INTERNATIONAL MONETARY FUND

# FY2014–FY2016 MEDIUM-TERM BUDGET

March 28, 2013

## EXECUTIVE SUMMARY

*The proposed FY 14–16 Medium-Term Budget was formulated within the Fund's strengthened strategic planning framework and seeks to align the allocation of resources to the delivery of institutional priorities. Despite the additional resources that have been provided to meet crisis demands, crisis related work and overall work pressures remain elevated. At the same time, available resources are not being fully utilized. Therefore, the budget strategy—instead of asking for further additional resources—is geared toward making more efficient use of existing resources to reduce work pressures and meet new demands.*

Within a ***net administrative budget*** that is unchanged in real terms from FY 13, the proposed FY 14 budget increases resources to meet four institutional priorities:

(i) Some rebalancing from frontline operations to support, especially to IT and HR;
(ii) Increasing functional departments' support to country-based activities;
(iii) Strengthening support for transition and reform in the MENA region; and
(iv) Reducing work pressures.

New demands amount to $34 million in FY 13 dollars and would be accommodated through:

(i) Streamlining and reallocation measures ($12 million);
(ii) Central carry-forward of unspent FY 13 resources ($5 million);
(iii) Savings from rebasing a number of central costs ($12 million); and
(iv) Reduction of the central contingency to a more normal level of 1 percent of the budget ($5 million).

Despite the flat real budget envelope, the proposed budget would provide for a significant increase in personnel resources. Some 40 staff positions would be added, also for targeted reduction in overtime. Additional flexibility in hiring will provide more personnel resources to departments through a reduction of frictional vacancy rates.

After a further increase in external receipts in FY 14, ***budgeted gross expenditures***—which comprise the net administrative budget and spending funded by donors and the Fund's own revenue—are expected to level off.

The level of the proposed FY 14 ***capital budget*** is broadly unchanged from FY 13 (excluding HQ1 renovation), but altered in composition, with a smaller IT component making room for upgraded Audio Visual investments.

Approved By
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# STRATEGIC DIRECTIONS AND THE BUDGET

**1. The FY 14–16 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 updated strategic directions have been set out in the Managing Director's Global Policy Agenda (GPA).[1] The GPA identifies actions needed to address the current crisis, build a strong foundation for sustainable growth, and secure the Fund's continued relevance for its entire membership. Its main elements are as follows:

- ***Securing the recovery***, by working across the membership, through policy advice, analysis, and support, drawing on the Fund's revamped lending and surveillance toolkit. Particular emphasis for the coming years has been placed on assisting the Arab countries in their historic transition, through financing, policy advice, and capacity building.

- ***Anchoring the future***, through the implementation of the Financial Sector Surveillance Strategy to strengthen financial systems; the development of fiscal policy options for highly indebted countries to achieve medium-term fiscal objectives; and the promotion of jobs and growth through appropriately balanced adjustment strategies. Other priorities are the analysis of global imbalances, spillovers, and multilateral consistency of national policies, including by using the External Sector Report and implementing the Integrated Surveillance Decision.

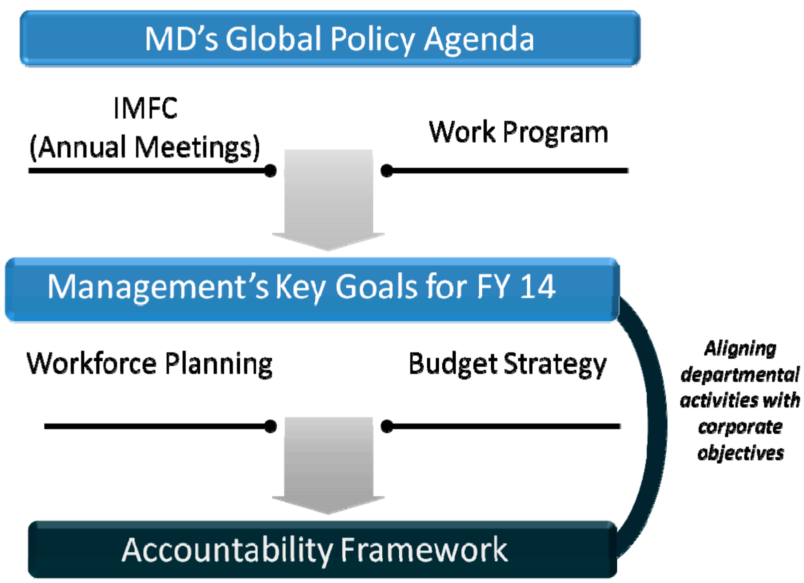
- ***Addressing the governance deficit***, by working with the membership to ensure the expeditious implementation of the 2010 quota and governance reform; completing in a timely manner the 15$^{th}$ General Review of Quotas; and promoting diversity of staff to enhance the Fund's legitimacy.

**2. The budget proposal was further shaped by Management's Key Goals introduced for the FY 14 planning cycle which helped align departmental objectives with broader institutional objectives.** The goals were grouped under three broad areas linked to the GPA: *Responding to the state of the world economy, Improving outputs,* and *Governance and resources* (Figure 1). To ensure appropriate support for the attainment of policy and operational objectives, a further set of goals was linked to *Internal operations,* including related to IT and HR support. An overarching objective of the FY 14 budget process was to address persistently high work pressures.

[1] *Managing Director's Global Policy Agenda* (10/13/12), http://www.imf.org/external/np/pp/eng/2012/101312.pdf.

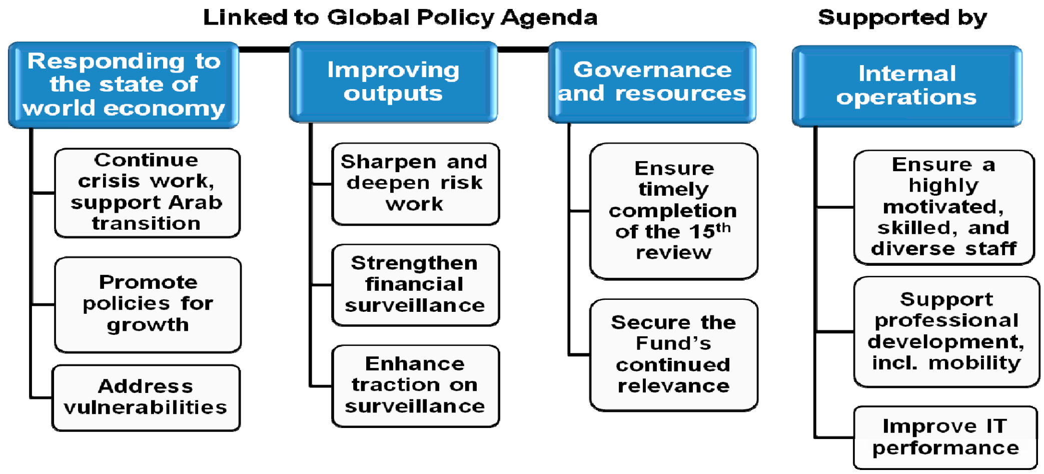
### Box 1. Strategic Planning Process

- The annual planning cycle starts with the elaboration of management's strategic priorities in the context of the Global Policy Agenda (GPA). Following general endorsement by the IMFC, the GPA is embodied in the Executive Board's Work Program. Drawing on the GPA, management then translates institutional objectives into key goals for the coming financial year.
- The next phase of the planning process is centered on the Accountability Framework, which provides for regular and structured discussions between heads of departments and management on key departmental objectives, including on budget and HR priorities. In this context, management's key goals help align departmental objectives with broader institutional objectives. Workforce planning is also grounded within the strategic planning framework and helps inform budget strategy.
- Budget formulation flows from this strategic planning framework, with the overall envelope and resource allocation set to ensure the delivery of the institution's priorities, thereby aligning resources and strategies.




- Within the Accountability Framework, management holds semi-annual discussions with each head of department 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 addition to promoting more effective management of budgets and people, this process helps "break down silos" by specifying joint objectives for departments.

**Figure 1. Management's Key Goals for FY 14**




**3. Against this background, strategic discussions in the context of the Accountability Framework revealed four broad institution-wide themes:**

- ***A partial rebalancing from frontline operations to support*** (especially IT and HR). Some support activities had been negatively affected by significant cutbacks in resources in the last few years. Staff would benefit from additional resources for IT support and maintenance to ensure a more reliable and secure IT environment. Additional resources in the HR area could help address some recent sources of staff dissatisfaction, such as those related to lack of opportunities for career development and HR service delivery.

- ***Increasing functional departments' support to country-based activities.*** In particular, additional resources for financial and fiscal expertise would allow the Fund to be more responsive to members' needs and support bilateral surveillance and program work.

- ***Strengthening support for transition and reform in the Middle East and North Africa (MENA) region.*** Increased resources provided to the Middle East and Central Asia Department (MCD) and functional departments would allow them to scale up their assistance to the countries facing formidable challenges during this historic transformation.

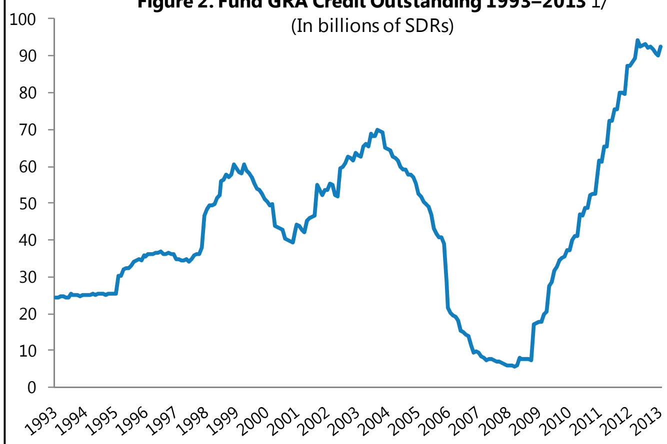
- ***Reducing work pressures.*** A significant reduction in work pressures will be targeted through a combination of additional resources allocated to areas with highest work pressures, streamlining of work, and measures to reduce frictional vacancies.

# SETTING THE CONTEXT FOR THE PROPOSED BUDGET

*With income surpluses being used to build reserves, setting the size of the medium-term budget requires weighing the resource needs implied by new demands and elevated work pressures against the resources freed up by more effective utilization of the current budget.*

**4. The net income position is projected to continue to be strong over the medium term.** Fund credit outstanding remains near its all-time high (Figure 2). Supported by high lending income, the pace of accumulation of precautionary balances is expected to remain strong. The illustrative long-term outlook, which assumes a sharp decline in lending income as well as continuation of the current level of the structural net administrative budget, points to a broadly balanced net income position (see the background paper for more information on the income and expenditure outlook).[2]

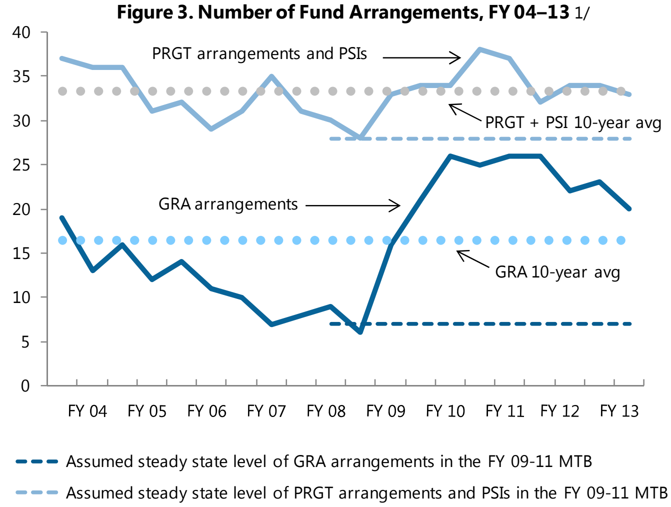
**Figure 2. Fund GRA Credit Outstanding 1993–2013** 1/
(In billions of SDRs)




Source: Finance Department.
1/ Last observation as of Jan. 2013.

**5. The Fund continues to play an active role in securing the recovery from the crisis and responding to its members' diverse and evolving needs.** The number of Fund arrangements has declined since the peak levels of FY 10–11, but nonetheless remains elevated relative to the 10-year average, and well above the level assumed when setting the budget baseline at the time of the restructuring (Figure 3).[3] The Fund remains heavily engaged with the euro area crisis, supporting member countries in putting in place policies to address near- and longer-term challenges. As noted above, the Fund also has become increasingly involved in supporting several

**Figure 3. Number of Fund Arrangements, FY 04–13** 1/




1/ Last observation as of February 9, 2013.

[2] *The Consolidated Medium-Term Income and Expenditure Framework*.

[3] The Flexible Credit Line (FCL) and other GRA lending instruments for financing on a precautionary basis have played an important role during the crisis. At the moment, more than a third of the GRA arrangements in place are treated as precautionary by the authorities.

Arab countries in their historic transition. More broadly, bilateral and multilateral surveillance needs remain intensive. The Integrated Surveillance Decision is being implemented with special emphasis on making spillovers an integral component of bilateral and multilateral surveillance, with sharpened focus on risk. In short, the Fund faces considerable ongoing and new demands as it seeks to deliver on its mandate.

**6. The short-run global economic and financial outlook has improved, but the recovery remains fragile, and medium- and long-term risks are still elevated.** Policy actions have lowered acute crisis risks in the euro area and the United States. If crisis risks do not materialize and financial conditions continue to improve, global growth could be stronger than projected. However, downside risks remain significant if required follow-up to crisis policies lag. Also, new risks may be emerging for the medium term because of prolonged low interest rates potentially leading to mis-pricing of risks and possible asset bubbles.

**7. Work pressures remain high, despite the continuation of additional crisis budget resources and an increase in personnel resources.** Rates of overtime increased with the onset of the financial crisis and have remained elevated, despite the significant staff and contractual resource increase in recent years. The latest available data point to a further increase in overtime in FY 13 (Box 2). The incidence of overtime is uneven, both across and within departments. Recognizing that persistently high overtime levels—including some pockets of extreme work pressures—are a major source of stress among staff, reducing work pressures is one of management's key objectives in the FY 14–16 MTB.

**8. Despite the high workload, available resources are not being fully utilized, as evidenced by a projected shortfall in spending relative to the budget.** The projected expenditure outturn for FY 13 relative to the net administrative budget point to an under spend of about $47 million (Annex I). This is due to a persistent (though significantly reduced) vacancy rate, the unused contingency reserve, and lower-than-expected costs across a range of expenditure items reflecting price and/or volume effects. Given that expenditures cannot exceed the Board-approved ceilings and unexpected demand can occur at any time during the financial year, some shortfall in spending is inevitable. That said, a 4–5 percent under spend seems excessive and implies scope to make better use of the budget by reallocating resources to areas where they are most needed.

## Box 2. Professional Staff Overtime

**Work pressures have not abated in FY 13.** Overtime (OT) for professional staff is imperfectly measured and subject to both under- or over-reporting. Bearing in mind these caveats, measured overtime remains elevated, despite an increase in the number of staff. Professional staff ("unpaid") OT was 15.7 percent in the first three quarters of FY 13, up from 15.1 percent in FY 12 (Chart 1). The share of total OT expressed in Full-Time Equivalents (FTE) in total budgeted FTEs has increased despite a lower vacancy rate than in recent years.

**Crisis departments continue to report particularly high OT rates.** In FY 13 to date, the average OT in departments most involved with crisis work (EUR, EXR, FAD, LEG, MCM, and SPR) was 19.7 percent, against 13.2 percent in other departments. A significantly higher average OT rate is attached to work away from office (30 percent, Chart 2).

**The distribution of OT is skewed toward a small group of individuals** (Chart 3). The OT rate of the top 10 percent of staff with the highest OT rate was 32 percent in FY 13 to date, almost double the Fund average. The OT rate of the top 20 percent reporters was 29 percent.

**Sources of OT are multiple and detecting all underlying drivers is difficult.** In addition to excessive workload, other factors that can contribute to OT include uneven management of workload and competition for limited promotions.

**Chart 1. Evolution of OT, FY 09–13**
(In percent of regular hours, A09-B05 staff)

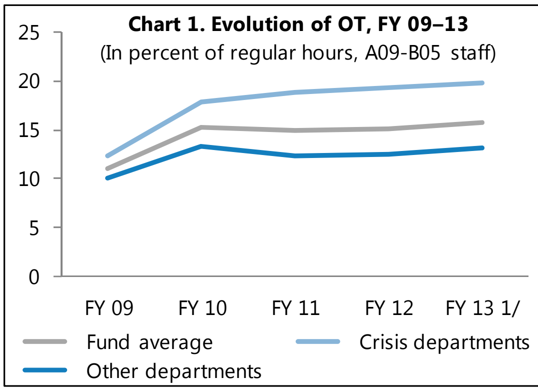



**Chart 2. OT Rates Duty Station, FY 13** 1/
(In percent of regular hours, A09-B05 staff)

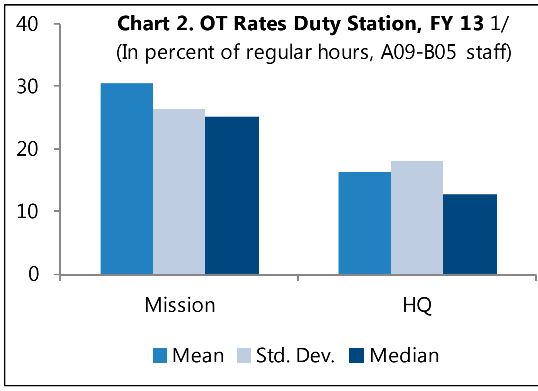
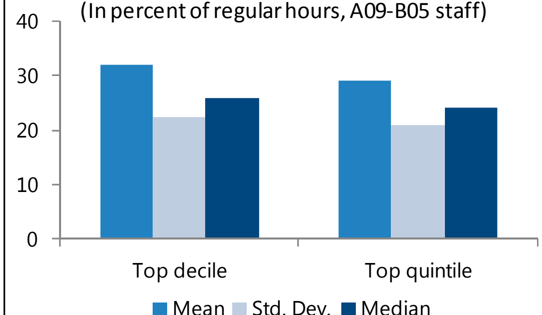



**Chart 3. OT Rates of Top Reporters, FY 13** 1/
(In percent of regular hours, A09-B05 staff)




Source: TRACES.
1/ FY 13 data for the first nine months.

**9. Taking all these factors together, the strategy of a flat net administrative budget envelope in real terms remains appropriate.** Despite the additional resources that have been provided to meet crisis demands, crisis-related work and overall work pressures remain elevated. At the same time, available resources are not being fully utilized. Therefore, the budget strategy—instead of asking for further additional resources—is geared toward making more efficient use of existing resources to reduce work pressures and meet new demands, while maintaining an unchanged real net budget envelope for FY 14.[4]

# ADMINISTRATIVE BUDGET

## A. Proposed Budget Envelope

**10. The Global External Deflator is used to translate the proposed flat real budget into nominal terms** (Table 1). The proposed nominal net budget envelope, which takes into account a 1.5 percent structure increase in staff salaries for FY 14, is shown in Table 2.[5] The FY 14–16 MTB maintains unchanged funding for crisis-related needs in FY 14 and FY 15, and as a placeholder assumes a decline in crisis spending in FY 16 by 25 percent (Box 3). These assumptions will be updated when a thorough reassessment of crisis-related spending takes place during the course of the coming financial year.

**Table 1. Global External Deflator, FY 14–16**
(percentage change)

| | FY 14 | FY 15 | FY 16 |
|---|---|---|---|
| Global External Deflator | 1.6 | 1.6 | 1.6 |
| Personnel Component (70 percent) | 1.5 | 1.5 | 1.5 |
| Non-Personnel Component (30 percent) | 1.8 | 1.8 | 1.9 |

Source: Office of Budget and Planning.

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

[4] Excluding travel allocation for 2012 Annual Meetings in Tokyo.

[5] The increase in the FY 14 salary structure is determined consistent with the Fund's rules-based compensation system on the basis of published indices of salary movements in the U.S. public sector (0 percent change in 2013) and private sector (the WorldatWork Salary Budget Survey which forecasts a 3.0 percent change in 2013). The two components have equal weight in the indexation formula, yielding an overall increase of 1.5 percent in the Fund's FY 14 salary structure.

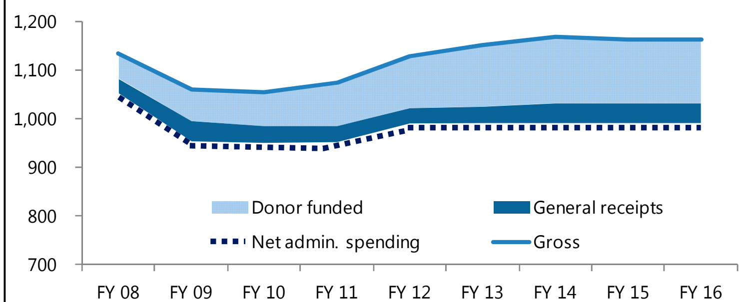
**11. Gross expenditures are expected to level off from FY 14 onwards** (Figure 4 and Annex II). A number of factors will contribute to increasing donor-financed activities in FY 14, including the opening of a new Regional Technical Assistance Center (RTAC) and a Regional Training Center (RTC) in Africa, and the implementation of projects scheduled for FY 13 that will be rolled into FY 14. In FY 15 and FY 16, externally-financed activities currently agreed with donors are projected to remain broadly stable, although an expansion is possible if donor support for programmed scaling up of existing RTACs and attending to crisis needs in Europe and for Arab countries in transition becomes available. The appropriate level for externally-financed activities will be discussed in the forthcoming paper on the Fund's capacity development strategy in light of considerations such as the Fund's institutional priorities and delivery capacity. Other receipts (e.g., rental income, publication sales, and parking fees) are projected to increase slightly in FY 14, largely because the completion of the Concordia renovations will allow that facility to resume generating additional income when not used for housing Institute participants.

**Table 2. Budget Envelope, FY 13–16**
(In millions of U.S. dollars)

| | FY 13 | FY 14 | FY 15 | FY 16 |
|---|---|---|---|---|
| **Total gross expenditures** | **1,159** | 1,186 | 1,195 | 1,203 |
| Personnel 1/ | 836 | 861 | 867 | 868 |
| Travel | 125 | 123 | 123 | 128 |
| of which: Annual Meetings | 6 | | | |
| Buildings and other expenses | 181 | 191 | 194 | 196 |
| Contingency reserves 2/ | 17 | 12 | 11 | 11 |
| Less: Receipts | (161) | (179) | (172) | (171) |
| **Total net expenditures** | **997** | 1,007 | 1,023 | 1,032 |

Source: Office and Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ All Fund employees including those in local offices.
2/ Includes contingency reserves for OED, IEO, and staff.

**Figure 4. Gross Expenditures, FY 08–16**
(In millions of FY 13 U.S. dollars)




Source: Office of Budget and Planning.

## Box 3. Crisis-Related Spending

**The FY 14 budget maintains unchanged funding for crisis-related needs.** The main drivers underlying crisis spending continue to be GRA (i.e., non-concessional) lending arrangements, work on near-program cases, and intensified surveillance needs. Additional resources in Area Departments account for the bulk of crisis spending, with the European Department (EUR) alone representing half of the total. Additional personnel at Headquarters account for close to 60 percent of crisis spending, with the rest explained by the additional cost of Resident Representatives (RRs) and higher travel needs. While the number of GRA arrangements has declined from peak levels, it is still above its historical average and triple the level just before the onset of the global crisis. Even if the number of programs were to decline sharply in the near term, part of crisis-related spending would unwind only slowly, as post-program surveillance would remain intensive and RR posts would remain open for some time (at the moment, financing for 19 RR posts is classified as crisis related).

**Crisis-Related Spending, FY 14**

| | In Millions of U.S. dollars | In Percent of Total |
|---|---|---|
| By Department Group | 53 | 100 |
| Area Departments | 39 | 74 |
| *Of which* : EUR | 27 | 52 |
| Functional Departments and Other | 14 | 26 |
| By Expense Type | 53 | 100 |
| HQ Personnel 1/ | 31 | 58 |
| Travel | 10 | 19 |
| Resident Representative Program | 12 | 23 |
| Memorandum items: | | |
| Total Crisis FTEs | 128 | |
| Of which: EUR | 65 | |

Note: Figures may not add to totals due to rounding.
Source: Office of Budget and Planning.

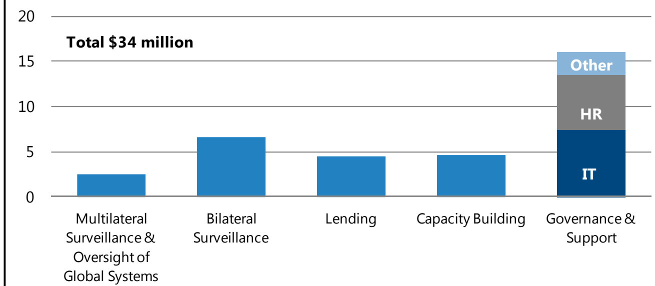
1/ Excludes staff on resident representative assignments.

**Crisis-related and structural funding needs will be reassessed for the FY 15 budget.** Since the crisis budget was initially authorized in FY 09, management has been clear in its commitment to unwind the increase in crisis-related spending as the crisis abates. The concept of a crisis-related budget has been a useful tool in striking a balance between preserving budget discipline and appropriately funding crisis needs. However, with temporary spending becoming protracted, it has become increasingly recognized that some part of the crisis-related spending is likely to be more structural in nature. The appropriate level of crisis-related spending, and the split between crisis-related and structural spending, will be reassessed thoroughly next year before the FY 15 budget is formulated. The proposed timing of this review seems appropriate as other important inputs into the discussion—including the Fund's Workforce Planning, a review of the Fund's Employment Framework, and the updated Capacity Development Strategy—will also be at an advanced stage of discussion.

## B. New Demands

**12. An unchanged budget envelope does not mean unchanged activities.** While departments sought to accommodate the bulk of their new or increased activities by reallocating resources within their existing budgets, additional resource needs for FY 14 of $34 million still remained (Figure 5).

**Figure 5. New Demands by Output, FY 14**
(In millions of FY 13 U.S. dollars)




Source: Office of Budget and Planning, based on departmental budget submissions.

**13. Consistent with the broad themes identified in the Accountability Framework discussions, new needs by expenditure category are:**[6]

- ***Governance and Support***. At $16 million, this category accounts for about half of the total increase in resource needs. More specifically, IT-related items amount to close to one-half, and include increased support and maintenance ($3½ million), enhanced security ($2½ million), and planned onshoring of some previously offshored IT services ($1½ million).[7] HR-related functions are also substantial and include additional funds for staff development, recruitment, and HR service delivery ($2 million); additional positions under the B-level diversity program ($1 million); as well as next year's skills upgrade budget ($3 million).[8] Other demands include additional resources to support the restructuring of the Secretary's Department, the funding for the newly-established mediator position, and an increase in some travel overhead costs.

- ***New demands related to Bilateral Surveillance*** total some $6½ million. About half of this amount represents additional resources for the Monetary and Capital Markets Department (MCM) to strengthen financial sector expertise in the context of bilateral surveillance. Similarly, this category includes extra resources for the Fiscal Affairs Department (FAD) to support area department work. Additional resources are also provided to MCD to support the transition and reform in the MENA region.

- ***Lending-related needs*** amount to $4½ million, with the bulk provided for program or near program work in the MENA region, and for MCM and FAD to support area departments' work.

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[6] These also included some planned-but-delayed expenditures from FY 13. As discussed in Section C below, it is proposed that such expenditures will be financed from central resources carried forward from FY 13 to FY 14.

[7] Support for many IT services was moved to an offshore service provider during the period FY 07–09. Following extensive review and to address growing risk, it was determined that support for some complex and highly-critical systems would be best provided by on-site personnel.

[8] The structural cost impact of skills upgrade and staff promotions is an incremental demand that needs to be accommodated in each year's budget.

- ***Fund-financed Capacity Building*** expands by $4½ million, with new demands related to the planned opening of an RTAC in Accra, Ghana; the opening of an RTC in Mauritius; and the posting of a financial sector advisor in Thailand.

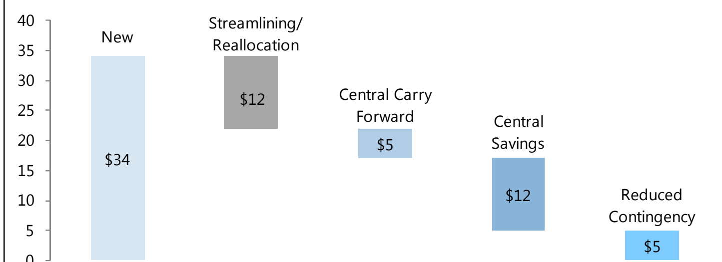
- ***Multilateral Surveillance and Oversight of Global Systems*** needs amount to $2½ million and include additional resources for modeling, jobs and growth analysis, work on interconnectedness and financial sector surveillance, and resources to address data gaps.

The recently operational Analytic Costing and Estimation System (ACES) was used to help guide resource allocation decisions during the FY 14 budget formulation process. Looking ahead, ACES will continue to be refined and used to guide resource allocation and assess priorities and trade-offs. Box 4 illustrates how ACES can shed light on the cost drivers of bilateral surveillance.

## C. Accommodating Demands

**14. A combination of measures will be employed to ensure the new demands are accommodated within the unchanged budget envelope.** Finding room to accommodate new demands within a flat real budget involved an interactive process to ensure alignment of institutional and departmental objectives. The new demands will be financed through four different channels (Figure 6):

**Figure 6. Accommodating Demands**
(In millions of FY 13 U.S. dollars)



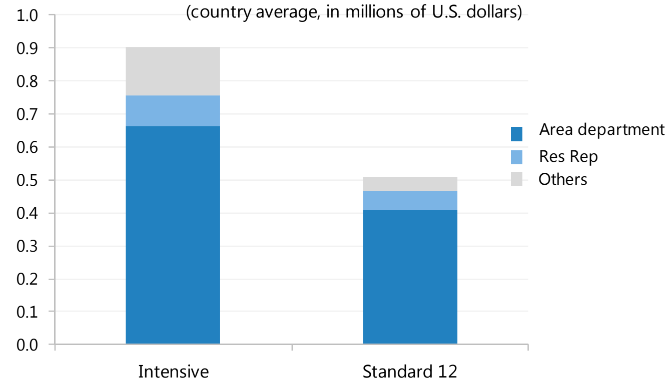

Source: Office of Budget and Planning.

## Box 4. What Drives the Cost of Article IV Consultations?

**Bilateral surveillance led by area departments is a core business of the Fund and absorbs a large share of the budget.** Article IV consultations (the main output of bilateral surveillance) are conducted in all member countries, with participation from about 1,300-1,400 Fund personnel across 19 departments, each year. Estimates from the Fund's Analytic Costing and Estimation System (ACES), which allocates input expenses (e.g., staff salaries) to outputs (e.g., bilateral surveillance), reveal stylized facts about the cost of bilateral surveillance.

**Average personnel spending on bilateral surveillance is larger in countries under intensive surveillance** (Chart 1). Spending by area departments (including resident representatives) is almost twice as high in these countries compared to standard surveillance countries. Higher spending may result from more intensive use of personnel, a larger number of personnel, and a higher average grade of staff, plus more common use of resident representatives. Spending of other (mainly functional) departments is concentrated on countries under intensive surveillance.

**Chart 1. Personnel Spending on Bilateral Surveillance Including Article IVs, FY 12** 1/
(country average, in millions of U.S. dollars)




1/ Includes direct personnel cost only. Excludes countries with a financial program or non-financial program, those on 24-month surveillance cycle and outliers.

**Regression analysis can be used to reveal the factors that influence the allocation of budget resources.** OBP tailors the staffing budget for countries according to its classification of the expected intensity of the Fund's engagement. However, departments may still reallocate resources between program and non-program countries and between bilateral surveillance and other activities. Focusing on the largest group, countries under standard surveillance, the econometric model tests drivers of spending, including a country's economic size, balance of payments pressures and vulnerabilities, and sovereign debt burdens. Finally, departmental dummy variables are included to test for specific effects.[1]

**The results in the table confirm that the size of the economy drives the cost of bilateral surveillance, within this group of countries.** Departments show a broadly consistent approach in resource allocation. On the other hand, there is no evidence that personnel spending on bilateral surveillance is systematically higher in countries facing greater balance of payments volatility or sovereign debt burdens. This somewhat surprising result may reflect the fact that program and intensive surveillance countries are excluded from the sample or may be due to the specification of the vulnerability variables.

**Regression Results for Bilateral Surveillance Spending by Country** 1/ 2/ 3/

Dependent variable: Personnel spending on bilateral surveillance

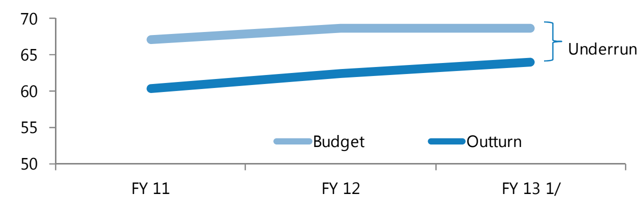
| | A | B | C |
|---|---|---|---|
| Constant | 415.026 *** | 502.262 *** | 609.987 *** |
| | *(49.604)* | *(110.917)* | *(139.366)* |
| GDP | 1.052 *** | 0.875 ** | 0.895 ** |
| | *(0.362)* | *(0.400)* | *(0.429)* |
| Volatility of reserve coverage | | 22.711 | 20.722 |
| | | *(48.609)* | *(51.327)* |
| Volatility of capital account | | -1.885 | -2.460 |
| | | *(3.806)* | *(3.950)* |
| Debt over GDP | | -174.211 | -208.360 |
| | | *(165.490)* | *(172.353)* |
| AFR | | | -35.673 |
| | | | *(142.363)* |
| EUR | | | -242.327 |
| | | | *(139.305)* |
| MCD | | | -214.231 |
| | | | *(141.754)* |
| WHD | | | -68.676 |
| | | | *(126.988)* |
| R-Squared | 0.139 | 0.139 | 0.235 |
| No. of observations | 54 | 47 | 47 |

1/ Includes standard 12-month surveillance countries only.
2/ Standard errors reported in parentheses.
3/ **, *** confidence at the 95%, and 99% level respectively.

[1] APD is the omitted department. Other costs of bilateral surveillance, such as travel, are excluded because there are systematic differences in costs across regions.

- ***Streamlining and reallocation measures are projected to yield $12 million.*** About $3 million of this represents the estimated savings from streamlining multilateral surveillance products and other analytical work, including by MCM and FAD, i.e., the two functional departments that received additional resources for country work.[9] Some scaling back or reallocation of departmental travel budgets in view of persistent under spending—which reflect partly savings from early ticketing and other efforts to improve management of travel expenses—yield another $2 million (Figure 7). Scaling back overseas presence in some locations due to programs ending frees another $2 million for reallocation, while savings related to facilities management and services amount to $1½ million. The remainder ($3 million) reflects a broad range of internal reprioritization measures that were identified by departments during the budget formulation process.

**Figure 7. Fund-Financed Departmental Travel, FY 11–13**
(In millions of U.S. dollars)




Source: Office of Budget and Planning.
1/ Excludes Annual Meetings. Outturn is an estimate.

- ***The central carry forward will be used to finance close to $5 million in one-off demands for activities scheduled to take place in FY 13, but which have been or are likely to be delayed or deferred.***[10] The main items within this category are costs related to the delayed opening of a number of new overseas posts ($2 million) and fully or partly delayed implementation of HR initiatives ($2 million) such as the Quadrennial Benefit Survey, Staff Survey, and other HR measures.

- ***Central savings are projected to amount to $12 million.*** Half of this amount is accounted for by use of what now appear to be cautious assumptions in setting the budget due to the uncertainty introduced by: (i) a number of policy changes (most notably the change to the grossing up formula for the Staff Retirement Plan (SRP)); and (ii) the change in staff numbers and structure resulting from the restructuring and the subsequent spike in hiring. In addition to the SRP, budget adjustments were also made to the provisions for Medical Benefits Plan, Home Leave Allowance, and Settlement Allowance to better reflect actual expenses. Other significant sources of savings included rebasing portions of the budget for overseas posts and allowances ($2 million).

- ***A reduction in the contingency would yield $5 million.*** The central contingency for FY 14 would be reduced from 1.5 percent of the budget—an unusually high level set at the beginning

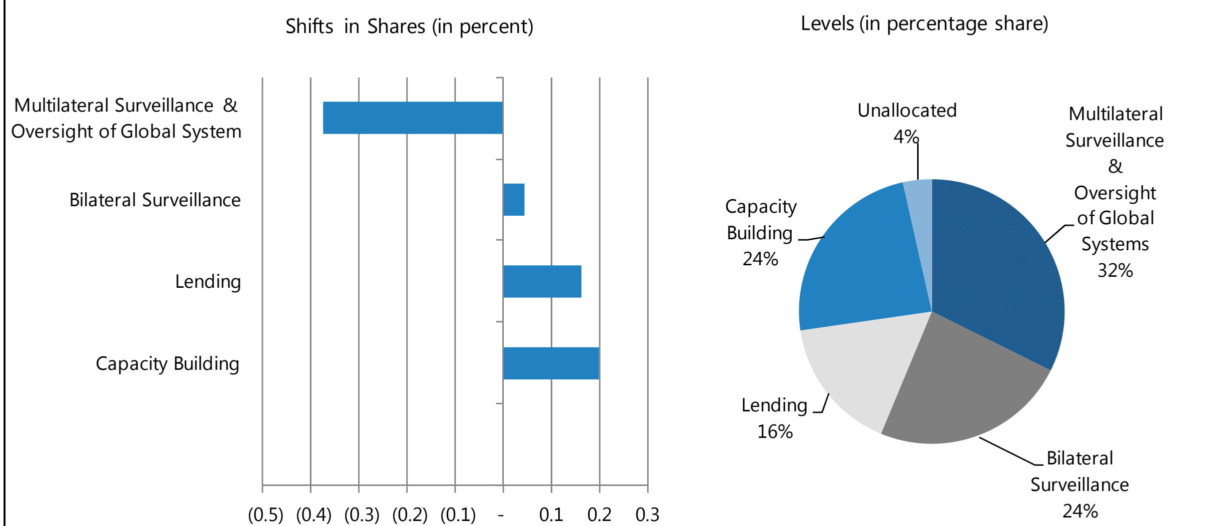
[9] The estimated savings reflect better ex ante coordination to reduce overlaps between various products; more streamlined, concise reports; and the elimination of published quarterly updates for the GFSR and Fiscal Monitor. ACES was used in estimating the scope for savings in this area and will be used in monitoring the implementation of the agreed streamlining measures.

[10] The carry forward from FY 13 to FY 14 (excluding OED and IEO) is projected to amount to about $27 million.

of FY 13 in view of the heightened degree of uncertainty in Europe in particular—to a more normal level of 1 percent. Section E provides additional detail on contingency planning.

**15. Accommodating new demands through internal reallocation of resources—coupled with a continuation of the underlying business model of the Fund—leads to only modest shifts in the Fund's main outputs.** The bulk of the central savings would reduce costs across all output areas (e.g., savings from lower benefits embedded in the standard cost of personnel). Also, a significant share of new demands is to be accommodated through interdepartmental reallocations, often made within a key output area. As a result, the shifts in the output shares are expected to be limited (Figure 8).

**Figure 8. Reallocations by Output Area** 1/




Source: ACES and OBP estimates.
1/ Excludes the impact of additional donor funding.

## D. Addressing Work Pressures

**16. Owing to the reallocation measures described above, the FY 14–16 MTB provides significant additional personnel resources for departments within a flat overall budget:**

- ***About 40 new staff positions compared with FY 13*** (Figure 9).[11] While the bulk of these staff will be allocated in response to new work demands, some will also be targeted specifically to reduce overtime. More broadly, the level of departmental work pressures was an important consideration in determining the allocation of additional staff resources, as illustrated in Figure 10. It is estimated that such targeted allocations of additional personnel to areas with

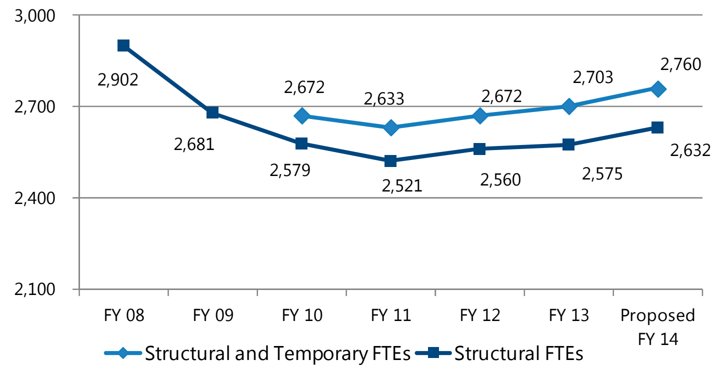
[11] Relative to FY 13, Figure 9 shows an increase of 57 FTEs in FY 14. In addition to 40 new staff positions generated through reallocations of resources discussed above, these figures include also reclassification of some positions financed through donor contributions; and a small increase in OED and INV staffing.

highest work pressures, together with the agreed streamlining of work, could provide scope to reduce overtime by an equivalent of about 10 FTEs.

- ***Additional flexibility in hiring will provide more personnel resources to departments.*** For FY 14, departments will be allowed to hire A-level professional staff above FTE staffing limits, as long as they remain within their dollar budget ceilings, which will make available de facto additional resources through a reduction in frictional vacancy rates.[12] Halving the overall vacancy rate from its current level could yield up to 20 additional utilized staff positions.[13]

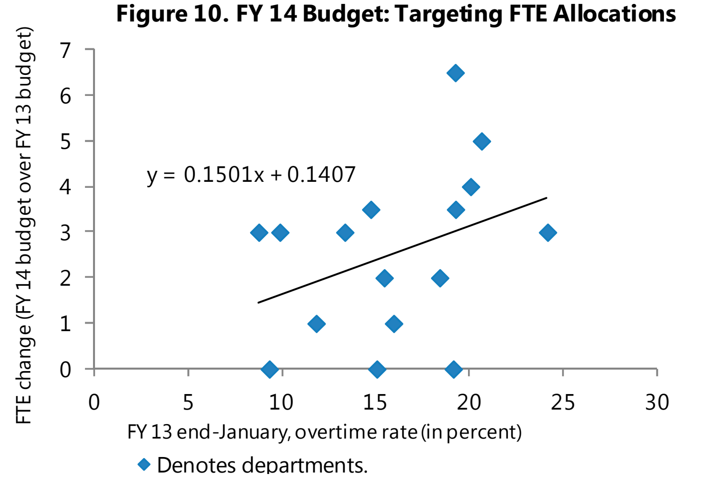
**17. Taken together, the additional resources, streamlining of work, and more flexibility in hiring should yield a tangible reduction in work pressures.** Measured in relation to the pre-crisis average, excess unpaid overtime among professional staff amounts currently to roughly 4 percentage points of regular hours and the FY 14 budget measures are estimated to have the potential to eliminate half of this excess overtime (Figure 11).

**Figure 9. Budgeted FTEs, FY 08–14**




Note: Includes OED and IEO.
Source: Office of Budget and Planning.

**Figure 10. FY 14 Budget: Targeting FTE Allocations**

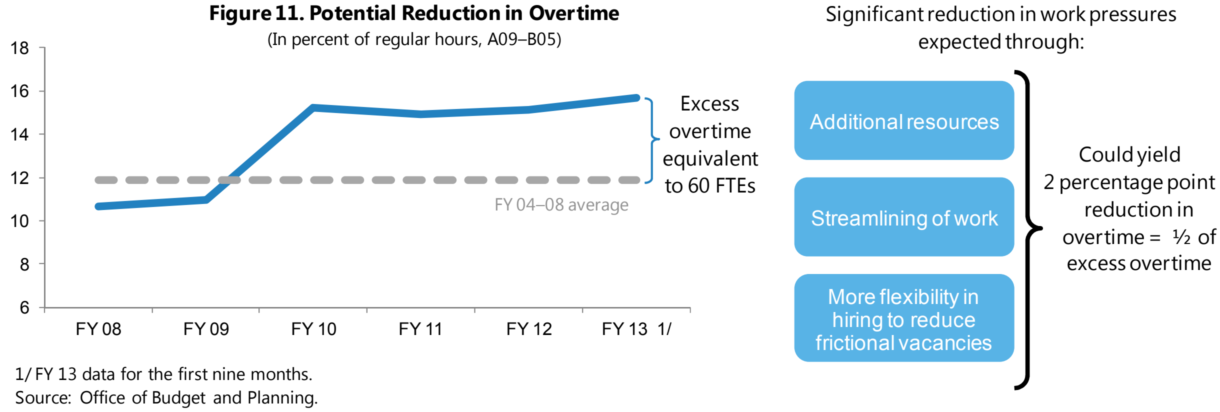



Source: Office of Budget and Planning.

[12] Vacancy rates and the ability to mobilize additional resources by reducing vacancies vary across departments. However, as discussed in Annex I, vacancies exist in all different department types.

[13] Moreover, when appropriate, more active management of the budget through reallocation of departmental underruns during the course of the year will be used to make available further additional resources as and where needed.

**Figure 11. Potential Reduction in Overtime**
(In percent of regular hours, A09–B05)




1/ FY 13 data for the first nine months.
Source: Office of Budget and Planning.

**18. Addressing excessive work pressures will also require better monitoring and management of workload.** As noted, the distribution of overtime is highly skewed, suggesting scope for managers to reallocate work. More broadly, better planning and prioritization can help reduce overtime. To ensure excessive work pressures are being addressed, management will be monitoring overtime more closely in the context of the Accountability Framework. Efforts are underway to ensure that overtime will be reported more consistently across the institution to permit introduction of a "traffic light" for the overtime indicator within the Accountability Framework. Such a traffic light will help to identify departments in which high overtime levels require a combination of additional management efforts, including reallocation of work and streamlining, or additional resources.

## E. Contingency Planning

**19. As noted above, the FY 14 budget envelope restores the contingency reserve to a more normal level.** Under the FY 13–15 MTB, the contingency reserve was set at 1.5 percent of budget. This higher-than-normal contingency reflected the exceptionally uncertain outlook at the time and potential resource needs that could have resulted from a further deterioration of global conditions. Given receding risks in the near term, the proposed FY 14 budget resets the contingency to a more normal 1 percent of the Fund's administrative budget, or $9 million.[14]

**20. The FY 14 budget strategy that aims to maximize budget efficiency through reallocation of margins implies some additional risks and thus will require vigilant budget management.** Three lines of defense will be available to respond to unforeseen resource demands that may emerge during the year: i) the remaining central contingency, ii) unused resources carried

[14] Excluding OED and IEO contingencies.

forward from FY 13, and iii) active reallocation of any budget space that may emerge over the course of the financial year.[15]

# CAPITAL BUDGET

**21. This paper seeks Executive Board approval for $41 million in capital funding for FY 14.** The capital budget is made up of two main components:[16]

- $17 million for ongoing facilities capital projects, including $12 million for a new audio-visual (AV) program; and
- $24 million for IT capital projects.

**22. The proposed capital budget for facilities and IT projects is largely unchanged from FY 13**, though there is a significant shift in the composition between these two categories (Table 3).

**Table 3. FY 14 Capital Budget Proposals**
(In millions of U.S. dollars)

| | | Proposed | | |
|---|---|---|---|---|
| | FY 13 1/ | FY 14 | FY 15 | FY16 |
| **Total** | **42** | **41** | **46** | **44** |
| Building Facilities | 7 | 17 | 16 | 17 |
| *of which: Audio Visual* | | *12* | *9* | *8* |
| Information Technology | 34 | 24 | 30 | 27 |
| *of which: Enhanced IT Security* | | *4* | *5* | *2* |

Source: Office of Budget and Planning and Technology and General Services Department.
Note: Figures may not add to totals due to rounding.
1/ Excludes HQ1 appropriations.

**23. In addition to ongoing security and building maintenance projects, the facilities capital budget now reflects a comprehensive approach to financing AV capacity and equipment.** As in the past, the FY 14 facilities capital budget will provide resources for office space reconfiguration, limited furniture replacement, and security upgrades. However, a shortcoming in past facilities capital plans has been the absence of a comprehensive approach to financing the Fund's AV needs. A strategic approach to financing AV has become essential in light of the growing dependence on AV capabilities (for communication both with internal and external audiences), and the synergies that would be achieved by initiating a program at the time of the HQ1 Renewal. In FY 14, funding will be provided to replace AV infrastructure and equipment that has reached the end of its useful life, outfit some conference rooms with video conferencing capabilities, and upgrade the press briefing center.

**24. The IT capital budget has been shaped by two main influences: the need to focus more directly on the performance and stability of the current IT environment, and the need to**

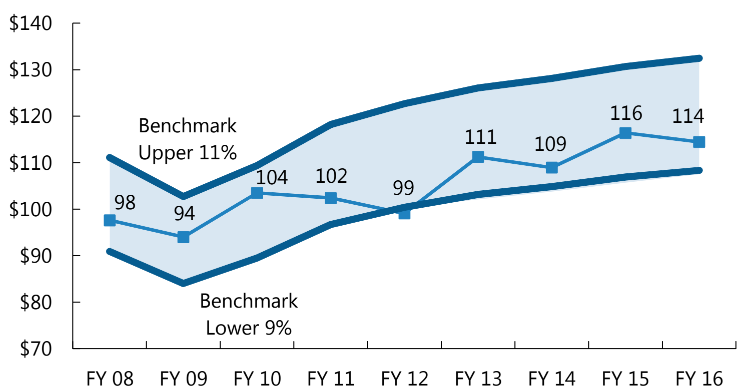
[15] As discussed in Section C, of the total estimated carry forward of about $27 million, close to $5 million would be used to finance one-off demands initially scheduled to take place in FY 13, but which have been or are likely to be delayed or deferred to FY 14, while the remainder would be available to finance additional one-off demands.

[16] Major construction work will begin on the HQ1 Renewal project shortly after May 1, 2013. This project was financed by appropriations in FY 12 and FY 13 and does not feature in the FY 14 capital budget.

**harden our security posture to protect against external threats.** Following a period of significant expansion (the number of IT capital projects increased from 51 in FY 09 to 115 in FY 13), it has become apparent that resources were stretched as each new system had to be managed, integrated, secured, and maintained. A decision was made in FY 14 to curtail the number of new IT initiatives, and to broadly limit those initiatives to projects that focused on improving the stability and performance of the IT environment. Staff also worked this past year with an external consulting firm to identify gaps in the Fund's IT security posture and propose measures to fend off increasingly sophisticated cyber attacks. The net result of these two influences is a significant decrease in the proposed IT capital budget, from $34 million in FY 13 to $24 million in FY 14, while nevertheless increasing the resources devoted to IT security.

**25. The Fund's total IT spending is expected to remain within the benchmark range that has been used to guide IT spending for much of the last decade.** Annual benchmarking is conducted with other similar organizations to help guide the Fund's total spending on IT. This exercise compares the level of IT spending to the total spending of the institutions, and also compares the amount spent to support each workstation. By both measures, the Fund's IT spending remains within the relevant benchmarks. Moreover, the proposed increase in the administrative spending (to better support new systems) combined with the decrease in the IT capital budget (to reduce the number of new initiatives) seems to strike the right balance in providing a safe, secure, and reliable IT environment.

**Figure 12. IT Spending, FY 08–16** 1/
(in millions of U.S. dollars)




FY 14 IT Benchmark

| (In millions of U.S. dollars) | |
|---|---|
| Total IT spending | 109 |
| Administrative | 85 |
| Capital | 24 |
| **(In percent)** | |
| IT spending/total spending | 9.4 |
| Benchmark | 9-11 |

1/ FY 08–12 is outturn, FY 13–16 is budget.

# ANNEX I. The FY 13 Projected Outturn

## A. Overview

1. **This annex reports on the execution of the FY 13 budget and provides an outturn estimate for the year as a whole.** It also presents an overview of capital investments related to major building works and information technology.

**Table I.1: Administrative Budget, FY 13**
(in millions of U.S. dollars)

| | Budget | Projected Outturn | |
|---|---|---|---|
| | | in dollars | in percent |
| Gross Expenditures | 1,159 | 1,102 | -4.9 |
| Personnel | 836 | 807 | -3.4 |
| Travel | 125 | 117 | -6.1 |
| Building and Other Expenses | 181 | 178 | -2.0 |
| Contingency 1/ | 17 | - | ... |
| Less: Receipts | 161 | 151 | -6.1 |
| Net Budget | 997 | 950 | -4.7 |
| Memorandum item: | | | |
| Carry forward from FY 12 | 41 | | |

Source: Office of Budget and Planning.
1/ Includes the contingencies for OED, IEO, and staff.

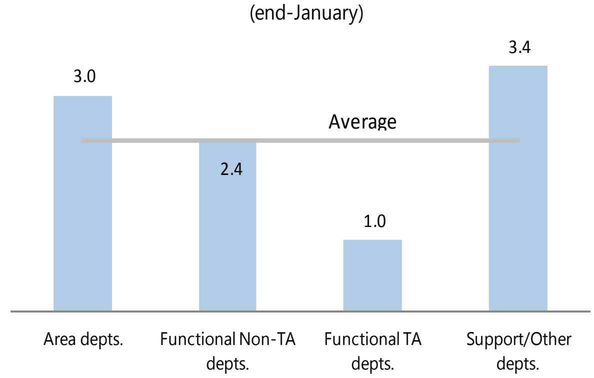
2. **Current levels of expenditures and receipts point to an under-run in the net administrative budget of about $47 million for the year as a whole** (Table I.1). Some under spending is projected for all major budget categories, including contingency reserves. Further details on each of the budget categories are provided below.

## B. Major Expense Categories and Receipts

3. **The spending shortfall in the personnel budget is due to two factors—lower-than-planned staffing levels and lower-than-budgeted costs.**

- The average vacancy rate has declined and at end-January 2013 is about 2.4 percent or some 0.4 percentage points lower than the average rate observed in FY 12 and significantly below the rate of 4 percent in FY 11. Notwithstanding, some vacancies still exist in all department types (Figure I.1). The added flexibility in FY 14 for departments to temporarily hire above their A-level FTE limits should help further lower the average vacancy rate and thereby increase the utilization of the personnel budget.

**Figure I.1: Vacancy rates, FY 13**
(end-January)




- In addition, the average salary and the costs of some benefits were lower than budgeted. The latter is largely related to the effect of recent policy changes (e.g. the change in the grossing up-formula under the Staff Retirement Plan) and the cautious approach to budgeting in these areas. Going forward, a total of $6 million will be rebased in the FY 14 budget to help meet new demands.

- As approved under the new funding framework, a contribution of 9 percent of pensionable gross remuneration will be made to the Retired Staff Benefits Investment Account (RSBIA), and is included in the estimated outturn.

4. **Lower-than-planned travel expenses are projected.** Delays in planned trips, savings due to better ticketing practices, and some unused excess budgetary provisions are the main contributors to the under spending in business travel.

5. **Spending on buildings and other Fund-wide services is projected to end the year a little under budget.** The lower spending is largely related to favorable contract negotiations with several IT service providers and vendor credits earned and now recognized. Lower demand for print services relative to previous years and lower utilities costs from negotiated rates and operational efficiencies have also contributed to the small under spend.

6. **Receipts are expected to end the year slightly below planned levels.** This is largely due to delays in the start up of a number of externally funded projects. In particular, the Regional Technical Assistance Center AFRITAC West II in Ghana as well as the Training Center in Mauritius were scheduled to begin their operations in the latter part of FY 13—they have been delayed and are now slated for start-up in the first quarter of FY 14.

## C. Capital Investments

7. **Capital projects in FY 13, including the two large building initiatives (Concordia Renovation and HQ1 Renewal) are progressing as planned** (Table I.2). The Concordia building renovation project is coming to a close with substantial completion expected by the end of FY 13—on schedule and on budget. At the same time, the HQ1 Renewal program has advanced from the initial design phase to the selection of a General Contractor and the beginning of construction with project completion planned for FY 17. IT capital projects in FY 13 emphasize improvements in the stability and usability of some of the core systems, including the lifecycle replacement of the Fund's laptop computers.

**Table I.2. Capital Expenditures, FY 13**

(in millions of U.S. dollars)

| | Facilities | IT | Concordia Renovation | Total 1/ |
|---|---|---|---|---|
| FY 13 Budget Appropriations 2/ | 7.4 | 34.3 | - | 41.7 |
| + Unspent FY11 and FY12 Funding | 13.8 | 28.9 | 31.6 | 74.3 |
| = Total Available Funding in FY13 | 21.2 | 63.2 | 31.6 | 116.0 |
| Planned Expenditures FY13 | 7.4 | 32.0 | 30.3 | 69.7 |

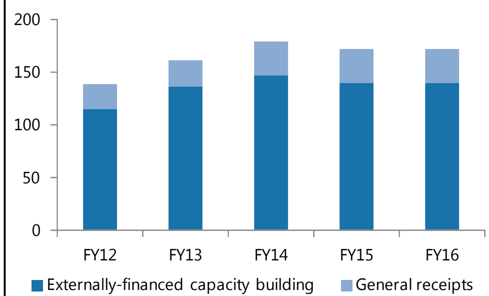
Sources: Office of Budget and Planning and Technology and General Services Department.
1/ Excludes HQ1 renewal appropriations and spending.
2/ Approved capital budget funding is available for three consecutive years, except for HQ1.

# ANNEX II. Receipts

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

2. **Donor-funding is expected to increase in FY 14, and to broadly stabilize subsequently** (Figure II.1 and Table II.1). The main drivers for the increase are: opening of two new regional facilities (Regional Technical Assistance Center – AFRITAC West II – in Accra, Ghana and a Regional Training Center in Mauritius); and implementation of projects scheduled for FY 13 that will be rolled into FY 14. The path could be higher if additional donor resources materialize for scaling up existing RTAC operations in line with agreed plans, and if new donor commitments are secured for attending to crisis needs in Europe and for Arab countries in transition.

**Figure II.1. Receipts**




Source: Office of Budget and Planning.

3. **While donor funding has facilitated scaling up of the Fund's technical assistance and training, its rapid growth is raising new challenges.** These relate to quality risks associated with stretched capacity, certain headquarters' costs not covered by donors (e.g. office space, computer equipment, etc.). To address these issues in the broader strategic context, a discussion is scheduled for later this calendar year that will include a review of the internal governance framework to ensure that externally financed activities remain in line with the Fund's institutional priorities.

**Table II.1. Receipts, Comparing the FY 13–15 and FY 14–16 MTBs**
(In millions of U.S. dollars)

| | FY 13 | FY 14 | FY 15 | FY 16 | MTB Total 1/ |
|---|---|---|---|---|---|
| A. FY 13–15 MTB | 161 | 168 | 169 | | 464 |
| Externally-financed capacity building 2/ | 137 | 140 | 140 | | 383 |
| General receipts | 25 | 28 | 29 | | 81 |
| B. FY 14–16 MTB | | 179 | 172 | 171 | 522 |
| Externally-financed capacity building | | 148 | 140 | 139 | 427 |
| Technical assistance 2/ | | 141 | 134 | 133 | 408 |
| Scholarships (including administrative fees) | | 6 | 7 | 7 | 19 |
| General receipts | | 31 | 32 | 32 | 95 |
| *Of which:* | | | | | |
| Fund-sponsored sharing agreements 3/ | | 5 | 5 | 5 | 14 |
| Publications income | | 6 | 6 | 6 | 18 |
| Concordia apartment | | 3 | 3 | 4 | 10 |
| HQ2 leasing | | 4 | 4 | 4 | 11 |
| Reimbursement of Investment Office costs | | 5 | 5 | 5 | 16 |
| Parking | | 3 | 3 | 3 | 9 |

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ Totals are based on central estimates.
2/ Includes payments from donors of administrative and trust fund management fees.
3/ Includes reimbursements principally provided by the World Bank for administrative services provided under sharing agreements, including the Joint Bank/Fund Library and the Bank/Fund Conference Office.

4. **General receipts are expected to increase slightly in FY 14.** The Concordia is expected to open in May 2013 and resume operations. All other general receipts are expected to remain broadly unchanged over the medium term.