needs. Staff would also brief the Executive Board of the outcome of such visits in the context of periodic Area Department updates. If circumstances deteriorate, the Fund could always advance the timing of the Article IV consultation. For countries for which the Fund is the only established provider of basic economic data and analysis, staff would provide such information and analysis through alternative means, e.g., through regional overviews or cross-cutting thematic papers.

#### **Box 1. Article IV Consultation Cycles**

**In principle, Article IV consultations with members take place annually, although the Fund may decide to place a member on a longer cycle.**

Over 90 percent of the Article IV consultations considered by the Executive Board annually are on a 12-month cycle.

Countries with a Fund arrangement or Policy Support Instrument (other than those with an arrangement under the Flexible Credit Line (FCL) or Precautionary and Liquidity Line (PLL)) are automatically put on a 24-month Article IV consultation cycle upon approval of the arrangement.

The Fund may also decide to place any member on a consultation cycle that is longer than 12 months but less than 24 months, after consulting with the Executive Director for the member and obtaining the member’s consent, if the member:

- (i) is not of systemic or regional importance;
- (ii) is not perceived to be at some risk because of policy imbalances or particular threats from exogenous developments and is not facing pressing policy issues of broad interest to the Fund membership; and
- (iii) does not have outstanding credit to the Fund under all facilities above 200 percent of quota (Annex I).

**16. Staff would continue to interact with countries on a longer consultation cycle with more flexibility.** For instance, there would be more time to interact informally or to engage in regional reports, adding value to country authorities with in-depth focused analyses.

#### ***Modalities of Implementing Longer Cycles***

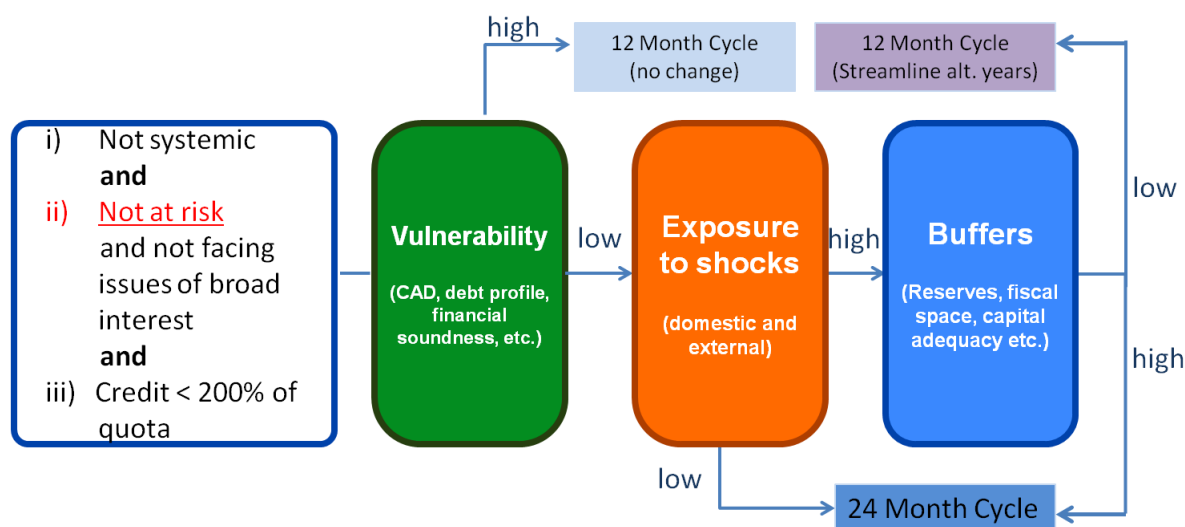
**17. Early engagement with the country authorities will be essential if changes are required in the consultation cycle.** Consultation cycles are established by the Board, but are set

<sup>14</sup> The number and affected countries could vary over time and their choice will be based on discussions between country teams and SPR reviewers.

on an *expectations* basis. Staff should discuss early with the authorities if staff intends to propose a change in the consultation cycle. Early engagement with the relevant Executive Director will be vital to ensure that such a step proceeds smoothly, as the member’s consent is required before a country can be put on a 24-month cycle.<sup>15</sup> There can also be cases where circumstances deteriorate in a country already on the 24 month cycle. In such a case, an Article IV may always be held earlier.

**18. To facilitate this process, staff intends to review periodically whether countries continue to meet the criteria for their existing cycle.** This assessment should draw on in-depth analysis of each country’s vulnerabilities—which take into account the strength of the member’s institutions and its capacity to implement policies—the scale and likelihood of the most pressing potential shocks, and whether the authorities have adequate buffers to respond to shocks, e.g., in the form of reserves (See Figure below). In this context, discussions between country teams and SPR reviewers will be critical, including to take into account authorities’ views. Judgment will continue to be required to assess some of the criteria under the decision, such as the extent of regional importance and the risks and policy issues facing the member.

**Operationalizing the Current Criteria:<sup>16</sup> Risk-Based Approach**



## ADAPTING POLICIES ON THE USE OF FUND RESOURCES

**19. Policies on the use of Fund resources aim to strike a balance between effectively supporting member countries’ balance of payments needs, ensuring global economic and financial stability, and effectively safeguarding Fund resources.** Accordingly, a number of

<sup>15</sup> Decision No. 14747-(10/96), as amended.

<sup>16</sup> This figure is a proposal on how the current criteria will be operationalized under Decision No. 14747-(10/96), as amended. This figure elaborates on the second criterion under the decision, elaborated in Box 1.

policies have been developed over the years to differentiate arrangements according to country circumstances and provide for more systematic learning. These include a broader menu of facilities and instruments, the option of adjusting the frequency of program reviews, the exceptional access policy, rules for ex-post assessments and post-program monitoring. However, while some of these policies were designed for a pre-crisis environment, members' needs during the crisis and in an interconnected world have continued to evolve. Accordingly, these evolving circumstances highlight that some of the requirements under current policies for use of Fund resources may now be disproportionate to the risks involved for the member or the Fund.

## A. Frequency of Fund-Supported Program Reviews

**20. Despite the presumption that program reviews take place on a semi-annual basis,<sup>17</sup> the vast majority of GRA program reviews occur on a quarterly basis.<sup>18</sup>** The practice for

PRGT-funded programs (and PSIs) however is already consistent with the expectation of semi-annual reviews. Of the almost 90 GRA arrangements since 2002, only around one-quarter were initially designed with reviews on a semi-annual schedule. Less than 40 percent had any reviews planned on a semi-annual basis at any time during the arrangement. The share of programs with a semi-annual schedule was somewhat higher for extended arrangements (EFFs) and particularly for blended cases (SBA-SCF). Semi-annual reviews were rarely used in exceptional access cases, with only 2 out of the 32 exceptional access programs having any review on a semi-annual frequency. It is worth noting that some (six) GRA arrangements moved from a quarterly to semi-annual frequency as envisaged in the program request, and another two cases switched from quarterly to a semi-annual cycle as the program track-record was built (Table 1).<sup>19</sup>

	Number	% total
<b>GRA Programs</b>	<b>86</b>	<b>100.0</b>
Quarterly initial	63	73.3
Expected to move to semi-annual <sup>1/</sup>	6	7.0
Semi-Annual initial	23	26.7
<b>SBA</b>	<b>70</b>	<b>100.0</b>
Quarterly initial	54	77.1
Expected to move to semi-annual <sup>1/</sup>	5	7.1
Semi-Annual initial	16	22.9
<b>EFF</b>	<b>12</b>	<b>100.0</b>
Quarterly initial	8	66.7
Expected to move to semi-annual <sup>1/</sup>	1	8.3
Semi-Annual initial	4	33.3
<b>SBA-SCF</b>	<b>4</b>	<b>100.0</b>
Quarterly initial	1	25.0
Move to Semi-Annual	0	0.0
Semi-Annual initial	3	75.0

Source: MONA 2002-15  
1/ At program inception.

<sup>17</sup> See "Guidelines on Conditionality", Decision No. 12864-(02/102), adopted on September 25, 2002, as amended.

<sup>18</sup> Here, "GRA program reviews" refers to program reviews under an SBA, an extended arrangement or a blended arrangement, while "GRA arrangements" refers to SBAs, extended arrangements or blended arrangements. The presumption as to the frequency of reviews is not relevant for FCL or PLL arrangements, because these arrangements have specific review cycles prescribed in their respective instruments.

<sup>19</sup> Programs that envisaged moving to semi-annual arrangements include Albania (2014), Angola (2009), Georgia (2014), Iraq (2010), Paraguay (2006), and Romania (2013), although in some cases (Georgia, Romania) these arrangements went off-track before the switch actually occurred. Dominican Republic (2005) and Seychelles (2009) were quarterly arrangements that moved to a semi-annual frequency. It is worth noting that the opposite

(continued)

**21. The need for resource-intensive reviews on a quarterly basis should be reserved to the most vulnerable cases, namely those facing substantial uncertainties concerning major economic trends or policy implementation.** Staff proposes a more systematic application of the presumption of semi-annual reviews for GRA arrangements. Adhering to this presumption for programs that do not face heightened risks or vulnerabilities (including related to the Fund's exposure) and remain on track, would better align review frequency with the risks to the Fund. Such practice would also provide more space for policy implementation. This presumption would not apply when the member is particularly vulnerable and risks to the program strategy are acute due to substantial uncertainties concerning major economic trends or policy implementation.<sup>20</sup> It is also possible to change the review frequency from semi-annual to quarterly if unforeseen risks emerge during the program or for programs with a poor track record. To implement this presumption, staff proposes that the policy notes and staff reports for each review established on a more frequent cycle than semi-annually explicitly justify the deviation based on substantial uncertainties concerning major economic trends or policy implementation.<sup>21</sup>

**22. The systematic application of the presumption for semi-annual reviews will result in savings for staff and the Board.** Going forward, in cases of new arrangements or instruments, or in the case of new reviews to be completed after the Board's consideration of this paper, staff and management will ensure a more systematic application of this presumption of semi-annual reviews in Fund arrangements or instruments. Should all existing normal access arrangements or instruments with quarterly reviews move to a semi-annual review schedule, the number of reviews for outstanding programs would drop by 13 over the period through end-2018.

## B. Post-Program Monitoring\*

**23. Post-Program Monitoring (PPM) aims to safeguard the Fund's resources through closer monitoring of the circumstances and policies of members with outstanding credit to the Fund above a certain threshold.** It provides an early warning of policies that could call into question a member's progress toward external viability. PPM can also indirectly help raise the authorities' and Executive Board's awareness of emerging issues, and spur members to maintain the reform momentum in the aftermath of a program and address potential problems. Article IV consultations and staff visits can have a similar impact with respect to the enhanced awareness of emerging issues.

**24. Current policy ties participation in PPM to a relatively low level of outstanding credit to the Fund, capturing some members that pose limited risks to the Fund's balance**

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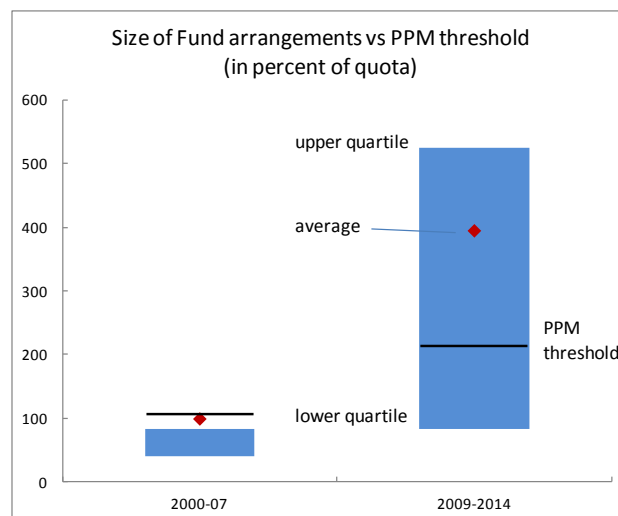
occurred in Serbia (2009), where the first and second reviews were switched from a semi-annual frequency to a quarterly frequency.

<sup>20</sup> Even if a program begins on a quarterly cycle, strong performance leading to a reduction in risks could be expected to see the review cycle becoming semi-annual.

<sup>21</sup> The Operational Guidance Note on the Conditionality Guidelines would be revised to reflect this change in practice.

\* Taking into account views expressed by Executive Directors, this proposal was withdrawn by management.

**sheet.**<sup>22</sup> The current threshold of 200 percent of quota was set early in the recent crisis, and the average size of Fund arrangements since then has been markedly higher.<sup>23</sup> Moreover, the Fund has rarely made use of flexibility under the policy to discontinue PPM early if risks had abated in some cases where the threshold continued to exceed 200 percent, or to extend PPM when credit had fallen below 200 percent, yet risks persisted.<sup>24</sup> Since 2008, all 15 countries that entered crisis programs and exited without a successor arrangement have entered PPM, and all those that have completed PPM have done so at the 200 percent of quota mark.



**25. To better align PPM with risks to the Fund, staff proposes increasing the threshold of outstanding credit from the GRA for PPM purposes from 200 to 500 percent of quota.**

This would restrict countries participating in PPM to those with the largest amounts of credit outstanding, and reduce the duration for those with moderate amounts of credit outstanding. If applied immediately, it would reduce the number of current participants in PPM to one member with substantial outstanding credit (Portugal) and one prospective case (Jordan).<sup>25</sup> Such a change would substantially shorten PPM for many members—the nine completed PPMs since 2008 lasted three and a half years on average compared with less than two years had a 500 percent

<sup>22</sup> At end-2014, there were six PPM cases, two with substantial credit outstanding in terms of quota and absolute terms (SDR 34.8 billion—or 15 percent of total quota resources), i.e., Portugal (SDR 22.9 billion, 2,228 percent of quota) and Ireland (SDR 11.8 billion, 940 percent of quota)—and another four posing less risk (only SDR 1.3 billion at end-2014), i.e., Sri Lanka (SDR 861 million, 208 percent of quota), Moldova (SDR 365 million, 296 percent of quota), Antigua and Barbuda (SDR 51.5 million, 381 percent of quota), and St. Kitts and Nevis (SDR 34 million, 377 percent of quota). Ireland's advance repurchase on March 20 brought its outstanding credit down to 300 percent of quotas. A further four members (i.e., Bosnia and Herzegovina, Cote d'Ivoire, Jordan, Tunisia) could enter PPM this year, three under GRA and one under PRGT-supported programs currently, with aggregate outstanding credit projected at SDR 3.7 billion end-2015 or 1.5 percent of total quota resources.

<sup>23</sup> This threshold has been tied to the annual access limits in the GRA, and was last reviewed in April 2014, at the time of a review of access limits in the GRA. At that time it was proposed to maintain the PPM threshold unchanged, with a 25 percent increase in SDR terms at the time of effectiveness of the quota increases under the 14<sup>th</sup> Review.

<sup>24</sup> Members reaching the trigger threshold will not automatically be subject to PPM. Rather, the Managing Director would be expected to recommend PPM to the Board, unless in her view the member's circumstances are such that the process would be unwarranted. Possible circumstances include when a successor arrangement or a staff-monitored program is expected to be in place within six months or where the member's policies and external position were strong. Furthermore, PPM can be required even if outstanding credit is below the threshold, if in the view of the Managing Director and the Board closer monitoring is needed.

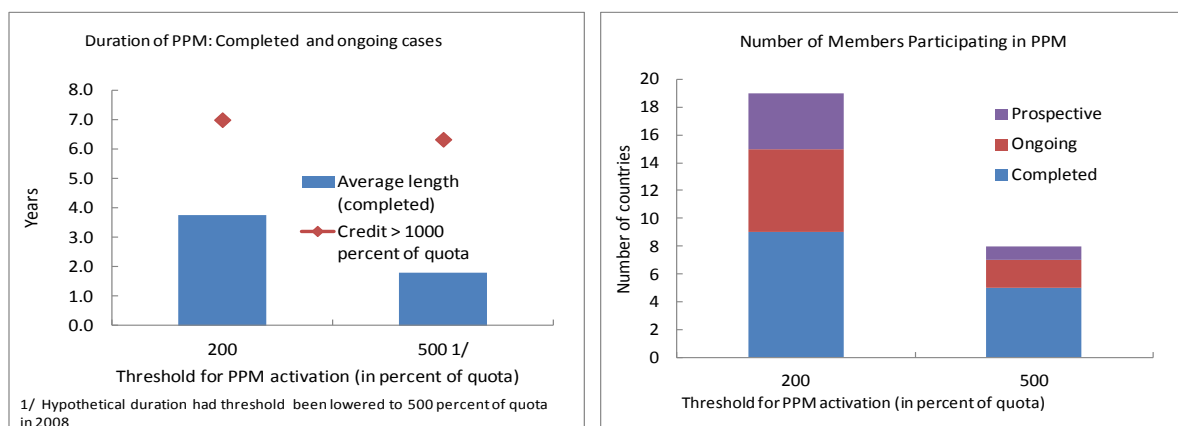
<sup>25</sup> These numbers are based on Fund arrangements ending by end-FY16.



threshold been in place. But the change in threshold would have only a minor impact on the duration of PPM for the largest cases.<sup>26</sup>

**26. Staff proposes a lower threshold of 250 percent of quota for outstanding credit from PRGT, and for cases where members have outstanding credit under both GRA and PRGT.** A lower threshold proposed for outstanding credit to the PRGT reflects the lower access levels for PRGT arrangements and ensures adequate coverage of the biggest risks to the Trust. The 250 percent of quota threshold would also apply if a member has outstanding credit both from the GRA and PRGT. In such cases, combined credit outstanding (i.e., the sum of credit from the GRA and PRGT) will be used to calculate the PPM trigger threshold, and PPM would be presumed for as long as combined credit outstanding exceeds 250 percent of quota. Staff believes that the proposed new thresholds strike an appropriate balance between focusing staff's and the Board's attention on the major risks to the Fund's balance sheet, maintaining some PPM on moderate risks as well as the largest risks to the PRGT, while eliminating PPM where risks are minor.

**Impact of Proposed Reform on the Duration of PPM and Number of Participants**



**27. In addition to raising the threshold, consideration should be given to exercising more actively the flexibility provided for under the existing policy.** In particular, some country cases may warrant continued close monitoring even when their Fund credit falls below the applicable PPM threshold (e.g., when the size of the arrangement is substantial in absolute terms). There could also be cases where, in view of the countries' long track record, PPM could be discontinued even if credit outstanding exceeds the relevant threshold.

**28. Adoption of this proposal would require amending the Decision No. 13454-(05/26), adopted March 14, 2005, as amended.** The modification to the PPM triggering thresholds will come into effect for PPM discussions for which a Policy Consultation Note is submitted for departmental review after the date of the modified decision. This modification will not apply to cases where a PPM Policy Consultation Note was submitted for departmental review prior to the date of the modified decision but where the relevant PPM discussion has not yet been

<sup>26</sup> Under the proposed new threshold, and assuming no early repurchases, Portugal would cease to be under PPM in 2021 instead of 2022.

completed. In such latter cases, the modification will become applicable upon the earlier of the conclusion of the last PPM discussion or July 31st, 2015.

### C. Ex-Post Assessments

29. **Ex-Post Assessments were established in 2003 to guard against inappropriate long-term program relationships with the Fund, and strengthen the Fund's "due diligence" for countries with Longer-Term Program Engagement (LTPE).**<sup>27</sup> They are currently required in the context of a request for a new arrangement for members meeting the LTPE definition and for whom an EPA has not been prepared in the past five years.<sup>28</sup> The LTPE list is established annually, and as of September 2014, 14 members met the LTPE definition. Since its adoption, the Executive Board has discussed 67 EPAs for 55 members, most of which are LICs (see Table 2).

**Table 2. EPAs Considered by the Executive Board**  
(As of January 31, 2015)

<u>2003-2004</u>	<u>2005-2006</u>	<u>2007-2008</u>
Armenia	Albania	Ghana
Benin	Argentina	Kenya
Bulgaria	Azerbaijan	Nicaragua
Cambodia	Bolivia	Togo
Chad	Burkina Faso	Turkey
Ethiopia	Cameroon	<u>2010-2014</u>
Georgia	Gambia, The	Armenia 1/
Guinea	Guyana	Benin 1/
Guinea Bissau	Jordan	Burkina Faso 1/
Honduras	Lao PDR	Burundi
Kazakhstan	Madagascar	Gambia, The 1/
Kyrgyz Republic	Mongolia	Georgia 1/
Lesotho	Pakistan	Grenada
Macedonia, FYR	Rwanda	Haiti
Malawi	Senegal	Kyrgyz Republic 2/
Mali	Sierra Leone	Malawi 2/
Moldova, Republic of	Tajikistan	Mali 2/
Mozambique	Tanzania	Mauritania
Niger	Uganda	Nicaragua 2/
Peru	Ukraine	Niger 2/
Romania	Uruguay	Sao Tome and Principe
Vietnam		Serbia
Zambia		Sierra Leone 1/
		Zambia 1/

1/ EPA update.  
2/An EPA report, rather than an EPA update, was required since during the period relevant for the update, a program has been interrupted for more than six months.

30. **While country authorities and the Executive Board have appreciated the opportunity to review individual country EPAs, EPAs have limitations.** EPAs provide an opportunity to assess the effectiveness of Fund program engagement in the form of “an independent and fresh perspective,” offer lessons on program experiences, and enhance the learning culture of the Fund. Although the initial learning experience was useful in shaping

<sup>27</sup> [Operational Guidance for Assessments of Countries with a Longer-Term Program Engagement](#), , August 20, 2003. The policy on EPAs has been reviewed twice, in 2006 ([Review of Ex Post Assessments and Issues Relating to the Policy on Longer-Term Program Engagement](#)); and 2009 ([Omnibus Paper on Easing Work Pressures](#), Decision/A/13207, 08/28/2009).

<sup>28</sup> LTPE is defined as having in place a Fund-supported financial arrangement for at least seven of the past ten years. Fund financial arrangements that qualify for the definition of LTPE are those drawing on upper credit tranche GRA or PRGF-ESF/PRGT resources, or any blend of the two.

programs in countries with successive arrangements, the 2006 review found that individual country EPAs have not generally found pervasive problems of inadequate program design and conditionality. It also highlighted concerns that EPAs are unlikely to launch a fundamental challenge to the current strategy because they remain a product of staff and management, and lessons from EPAs are often not used in successor programs.<sup>29</sup> The review has also recognized that LTPE is essential in members in fragile situations, which weakens the primary motivation for EPAs.<sup>30</sup> Furthermore, EPAs are costly, entailing six months of an interdepartmental team work, focusing mostly on fact finding, understanding the economic and political context, and the history of program dynamics as the team is drawn from staff not working on this country.

**31. Staff proposes abolishing EPAs and achieving its objectives in a more cost-effective way.** In particular, for countries meeting the LTPE definition, country teams—most knowledgeable about the country situation—would conduct a post program assessment at the beginning of the successor program negotiation or during the Article IV consultation mission, whichever is earlier. The staff report of a new program request will contain a succinct, peer-reviewed assessment of the previous program for Board consideration.<sup>31</sup> While such assessments would remain a staff product, they would strengthen the ownership of country teams to draw lessons from the exercise and use these in the design of the new program.

**32. Adoption of this proposal would require a Board Decision abolishing the EPA.** The repeal of the policy on EPA shall become effective as of the date of this decision except in cases where an EPA report has been prepared by staff and submitted to management. In such cases the provisions of the EPA policy will continue to apply through December 31, 2015.

#### D. Lapse of Time Board Consideration\*

**33. While lapse of time (LOT) procedures have helped to manage the workload of the Executive Board and staff, these procedures could be used more effectively.** LOT consideration is intended for uncontroversial cases in which it is expected that the Board would endorse staff's conclusions and Board discussion is not required. The Board has periodically reviewed and revised the procedures<sup>32</sup> to promote the effective use of LOT, while maintaining

<sup>29</sup>See [Review of Ex-Post Assessments and Issues Relating to the Policy on Longer-Term Engagement](#). In the 2006 survey of EPA team leaders, some replied that they were doubtful whether EPAs really had an impact on future program design.

<sup>30</sup> See [Macroeconomic and Operational Challenges in Countries with Fragile Situations](#); and the [Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations](#).

<sup>31</sup> While succinct, these assessments would contain the following information: (i) conditionality missed for each review with justification, including requests for waivers; (ii) requests for modification of conditionality; (iii) whether the ultimate objectives of the program were achieved; (iv) whether the choice of facility at the outset was appropriate with the benefit of hindsight; and (v) the preferred mode of future engagement.

\* Taking into account views expressed by Executive Directors, this proposal was withdrawn by management.

<sup>32</sup> The LOT procedures for completing program reviews are set forth in Decision A-13207 (08/28/09) of August 28, 2009, as amended; the LOT procedures for completion of Article IV consultations are set forth in Part

(continued)

appropriate safeguards and Board oversight. In recent years, there has been steady use of LOT procedures for Article IV consultations, program reviews, and PPMs (Table 3). There appears to be further scope for increasing the effective use of LOT, particularly for completing program reviews, and ensuring more consistent use of LOT in completing PPMs.

	2010	2011	2012	2013	2014
Article IV <sup>1</sup>	112	129	121	125	129
<i>of which: LOT</i>	16	20	16	14	20
Program Reviews <sup>2</sup>	110	95	81	94	62
<i>of which: LOT</i>	9	16	14	16	15
Post-Program Monitoring	34	29	31	26	10
<i>of which: LOT</i>	0	1	0	0	1

1/ Combined reports are included in the Article IV data.  
2/ Also includes reviews under the Policy Support Instrument.

### Lapse of Time Completion of Program Reviews

**34. There appears to be scope for completing more program reviews on a LOT basis, while maintaining appropriate safeguards.** The more systematic use of the LOT procedures for completing semi-annual reviews or reviews where there are minor program deviations could result in efficiency gains. To fully capitalize on the potential workload savings, this will require the support of staff, Management and Executive Directors. In addition, changes are warranted to the current LOT procedures, which automatically preclude LOT completion of reviews involving exceptional access arrangements, even where the review may be uncontroversial.<sup>33,34</sup>

**35. Applying the presumption of semi-annual program review cycles more systematically, together with LOT consideration of reviews, will help reduce the demands on the Board.** More programs with semi-annual reviews, and fewer quarterly review cycles, will automatically imply fewer Board discussions (as discussed in paragraph 20). Moreover, an effective application of the LOT procedures for on-track programs on semi-annual review cycles

A of Decision No 14766-(10/115), November 29, 2010, as amended, and the use of LOT procedures for PPM was endorsed by the Board in 2000.

<sup>33</sup> For arrangements under the GRA, exceptional access is currently defined as access above 200 percent of quota annually or above 600 percent of quota cumulatively, net of scheduled repurchases (see Decision No. 14064-(08/18), adopted February 22, 2008, as amended). These limits do not apply to the Flexible Credit Line (FCL), or Precautionary Liquidity Line (PLL), which is subject to its own limits. For PRGT-funded arrangements, exceptional access is currently defined as above 100 percent of quota annually or above 300 percent of quota cumulatively, net of scheduled repayments.

<sup>34</sup> As of end-February 2015, five Fund arrangements under the GRA (excluding FCLs) and no arrangements under the PRGT involved exceptional access.

would normally result in one Board discussion of a program review each year, with the other review considered on a LOT basis.<sup>35</sup>

**36. The flexibility available under the current LOT procedures in cases of minor deviation from program conditionality could be used more effectively.** The current framework already permits LOT consideration of program reviews in the event of *minor* deviations from quantitative performance criteria and structural benchmarks, and provided the review does not introduce *major* changes to the objectives and design of the program. It is important to use this flexibility in practice.

**37. Allowing LOT consideration of reviews under program with exceptional access would help further reduce the demands on the Board and staff, without undermining the Fund's ability to manage risks.** Accordingly, staff proposes removing the limitation on the use of the LOT procedures in cases involving exceptional access, with the other LOT criteria for program reviews remaining unchanged. Staff believes that potential concerns about increased risks to the Fund in these cases can be adequately addressed by the additional safeguards that apply in exceptional access cases and the remaining LOT criteria for completing program reviews. The justification for the access level, together with the exceptional access criteria<sup>36</sup> and the underlying program design are intended to address the possibility of additional risks for the member or financial risks to the Fund arising from the high access level. Where new concerns about risks to the member or the Fund arise, the remaining LOT criteria would preclude LOT consideration of a review that: (i) raises general policy issues; (ii) raises concerns as to whether a review should be completed; or (iii) introduces major changes in the objectives or design of a program.

**38. Under the staff's proposal completion of a program review on a LOT basis will be presumed where all of the other existing LOT criteria (substantive and procedural) apply**

<sup>35</sup> In line with the Section A on Frequency of Program Reviews, quarterly reviews would be retained where uncertainties are high, the member is particularly vulnerable, and risks to the program are acute. Normally, it would be harder for such cases to meet the LOT criteria and these programs would merit more frequent Board discussion. In the event that uncertainties and risks were to recede, an arrangement could move from quarterly to a semi-annual review cycle, further reducing the number of Board discussions for program reviews.

<sup>36</sup> The criteria for exceptional access in the GRA are as follows: The Fund may approve exceptional access when: (i) the member is experiencing exceptional balance of payments pressures on the current or capital account; (ii) the member's public debt is sustainable with high probability over the medium term or if there is a high risk of international systemic spillovers; (iii) the member has prospects of gaining access to private capital markets during the life of the program; and (iv) the policy program provides a reasonably strong prospect of success. The criteria for exceptional access in the PRGT are set out in the PRGT Trust Instrument as follows: The Fund may approve access in excess of these limits in cases where the member is experiencing an exceptionally large balance of payments need, has a comparatively strong adjustment program and ability to repay the Fund, does not have sustained past and prospective access to capital markets, and has income at or below the prevailing operational cutoff for assistance from the International Development Association (IDA); provided that access shall in no case exceed (i) a maximum annual limit of 150 percent of quota, and (ii) a maximum cumulative limit of 450 percent of quota, net of scheduled repayments.

(see Annex II and proposed decision). For greater transparency, where exceptional access is involved and there are no other criteria precluding LOT consideration, the cover note to the staff report circulated to the Board will mention that it is an exceptional access case that is proposed for LOT consideration. The procedures for the Managing Director or an Executive Director proposing LOT consideration would remain unchanged.<sup>37</sup> However, staff proposes that all reviews under FCL and PLL arrangements be ineligible for completion on a LOT basis. These arrangements provide upfront access to Fund resources with very focused (PLL) or no (FCL) ex post conditionality and thus the rigorous assessment of the member's qualification for the instrument conducted at each review is an important element to safeguard Fund resources and warrants Executive Board discussions.

**39. Adopting this proposal would require amending the Board Decision No. A-13207 (08/28/09) on LOT procedures for completing program reviews.**

**Lapse of Time Completion of Post-Program Monitoring**

**40. The use of LOT in PPM cases is hampered by lack of clarity on the relevant LOT criteria.** The current LOT procedures for PPM cases are much less well defined than for Article IV consultations and program reviews. An assessment of risk and policy relevance or program design determines whether Article IV consultations and program reviews can be considered on a LOT basis. For PPMs, there is only general guidance that LOT conclusion is possible "if no major issues had arisen."<sup>38</sup> This leaves considerable room for interpretation. Staff believes that establishing more specific criteria would help ensure more predictable and evenhanded use of LOT procedures for PPMs.

**41. Staff, therefore, proposes modifying the PPM framework to include substantive and procedural criteria for the use of LOT.** Drawing on the existing criteria for LOT consideration of Article IV consultations and UFR reviews, staff recommends that PPMs will be presumed to be concluded on a LOT basis if the following four criteria are met:

- *Substantive criteria:* (i) there are no acute or significant risks, or general policy issues requiring Board discussion; and (ii) policies or circumstances are unlikely to have significant regional or global impact in the near term (normally understood as a one-year horizon, but could be longer in some cases).
- *Procedural criteria:* (i) at least one PPM discussion has already taken place to ensure Board discussion of a country's economic framework in the period immediately after the expiration of a Fund-supported program and provide an early warning of developments that could

<sup>37</sup> See Attachment to Decision A set forth in DEC/A/13207, as amended.

<sup>38</sup> The current approach for proposing LOT consideration of PPMs was established in 2000, and articulated in the [Guidance Note on PPM](#).

jeopardize its external viability and capacity to repay the Fund; and (ii) the previous PPM discussion was not concluded on an LOT basis.

**42. The procedures for proposing LOT consideration for a PPM review would be similar to those for Article IV consultations.**<sup>39</sup> In summary, those procedures are:

- *By the Managing Director:* If the Managing Director judges that a country meets the eligibility criteria laid out above, she would propose LOT conclusion of a PPM discussion at the time the staff paper is circulated to the Executive Board. The cover memorandum will specify the deadline for objecting to the LOT proposal, the date on which the PPM would be deemed completed (effective date) if there is no objection, a reserve date for discussion if needed, and the reasons why LOT is warranted. If the Managing Director judges that a member meets the LOT criteria but the Executive Director for the member concerned objects, the Secretary's cover note circulating the staff paper would include a notation to this effect.
- *By the Executive Director for the member concerned:* On the basis of the eligibility criteria above, the Executive Director for the member concerned may propose the LOT completion of a PPM discussion no more than two business days after the staff paper is circulated to the Executive Board, and preferably, as soon as possible after circulation. The Executive Director's notification will include the deadline for objecting to the LOT proposal, the date on which the PPM would be deemed completed (effective date) if there is no objection, a reserve date for discussion, and the reasons why LOT is warranted.

**43. Staff proposes that the Board endorse the proposals by adopting a Decision on LOT procedures for completing PPM discussions.**

## EFFICIENT POLICY REVIEWS AND REPORTING

### A. Policy Reviews

**44. While it is important to step back occasionally and assess whether existing policies need to be adjusted, the current approach of policy reviews lacks efficiency.** Reviews of Fund policies that are conducted without need imply inefficient allocation of resources. Also, conducting reviews too frequently may lower the Fund's ability to focus on key strategic issues and is resource intensive. Furthermore, too frequent reviews may have insufficient basis on which to evaluate policy implementation and thus have little strategic benefit. Last, separate reviews of related policies entail a fragmented approach with inconsistency risks. Currently, some 25 policies are subject to regular review (Table 4). These reviews operate on different cycles ranging from two to five years.

<sup>39</sup> The procedures for proposing LOT consideration of an Article IV consultation are set out in Decision No. 14260-(09/11) of February 3, 2009, as amended.

**45. The Fund can achieve efficiency gains in its oversight role by adopting a more strategic approach to policy reviews.** Adopting a five-year periodicity would provide enough time to assess implementation of policies; making reviews on an “as needed” basis would help reduce those reviews that are of low value; and merging related reviews will allow the Fund to adopt a more holistic and strategic approach in critical reviews.

**46. Staff proposes that the Board consider lengthening the periodicity for selected policy reviews to five years, and have them undertaken on an as needed basis.**<sup>40</sup> The expectation would be a lag of at least five years between reviews. The current practice of conducting an earlier review if requested by the Executive Board will continue. Six to twelve months prior to a scheduled review, staff would assess whether the review is warranted or not, and bring its assessment to the attention of the Executive Board in the context of the semi-annual work program discussion. This would provide a regular venue for Directors to express their views on staff’s proposal regarding the timing of individual policy reviews. In case a review is not warranted in the fifth year, staff will subsequently assess the need for review on an annual basis. Whenever staff assesses that a review is warranted, a proposal to conduct the review will be included in the following semi-annual work program.

**47. There would be a few exceptions to this approach.** In particular, there will be no change in the cycle of major Fund policy reviews (i.e., Comprehensive Surveillance Review (CSR) and the Interim Implementation Assessment, and Review of Conditionality and Design of Fund-Supported Programs (CR)), reviews required under the Fund’s Articles of Agreement (i.e., General Review of Quotas), and PRGT-related reviews (i.e., Review of PRGT Eligibility, which is required for the operational relevance for the sustainability of the PRGT trust, and PRGT Interest Rates). In addition, the frequency of the review of Debt Sustainability Framework for Low-Income Countries will remain unchanged at three years, with the next review expected to be completed in 2016.

**48. Staff also proposes merging related reviews to ensure a holistic and consistent approach.** In particular, staff believes that folding the mandatory financial stability assessments under FSAP and FSAP reviews into the CSR could help strengthen the Fund’s macrofinancial surveillance. Similarly, folding the Review of the Policy on Debt Limits in Fund-Supported Programs into the CR and the Review of Policy Support Instrument into the Review of Concessional Facilities would enable a more comprehensive consideration of related issues critical in Fund-supported programs.

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<sup>40</sup> While the Review of the Fund’s Strategy on Overdue Financial Obligations could move to an as needed basis, a Board decision would be required in August 2015 (and periodically thereafter) to extend the Rights Accumulation Program (RAP) and the related gold pledge, which has a sunset clause.



### Merging Reviews

Comprehensive Surveillance Review	}	COMPREHENSIVE SURVEILLANCE REVIEW
FSAP Review		
Review of Mandatory Financial Stability Assessments under FSAP		
Review of Conditionality and Design of Fund-Supported Programs	}	REVIEW OF CONDITIONALITY AND DESIGN OF FUND-SUPPORTED PROGRAMS
Review of the Policy on Debt Limits in Fund-Supported Programs		
Review of Concessional Facilities	}	REVIEW OF CONCESSIONAL FACILITIES
Review of Policy Support Instrument		

**49. Adoption of these proposals would require adopting Board Decisions on extension of policy reviews cycles and on merging the policy reviews, respectively.**

Table 4. Policy Reviews<sup>1/</sup>

	Policy Review	Dept	Frequency	Next	Format	Proposal
	<b>Surveillance</b>					
1	Comprehensive Surveillance Review (CSR)	SPR	Every 5 years	2019	Discussion	No change
2	Surveillance Interim Progress Report	SPR	Every 5 years	2017	Discussion	No change
3	Financial Sector Assessment Program Review (FSAP)	MCM	Every 5 years	2019	Discussion	Incorporate into CSR (#1)
4	Review of Mandatory Financial Stability Assessments under Financial Sector Assessment Program (FSAP)	MCM	Every 5 years	2018	Discussion	Incorporate into CSR (#1)
5	Transparency Policy Review	SPR	Every 5 years	2018	Discussion	5 years or more, as needed
6	Review of the Role of Trade in the Work of the Fund	SPR/XU	Every 5 years	2015	Discussion	5 years or more, as needed
7	Excessive Delays in Completion of Article IV Consultations Review	SPR	Every 3 years	2017	Discussion	5 years or more, as needed
8	Review of Standards and Codes Initiative	SPR and Functional	Every 5 years	2016	Discussion	5 years or more, as needed
9	Review of Fund's Data Standards Initiative	STA	Every 2 years	2014 (delayed)	Discussion	5 years or more, as needed
10	Review of Data Provision to the Fund for Surveillance Purposes	SPR and STA	Every 5 years	2017	Discussion	5 years or more, as needed
	<b>Use of Fund Resources (UFR) Issues</b>					
11	Review of Conditionality and Design of Fund-Supported Programs	SPR	Every 5 years	2017	Discussion	No change
12	Review of the Policy on Public Debt Limits in Fund-Supported	SPR	Every 3 years	2018	Discussion	Incorporate into CR (#11) (after the next review)
13	Review of Fund's Facilities for Low-Income Countries	SPR	Every 5 years, earlier if warranted	2018	Discussion	5 years or more, as needed
14	Review of the Policy Support Instrument (PSI)	FIN/LEG/ SPR	At least every 5 years	2015	Discussion	Incorporate into review of Fund's Facilities for Low-Income Countries (#13)
15	Review of Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), Rapid Financing Instrument (RFI) 2/ 3/	FIN/LEG/ SPR	Every 3 years	2016	Discussion	5 years or more, as needed (after the next review)
16	Review of Access Policy (including Exceptional Access)	FIN/ SPR	Every 5 years	2015	Discussion	5 years or more, as needed
17	Review of Fund's Strategy on Overdue Financial Obligations	FIN/LEG/ SPR	Every 3 years	2015	LOT	5 years or more, as needed
18	Review of Poverty Reduction and Growth Trust (PRGT) Eligibility	SPR	Every 2 years	2015	Discussion	No change (Operational relevance for sustainability of the Trust)
19	Review of PRGT Interest Rates	FIN	Every 2 years	2016	LOT	No change
20	Safeguards Assessment Review	FIN	Every 5 years		Discussion	5 years or more, as needed
21	Debt Sustainability Framework for Low Income Countries	SPR	Every 3 years	2016	Discussion	No change
	<b>Other</b>					
22	General Review of Quotas	FIN/SPR	Every 5 years	2015	Discussion	No change (Required under Articles of Agreement)
23	SDR Valuation Basket and SDR Rate of Interest Review	FIN/SPR	Every 5 years	2016	Discussion	5 years or more, as needed
24	Review of the Fund's Capacity Development Strategy	ICD	Every 5 years	2017	Discussion	No change
25	Review of Bank-Fund Collaboration	SPR/LU	Every 2 years	2012 (delayed)	Discussion	5 years or more, as needed
26	Review of the Effectiveness of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Program	LEG	Every 4 years	2018	Discussion	5 years or more, as needed

1/ A number of policy reviews, such as on charges and maturities, EFFs, lending into arrears, and misreporting are not included in this table, as they are already on an as-needed basis.

2/ Given the major reforms, the Executive Board requested the next review to be conducted within three years of implementation from the date of effectiveness of the new reforms.

3/ Under the current proposal the presumption of an earlier FCL/PLL/RFI policy review in case where the aggregated outstanding credit and commitments under the FCL and PLL reach SDR 150 billion would remain unchanged.

## B. Periodic Reports and Operational Reviews

**50. There is scope to streamline and reduce the frequency of some periodic Fund reports.**

Periodic Fund reports and operational reviews are critical to ensure the Executive Board's monitoring of policy implementation and adjusting operational instruments. At the same time, the frequency of these reports has been reviewed, and in many cases existing cycles have proved to be unnecessary. There is also scope to streamline some reports, without any impact on the reported information. Currently, there are some 14 reports or operational reviews with a frequency ranging from quarterly to annual.

**51. Staff proposes that the Board consider lengthening the periodicity of these reports and streamlining reports where possible.**

In particular, annual reporting would be the general norm for periodic reviews and reports (see Table 5). The paper on Financial Transactions Plan and NAB Resource Mobilization Plan will continue to be produced on a quarterly basis as long as the Fund is reliant on borrowing to finance new commitments. Subsequently it could move to a semi-annual cycle, which would require an amendment to the NAB decision. The review of the Fund's liquidity will remain on a 6-month cycle until the 14<sup>th</sup> review of quotas becomes effective and the Fund is no longer reliant on borrowed resources to finance new commitments, after which it will move to annual review. Furthermore, where there is scope, reports will be streamlined, while maintaining the core messages and information. Safeguards Assessment Update report is proposed to be placed on bi-annual cycle given that the Board already sees a summary of countries' safeguards assessments in related staff reports; and with the proposed abolishment of EPAs, the report on the Incidents for Longer-Term Program Engagement is proposed to be discontinued.

**52. Adoption of this proposal would require adopting Board Decisions changing the periodicity in the reports and reviews.**

**Table 5. Periodic Reports and Operational Reviews**

	Report	Dept	Frequency	Next	Format	Proposal
<b>Surveillance</b>						
1	Key Trends in the Implementation of the Fund's Transparency Policy (every	SPR	Annual	2015	For info	Streamline preparation (automate information collection)
2	Report on Delayed Article IV Consultations	SPR	Quarterly		For info	Annual, for information only
<b>UFR Issues</b>						
3	Reviews of Overdue Financial Obligations to the Fund (by country)	FIN and AD	Mostly 6 months (status dependent)		LOT	Annual and streamline (exception for status changes)
4	Report on the Incidence of Longer-Term Program Engagement	SPR/LU	Annual	2015	For info	Discontinue (Abolish EPAs)
5	Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries 1/	FIN	Every 6 months		LOT	Annual
6	Safeguards Assessment Update	FIN	Annual		For info	Every two years
<b>Other</b>						
7	Annual Report on Exchange Arrangements and Exchange Restrictions	MCM	Annual		Publication	Streamline drastically to focus only on Art. XIV restrictions (required annually under Articles of Agreement)
8	Status of Voluntary SDR Trading Arrangements and SDR Designation Plan	FIN	Quarterly	10/1/2015	LOT	Annual (requires amendment to the rule P-5 of the Rules and Regulations) 2/
9	Financial Transactions Plan and NAB Resource Mobilization Plan	FIN	Quarterly		LOT	Semi-annual frequency, once 14th review of quotas is effective and Fund is no longer reliant on borrowed resources (requires amendment to the rule O-10(a) of the Rules and Regulations)
10	The Fund's Liquidity Position - Review and Outlook	FIN	Every 6 months		For info	Annual frequency, once 14th review of quotas is effective and Fund is no longer reliant on borrowed resources
11	Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations	OIA	Annual		LOT	Streamline
12	Annual Report of the IMF Committee on Balance of Payments Statistics	STA	Annual		For info	Streamline
13	Report on Operations of the Staff Retirement Plan (SRP) and the Retired Staff Benefit Investment Account (RSBIA)	HRD	Annual		For info	No change
14	Report of the Investment Account and Trust Accounts	FIN	Every 6 months		For info	Annual frequency

1/ Update on the Fund's Concessional Assistance to LICs includes the semi-annual reviews of the MDRI Trusts and of the HIPC Initiative. Thus, the proposed change in frequency of the Update would change the frequency of both the HIPC Initiative and of the MDRI-II Trust reviews.

2/ Although Status of Voluntary SDR Trading Arrangement and SDR Designation Plan is issued as a single report only the frequency of the SDR Designation Plan is regulated by the Rule P-5.

## Proposed Decisions

The following decisions are proposed for adoption by the Executive Board, of which Decisions A, B, C, D and E may be adopted by a majority of the votes cast, and Decision F by a 70 percent majority of the total voting power.

### **Decision A. Post Program Monitoring\***

1. The Fund decides to amend the threshold which triggers the expectation of a member's engagement in PPM as follows. The current threshold of 200 percent of quota in outstanding credit to a member from the GRA and the PRGT, or a combination thereof, is hereby abolished. The expectation of PPM engagement will now apply only if outstanding credit to a member from: (i) the GRA exceeds a threshold of 500 percent of quota, or (ii) the PRGT exceeds a threshold of 250 percent of quota, or (iii) a combination of PRGT and GRA resources exceeds a threshold of 250 percent of quota.
2. The Fund further decides to elaborate and clarify the procedures for lapse of time conclusion of PPM discussions.
3. Accordingly, Decision No. 13454-(05/26), adopted March 14, 2005, as amended, on Post-Program Monitoring is revised to read as set forth in the Attachment to this Decision A.
4. The amendments set forth in paragraph 1 above and further in paragraph 1 of the Attachment to this Decision A will come into effect immediately for PPM discussions for which a Policy Consultation

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\* Taking into account views of Executive Directors, this proposed Decision was withdrawn by management.

Note is submitted for departmental review after the date of this Decision A. In cases where a PPM Policy Consultation Note was submitted for departmental review prior to the date of this Decision A but where the relevant PPM discussion has not yet been concluded by the Board, such amendments will become applicable upon the earlier of the conclusion of the last PPM discussion by the Board or July 31, 2015.

### **Decision B. Lapse of Time Procedures for Completion of Program Reviews\***

The Fund decides to permit the completion of program reviews involving exceptional access on lapse of time basis. Reviews under an FCL or a PLL arrangement will not be eligible for completion on lapse of time basis. Accordingly, paragraph 2 of the Attachment A to the Decision A-13207, adopted August 28, 2009, as amended, is revised to read as set forth in the Attachment to this Decision B.

### **Decision C. Ex Post Assessments**

The Fund decides to repeal the policy on Ex Post Assessments (EPA) set forth in BUFF/03/51 of April 8, 2003; BUFF/06/95 of May 17, 2006; and Decision C of DEC/A/13207 of August 28, 2009. The repeal of the policy on EPA is immediately effective except in cases where an EPA report has been

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\* Taking into account views of Executive Directors, this proposed Decision was withdrawn by management.

already prepared by staff and submitted to management. In such cases the provisions of the EPA policy will continue to apply through December 31, 2015.

#### **Decision D. Policy Review Cycles**

The review of the policies described in Table 4 of SM/15/81 shall take place as specified therein and Table 4 shall be considered an attachment to this Decision D. To implement these modifications, relevant Executive Board decisions are hereby amended accordingly.

#### **Decision E. Periodicity of Fund's Periodic Reports and Operational Reviews**

The Fund decides to change the frequency of the Fund's Periodic Reports and Operational Reviews as described below.

1. The issuance of the following periodic reports and operational reviews is hereby moved to an annual frequency:

- Quarterly Reports on Delayed Article IV Consultations;
- Reviews of Overdue Financial Obligations to the Fund;
- Update on the Fund's Concessional Assistance to Low-Income Countries;
- Status of Voluntary SDR Trading Arrangements and SDR Designation Plan;

2. The issuance of the Safeguards Assessment Update report is hereby moved to a bi-annual frequency.

3. To implement these modifications, relevant Executive Board decisions are hereby amended accordingly. To implement the modification in the periodicity of the review of the SDR Designation Plan, Rule P-5 of the Fund's Rules and Regulations is amended to read, effective October 1, 2015, as set forth in the Attachment to this Decision E.

#### **Decision F. Periodicity of Fund's Report of the Investment Account and Trust Accounts**

1. The Fund decides to change the frequency of the Report of the Investment Account and Trust Accounts to an annual frequency.

2. To implement this modification, Paragraph 9 of the Fund's Rules and Regulations for the Investment Account shall be amended to read as set forth in the Attachment to this Decision F.



## **Attachment to Decision A\***

### **Post-Program Monitoring**

1. If outstanding credit to a member from (i) the Fund's General Resources Account (GRA) exceeds a threshold of 500 percent of quota, or (ii) the Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) exceeds a threshold of 250 percent of quota, or (iii) a combination of PRGT and GRA resources exceeds a threshold of 250 percent of quota, and the member does not have a program supported by a Fund arrangement or is not implementing a staff monitored program with reports issued to the Executive Board, or the member does not have a program supported by a Policy Support Instrument ("PSI"), the member will be expected to engage in Post-Program Monitoring (PPM) with the Fund of its economic developments and policies upon the recommendation of the Managing Director. Where the above criteria are met, the Managing Director shall recommend PPM to the Executive Board, unless, in the view of the Managing Director, the member's circumstances (in particular, the strength of the member's policies, its external position, or the fact that a successor arrangement or a staff monitored program is expected to be in place within the next six months) are such that the process is unwarranted. PPM will normally cease when the member's outstanding credit falls below the threshold of 500 percent of quota or 250 percent of quota, as applicable.

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\* Taking into account views of Executive Directors, this proposed Decision was withdrawn by management.

2. The Managing Director may also propose PPM to the Executive Board in cases where outstanding credit as defined above is below the applicable thresholds if, in the view of the Managing Director, there are developments that suggest the need of such a process, particularly, where developments call into question the member's progress toward external viability.

3. For members subject to PPM, there will normally be two PPM Board discussions in a twelve-month period. One such discussion will normally coincide with the Article IV consultation. The member will be expected to engage in discussions with staff on its policies, which shall include a quantified macroeconomic framework. The staff will report to the Executive Board on the member's policies, the consistency of the macroeconomic framework with the objective of medium-term viability, and the implications for the member's capacity to repay the Fund.

4. The Managing Director with the approval of the Executive Director for the member concerned, or the Executive Director for the member concerned, may propose to conclude PPM discussion on a lapse of time basis in accordance with the procedures set forth herein.

5. **Eligibility:** (a) Subject to 5(b) below, the lapse of time procedure for PPM discussion will be presumed where the following conditions apply: (i) there are no acute or significant risks, or general

policy issues requiring Board discussion, and (ii) policies or circumstances are unlikely to have a significant regional or global impact in the near term.

(b) The lapse of time procedure for a PPM discussion will not be proposed (i) for the first PPM discussion following the start of the PPM with a member, or (ii) where the previous PPM discussion was concluded on a lapse of time basis.

**6. Procedures for Proposing Lapse of Time for Post-Program Monitoring discussions** (a) *By the Managing Director:* On the basis of the eligibility criteria set forth in paragraph 5 above, a judgment would be made by the Managing Director on whether a country meets the eligibility criteria. If the criteria are met, the Managing Director, with the approval of the Executive Director for the member concerned, would propose the PPM discussion for lapse of time consideration at the time the staff paper is circulated to the Executive Board. The cover memorandum for the circulated staff paper will: (i) include a deadline for Executive Directors to object to a proposal by the Managing Director for lapse of time consideration that is consistent with paragraph 7 below; (ii) specify the date upon which the PPM discussion will be considered concluded and the decision, if any, associated with the PPM will become effective, if no objection to the proposal for lapse of time is received; (iii) specify a reserved date, consistent with minimum circulation periods for PPM papers, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and

(iv) explain the reasons why lapse of time consideration is warranted. Should the Managing Director judge that a member meets the lapse of time criteria, but the Executive Director for the member concerned does not approve, the cover memorandum circulating the staff paper would include a notation to this effect.

(b) *By the Executive Director for the Member Concerned:* On the basis of the eligibility criteria set forth in paragraph 5 above, the Executive Director for the member concerned may propose the PPM discussion for lapse of time consideration no more than two business days after the issuance of the staff paper to the Executive Board, and preferably, as soon as possible after the circulation of the staff paper. The Executive Director's notification will: (i) include a deadline for Executive Directors to object to the proposal by the Executive Director for the member concerned for lapse of time consideration that is consistent with paragraph 7 below; (ii) specify the date upon which the PPM discussion will be considered concluded and the decision, if any, associated with the PPM will become effective, if no objection to the proposal for lapse of time is received; (iii) specify a reserved date, consistent with minimum circulation periods for PPM papers, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and (iv) explain the reasons why lapse of time conclusion is warranted.

7. **Objections:** An Executive Director may object to a proposal for lapse of time consideration up to two business days before the end of the lapse of time period. A Director need not announce the reasons for an objection, but would be expected to inform the Executive Director for the member concerned of those reasons.

8. **Effective Date:** If no objection is received to a proposal for lapse of time PPM discussion during the period in which such objections may be made, the PPM discussion will be considered concluded and the decision, if any, associated with the PPM will become effective on the date of effectiveness stated in the cover note described in paragraph 6 above.

9. The Executive Board's discussion of a PPM paper will be reflected in a press release. The publication of the press release will follow the normal press release procedure, including the requirement of the member's consent.

**Attachment to Decision B\*****Lapse of Time Procedures for Completion of Program Reviews**

2. **Eligibility:** Completion of a program review on a lapse of time basis will be presumed where all of the following conditions apply: (i) the relevant review is not a review under an FCL or a PLL arrangement; (ii) the most recent program review under the relevant arrangement was not concluded on a lapse of time basis; (iii) the relevant review is to be completed under an ECF or an SCF arrangement and does not take place immediately after the completion of an ad-hoc review under an ECF or SCF arrangement pursuant to Section II, paragraph 2(h) of the PRGT Instrument; (iv) the review to be completed does not raise general policy issues requiring Board discussion; (v) all prior actions for the review have been met; (vi) the review does not introduce major changes in the objectives or design of the program, including but not limited to, major changes in conditionality for future reviews, the combination of future reviews envisaged under the arrangement, the rephrasing of disbursements, or an augmentation of access other than an augmentation of access not exceeding 25 percent of a member quota approved pursuant to Section II, paragraph 2(h) of the PRGT Instrument; and (vii) performance under the member's program does not raise concerns as to whether the review should be completed, in particular as a result of deviations, other than minor deviations, from the quantitative performance criteria and structural benchmarks. Where these

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\* Taking into account views of Executive Directors, this proposed Decision was withdrawn by management.

conditions are not met, a program review would not be eligible for completion on a lapse of time basis.

### **Attachment to Decision E**

#### **SDR Designation Plan: Amendment to Rule P-5 of the Fund's Rules and Regulations**

At annual intervals the Executive Board shall decide, in accordance with Article XIX, Section 5, and Decision No 11976-99/59)S, on the plan, including amounts, by which designations will be made until the next decision takes effect.

On the request of any participant, an Executive Director, or the Managing Director, the Executive Board shall review, and if necessary amend, any plan adopted pursuant to this Rule.

### **Attachment to Decision F**

#### **Fund's Report of the Investment Account and Trust Accounts: Amendment to the Fund's Rules and Regulations for the Investment Account**

9. The Managing Director shall provide annual reports to the Executive Board on the investment activities of the IA. Ad hoc reports shall be prepared as warranted by market or other developments.

## Attachment to Decision A\*

### Post-Program Monitoring

1. If outstanding credit to a member from ~~the Fund's General Resources Account (GRA) or from the Fund as Trustee of the Poverty Reduction and Growth Facility Trust (PRGF Trust), or a combination thereof, exceeds a threshold of 200 percent of quota, (i) the Fund's General Resources Account (GRA) exceeds a threshold of 500 percent of quota, or (ii) the Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) exceeds a threshold of 250 percent of quota, or (iii) a combination of PRGT and GRA resources exceeds a threshold of 250 percent of quota,~~ and the member does not have a program supported by a Fund arrangement or is not implementing a staff monitored program with reports issued to the Executive Board, ~~or~~ the member does not have a program supported by a Policy Support Instrument ("PSI"), the member will be expected to engage in Post-Program Monitoring (PPM) with the Fund of its economic developments and policies upon the recommendation of the Managing Director. Where the above criteria are met, the Managing Director shall recommend PPM to the ~~Executive Board,~~ unless, in the view of the Managing Director, the member's circumstances (in particular, the strength of the member's policies, its external position, or the fact that a successor arrangement or a staff monitored program is expected to be in place within the next six months) are such that the process is unwarranted. PPM will

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\* Taking into account views of Executive Directors, this proposed Decision was withdrawn by management.



normally cease when the member's outstanding credit falls below the threshold of ~~200~~ 500 percent of quota or 250 percent of quota, as applicable.

2. The Managing Director may also propose PPM to the Executive Board in cases where outstanding credit as defined above is below the ~~above-specified~~ applicable thresholds if, in the view of the Managing Director, there are developments that suggest the need of such a process, particularly, where developments call into question the member's progress toward external viability.

3. For members subject to PPM, there will normally be two PPM Board discussions in a twelve-month period. One such discussion will normally coincide with the Article IV consultation. The member will be expected to engage in discussions with staff on its policies, which shall include a quantified macroeconomic framework. The staff will report to the Executive Board on the member's policies, the consistency of the macroeconomic framework with the objective of medium-term viability, and the implications for the member's capacity to repay the Fund.

4. The Managing Director with the approval of the Executive Director for the member concerned, or the Executive Director for the member concerned, may propose to conclude PPM discussion on a lapse of time basis in accordance with the procedures set forth herein.

5. **Eligibility:** (a) Subject to 5(b) below, the lapse of time procedure for PPM discussion will be presumed where the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion, and (ii) policies or circumstances are unlikely to have a significant regional or global impact in the near term.

(b) The lapse of time procedure for a PPM discussion will not be proposed (i) for the first PPM discussion following the start of the PPM with a member, or (ii) where the previous PPM discussion was concluded on a lapse of time basis.

6. **Procedures for Proposing Lapse of Time for Post-Program Monitoring discussions** (a) *By the Managing Director:* On the basis of the eligibility criteria set forth in paragraph 5 above, a judgment would be made by the Managing Director on whether a country meets the eligibility criteria. If the criteria are met, the Managing Director, with the approval of the Executive Director for the member concerned, would propose the PPM discussion for lapse of time consideration at the time the staff paper is circulated to the Executive Board. The cover memorandum for the circulated staff paper will: (i) include a deadline for Executive Directors to object to a proposal by the Managing Director for lapse of time consideration that is consistent with paragraph 7 below; (ii) specify the date upon which the PPM discussion will be considered concluded and the decision, if any, associated with the PPM will become effective, if no objection to the proposal for lapse of time

is received; (iii) specify a reserved date, consistent with minimum circulation periods for PPM papers, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and (iv) explain the reasons why lapse of time consideration is warranted. Should the Managing Director judge that a member meets the lapse of time criteria, but the Executive Director for the member concerned does not approve, the cover memorandum circulating the staff paper would include a notation to this effect.

(b) By the Executive Director for the Member Concerned: On the basis of the eligibility criteria set forth in paragraph 5 above, the Executive Director for the member concerned may propose the PPM discussion for lapse of time consideration no more than two business days after the issuance of the staff paper to the Executive Board, and preferably, as soon as possible after the circulation of the staff paper. The Executive Director's notification will: (i) include a deadline for Executive Directors to object to the proposal by the Executive Director for the member concerned for lapse of time consideration that is consistent with paragraph 7 below; (ii) specify the date upon which the PPM discussion will be considered concluded and the decision, if any, associated with the PPM will become effective, if no objection to the proposal for lapse of time is received; (iii) specify a reserved date, consistent with minimum circulation periods for PPM papers, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and (iv) explain the reasons why lapse of time conclusion is warranted.

7. **Objections:** An Executive Director may object to a proposal for lapse of time consideration up to two business days before the end of the lapse of time period. A Director need not announce the reasons for an objection, but would be expected to inform the Executive Director for the member concerned of those reasons.

8. **Effective Date:** If no objection is received to a proposal for lapse of time PPM discussion during the period in which such objections may be made, the PPM discussion will be considered concluded and the decision, if any, associated with the PPM will become effective on the date of effectiveness stated in the cover note described in paragraph 6 above.

9. The Executive Board's discussion of a PPM paper will be reflected in a ~~Public Information Notice (PIN)~~ The publication of the ~~PIN~~ press release will follow the normal ~~PIN~~ press release procedure, including the requirement of the member's consent.

**Attachment to Decision B\*****Lapse of Time Procedures for Completion of Program Reviews**

2. **Eligibility:** Completion of a program review on a lapse of time basis will be presumed where all of the following conditions apply: (i) ~~the relevant arrangement does not involve exceptional access~~ the relevant review is not a review under an FCL or a PLL arrangement; (ii) the most recent program review under the relevant arrangement was not concluded on a lapse of time basis; (iii) the relevant review is to be completed under an ECF or an SCF arrangement and does not take place immediately after the completion of an ad-hoc review under an ECF or SCF arrangement pursuant to Section II, paragraph 2(h) of the PRGT Instrument; (iv) the review to be completed does not raise general policy issues requiring Board discussion; (v) all prior actions for the review have been met; (vi) the review does not introduce major changes in the objectives or design of the program, including but not limited to, major changes in conditionality for future reviews, the combination of future reviews envisaged under the arrangement, the rephrasing of disbursements, or an augmentation of access other than an augmentation of access not exceeding 25 percent of a member quota approved pursuant to Section II, paragraph 2(h) of the PRGT Instrument; and (vii) performance under the member's program does not raise concerns as to whether the review should be completed, in particular as a result of deviations, other than minor deviations, from the

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\* Taking into account views of Executive Directors, this proposed Decision was withdrawn by management.

quantitative performance criteria and structural benchmarks. Where these conditions are not met, a program review would not be eligible for completion on a lapse of time basis.

### **Attachment to Decision E**

#### **SDR Designation Plan: Amendment to Rule P-5 of the Fund's Rules and Regulations**

At ~~quarterly~~ annual intervals the Executive Board shall decide, in accordance with Article XIX, Section 5, and Decision No 11976-99/59)S, on the plan, including amounts, by which designations will be made until the next decision takes effect.

On the request of any participant, an Executive Director, or the Managing Director, the Executive Board shall review, and if necessary amend, any plan adopted pursuant to this Rule.

### **Attachment to Decision F**

#### **Fund's Report of the Investment Account and Trust Accounts: Amendment to the Fund's Rules and Regulations for the Investment Account**

9. The Managing Director shall provide annual reports to the Executive Board on the investment activities of the IA. Ad hoc reports shall be prepared as warranted by market or other developments.

## Annex I. Formal Requirements in Article IV Staff Reports<sup>1</sup>

**Article IV consultations (and staff reports) should always have the following elements** (those marked with an asterisk can be included in the informational annexes):

- Coverage of recent developments and policies—economic and financial but also political and social where applicable.<sup>2</sup>
- A clear and candid assessment of the short- to medium-term outlook and the external position. Staff should produce a baseline projection, along with an analysis of risks, vulnerabilities and spillovers to support crisis prevention and mitigation (see Section III for more details). Analysis should be informed by, and be consistent with, a multilateral framework that incorporates relevant aspects of the global economic and financial environment, including exchange rates, international capital market conditions, and key linkages among members.
- A substantive and candid policy discussion. This should build on the staff analysis, reflecting the views of staff and the authorities. Discussion should cover policies that affect a country's own stability and those that may significantly impact on global stability. The authorities' views should be clearly outlined.
- Concrete and actionable recommendations. Staff analysis and policy recommendations should be summarized in a pointed staff appraisal.
- A classification of data adequacy for surveillance, as per the Guidance Note on Data Provision to the Fund for Surveillance Purposes, into adequate (A), broadly adequate (B), or significantly hampering surveillance (C) (see paragraph 51 of the Guidance Note for Surveillance under Article IV Consultations for case C countries). If adequacy is considered (C), this should be discussed in the main text of the staff report.\*
- A Statistical Issues Appendix and Table of Common Indicators Required for Surveillance (see the Guidance Note on Data Provision to the Fund for Surveillance Purposes, section II.D and attachments I and II).
- A brief assessment of the authorities' response to the policy recommendations on the key issues raised in previous Article IV consultations, highlighting changes in staff advice and acknowledging, where relevant, if the authorities have successfully implemented policies that differed from staff advice.
- An accurate description of the de facto exchange rate regime, according to the following categories: no separate legal tender, currency board, conventional peg, stabilized arrangement,

<sup>1</sup> Streamlined Article IV consultations can exclude requirements that are underlined.

<sup>2</sup> The Fund (and the staff reports) may not —advocate or promote, or pass judgment on the merits, of any political system, but may take into account a member's political situation to judge the member's capacity to formulate and implement economic policies.

crawling peg, crawl-like arrangement, pegged exchange rate within horizontal bands, other managed arrangement, floating, and freely floating.\*

- A reference to the proposed consultation cycle.
- A reference to Article VIII and XIV status (see paragraph 73 of the Guidance Note for Surveillance under Article IV Consultations).
- Fund Relations Appendix, Bank-Fund Collaboration Appendix of the Guidance Note for Surveillance under Article IV Consultations.\*
- Staff reports for PRGT-eligible countries should include a table on the Sustainable Development Goals.
- The background section of the Press Release.
- The following macroframework tables: SEI, BOP with medium-term projections, financial soundness indicators.



## Annex II. Article IV and UFR LOT Eligibility Requirements

Article IV Consultations	Use of Fund Resources reviews (revised)	Post-Program Monitoring (new)
<p>An Article IV consultation <b>would be proposed</b> for consideration on an LOT basis where all of the following conditions apply:</p> <ol style="list-style-type: none"> <li>1. There are no acute or significant risks, or general policy issues requiring Board discussion;</li> <li>2. Policies or circumstances are unlikely to have significant regional or global impact in the near term;</li> <li>3. In the event a parallel program review is being completed, it is also being completed on a LOT basis; and</li> <li>4. The use of Fund resources is not under discussion or anticipated.</li> </ol> <p>Additionally, LOT procedures for an Article IV consultation will <b>not</b> be proposed where:</p> <ol style="list-style-type: none"> <li>1. The last Article IV consultation was concluded on a LOT basis;</li> <li>2. More than 24 months has elapsed since Board discussion of an Article IV consultation; or</li> <li>3. The member country is on a 24-month consultation cycle and has not been considered by the Executive Board under a program review in the preceding twelve months.</li> </ol>	<p>Completion of a program review on a LOT basis <b>will be presumed</b> where all of the following conditions apply:</p> <ol style="list-style-type: none"> <li>1. The relevant review is not be competed under an FCL or a PLL arrangement;</li> <li>2. The most recent program review under the relevant arrangement was not concluded on a LOT basis;</li> <li>3. The relevant review is to be completed under an ECF or an SCF arrangement and does not take place immediately after the completion of an ad-hoc review under an ECF or SCF arrangement pursuant to Section II, paragraph 2(h) of the PRGT Instrument;</li> <li>4. The review to be completed does not raise general policy issues requiring Board discussion;</li> <li>5. All prior actions for the review have been met;</li> <li>6. The review does not introduce <i>major</i> changes in the objectives or design of the program, including but not limited to, <i>major</i> changes in conditionality for future reviews, the combination of future reviews envisaged under the arrangement, the rephrasing of disbursements, or an augmentation of access other than an augmentation of access not exceeding 25 percent of a member quota approved pursuant to Section II, paragraph 2(h) of the PRGT Instrument; and</li> <li>6. Performance under the member's program does not raise concerns as to whether the review should be completed, in particular as a result of deviations, other than <i>minor</i> deviations, from the quantitative performance criteria and structural benchmarks.</li> </ol>	<p>Conclusion of a PPM on a LOT basis <b>will be presumed</b> where all of the following conditions apply:</p> <ol style="list-style-type: none"> <li>1. There are no acute or significant risks, or general policy issues requiring Board discussion;</li> <li>2. Policies or circumstances are unlikely to have significant regional or global impact in the near term;</li> <li>3. At least one PPM discussion has already taken place since the initiation of the PPM; and</li> <li>4. The previous PPM discussion was not concluded on an LOT basis.</li> </ol>