INTERNATIONAL MONETARY FUND

The FY 09–11 Medium-Term Administrative, Restructuring, and Capital Budgets

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Glossary

BITAG	Business and Information Technology Advisory Group
COB	Committee on the Budget
CBA	Cost-Benefit Analysis
CBIT	Committee on Business and Information Technology
CIO	Chief Information Officer
FTE	Full-Time Equivalent (person year of employment)
GLI	Group Life Insurance
GRA	General Resources Account
HCM	Human Capital Management System
iBBIS	Integrated Budgeting and Business Intelligence System
IFRS	International Financial Reporting Standards
IFIs	International Financial Institutions
IT	Information Technology
LIC	Low Income Country
MBP	Medical Benefits Plan
MDRI	Multilateral Debt Relief Initiative
MTB	Medium-Term Budget
PGR	Pensionable Gross Remuneration
PRGF	Poverty Reduction and Growth Facility
ROSC	Report on the Observance of Standards and Codes
RSBIA	Retired Staff Benefits Investment Account
RTAC	Regional Technical Assistance Center
SBF	Separation Benefits Fund
SCA–1	First Special Contingent Account
SDR	Special Drawing Right
SRP	Staff Retirement Plan
STEAP	Short-Term External Assignment Program
TA	Technical Assistance
UFR	Use of Fund Resources

EXECUTIVE SUMMARY

- This paper presents for Executive Board approval proposals for the FY 09–11 medium–term administrative budget (MTB), a one-time multi-year appropriation to meet the costs of institutional restructuring (Restructuring Budget), and the FY 09 Capital Budget in the context of the FY 09–11 capital plan. It also proposes to carry forward the unused resources from the FY 08 administrative budget into the Restructuring Budget, to help defray the costs of the institutional restructuring.

- The strategic considerations underpinning the budget have been articulated by the Managing Director, following a thorough process of vetting by the staff and the Board, and have been discussed with shareholders. The central goal is to reshape the institution so that it delivers more focused outputs cost-effectively using its comparative advantage. While a decline in income may have been the proximate cause of the changes taking root in the institution, they would be necessary regardless of income considerations; the needs of the membership have changed with the march of time and with the challenges and opportunities that characterize today's globalized world. The proposed MTB enables and facilitates these necessary changes.

- The proposed MTB will, among other things, bridge the medium-term income gap. The Managing Director has proposed that $100 million (in real terms) of this gap is to be closed by expenditure reductions, and the rest is to be met through enhanced income measures, taking into consideration the proposals put forth by the Crockett committee. The proposed MTB would meet the expenditure reduction goal.

- The Managing Director has presented to Executive Directors his strategic vision and the outlines of the budget on various occasions, the latest being on March 12, 2008.

- As discussed during these meetings, the proposed MTB delivers an unprecedented 13½ percent real reduction by FY 11 (measured using the external deflator), relative to FY 08. This is in full recognition of the institution's shrinking resources. Yet, even with such a sharp reduction, it allows for real increases in the level of resources allocated to multilateral and regional surveillance—two of the Fund's areas of comparative advantage. These priorities are met by moving resources from support and governance departments to the core of the institution. Within the institution's core, resources have been reallocated from country program lending activities toward surveillance.

I. Overview

1. **This paper presents for approval of the Executive Board:**

- An \$868.3 million net administrative budget for FY 09 set in the context of the FY 09–11 MTB, and the corresponding \$966.9 million limit on gross administrative expenditures.
- A \$48.3 million capital budget for capital projects beginning in FY 09 in the context of the FY 09–11 medium-term capital plan.
- A separate \$155 million multi-year appropriation to meet the restructuring costs; and
- A proposal to carry forward and transfer up to \$30 million of unused resources from the FY 08 administrative budget to the restructuring budget.

2. **The paper is organized as follows:**

- Section II considers the medium-term income-expenditure balance, summarizes the identification and implementation of medium-term priorities for the Fund, and the associated budgetary framework.
- Section III describes the key features of the proposed MTB.
- Section IV details how the budget parameters of the MTB were derived.
- Section V describes the proposed restructuring budget, its components, and the framework under which it is to be operationalized. This section also reports on the projected outturn for FY 08.
- Section VI presents the proposed three-year capital plan and the proposed FY 09 capital budget.

3. **The paper also includes appendices on** (i) the Fund's income and expenditures; (ii) receipts; and (iii) the medium-term capital plan.

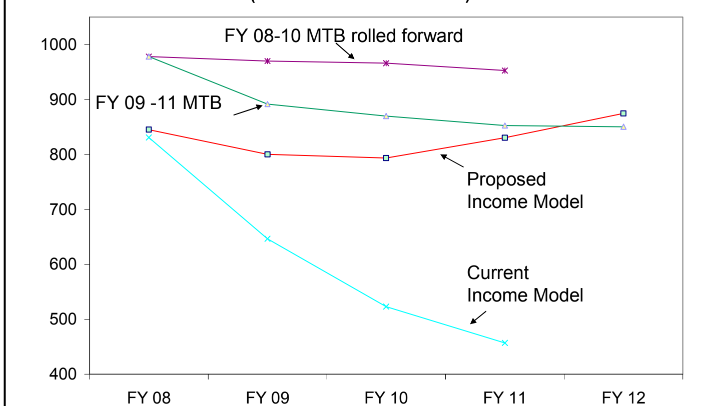
4. **This year, departments have been asked to prepare their individual business plans after the first phase of the restructuring exercise is underway.**

II. Strategic Directions Underpinning the Medium-Term Budget

5. **This section describes the medium-term policy goals and the FY 09–11 budgetary strategy to achieve them**. It first describes how the medium-term budgetary targets were set in light of the income shortfall. It then describes the budgetary strategy underlying the ongoing institutional refocusing and restructuring.

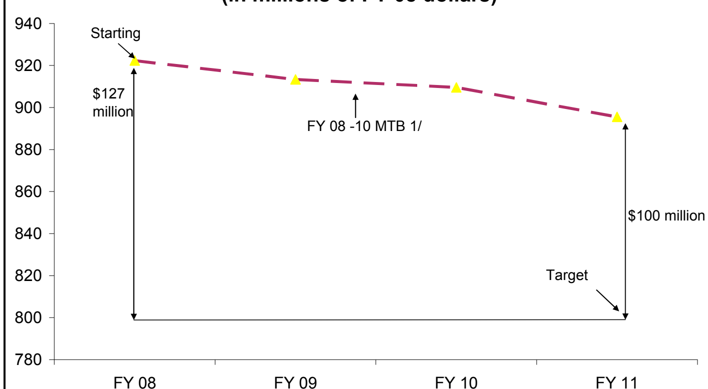
6. **A central priority is to put in place a sustainable budgetary framework for FY 09–11, as a basis for eliminating the income-expenditure gap in FY 12.** The Managing Director has articulated a strategy that requires the simultaneous enactment of income and expenditure measures to reach this goal. As Figure 1 illustrates, together with the proposed new income model, the proposed MTB will deliver a balance between income and expenditure during FY 12 once the policy changes enacted in FY 11 (the last year of the proposed MTB) take full effect. It is clear that a new income model, without expenditure restraint, will not deliver an income-expenditure balance within the foreseeable future. Similarly, no viable expenditure reduction framework would bring about an income-expenditure equilibrium in the absence of a new income model.

Figure 1. Proposed Income Model and MTB 1/
(in millions of FY 08 dollars)



1/ Includes capital budget items expensed and depreciation.

Figure 2. The FY 08-10 MTB Rolled Forward
(in millions of FY 08 dollars)



1/ FY11 figure is calculated assuming the policy stance of a one percent real reduction is continued.

7. **The Managing Director has proposed that about $100 million of this gap be met through expenditure reductions and the rest through enhanced income measures**. The FY 08–10 MTB envisaged a real reduction of $27 million dollars (a cumulative 3 percent, measured against the external deflator).[1] The FY 09–11 MTB incorporates a further $100 million in real expenditure reductions (over 10½ percent in FY 08 prices). Thus, measured from the starting point of the FY 08 budget, total savings amount to $127 million (over 13½ percent as shown in Figure 2).

[1] Savings are measured over the period FY 09–11, assuming a continuation of the budget policy stance of a 1 percent real reduction set last year and rolled forward to FY 11. See Table 16 for more details.

8. **The institution, therefore, has to meet its refocusing needs in the context of a shrinking budgetary envelope**. A strategic plan to meet these challenges was articulated by the Managing Director and discussed in the Committee on the Budget (COB) meeting on January 10, 2008 and February 5, 2008, and the Board meeting on March 12, 2008.[2] The plan has been comprehensively discussed with staff, the Executive Board, and shareholders. It has five building blocks:

- **Strengthening multilateral surveillance** through stronger analyses of macro-financial linkages, exchange rates, and spillovers originating from systemically important countries.
- **Sharpening bilateral surveillance** by applying cross-country perspectives to policy issues facing individual countries.
- **Refocusing LIC work** to emphasize macro-stability, growth, and integration with the global economy.
- **Streamlining capacity building** by focusing on macro-critical activities and making technical assistance (TA) more demand driven, and externally funded.
- **Modernizing the Fund** by updating business practices and seeking efficiency gains.

9. **The Managing Director's strategic plan forms the backbone of the budgetary strategy**. Thirteen working groups composed of staff at all levels of seniority were commissioned by the Managing Director to study different facets of each of the five building blocks listed above. These groups made several recommendations on how to deliver refocused output with fewer resources, which were discussed at large among staff. Management agreed on the implementation of several of these recommendations. Each of the recommendations of the working groups were then assessed from a budgetary perspective through a top-down exercise, and matched with a bottom-up evaluation done by each department. Thus, the feasibility of attaining $100 million in real savings over the medium-term was ascertained.

10. **The budgetary strategy incorporates four central considerations:**

- **Providing a framework to help refocus the institution;**
- **Putting in place a budget framework that will help close the income-expenditure gap in FY 12**;
- **Maximizing nonpersonnel expenditure reductions** to better exploit technological advances and enhance organizational efficiency; and
- **Implementing personnel-related expenditure reductions fairly**, while preserving business continuity.

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[2] See the Statement by the Managing Director on "Strategic Directions in the Medium–Term Budget" (04/12/2008).

11. **Determining the composition of expenditure reductions was the first step**. It began with an evaluation of measures to maximize nonpersonnel savings without compromising the attractiveness of employment at the Fund. For the three-year period, $33 million of nonpersonnel savings (in FY 08 dollars) beyond those specified in the FY 08–10 budget were identified. The remaining $67 million in additional savings are personnel-related. Departments were asked to reduce staffing in line with the working group proposals that were approved by management. These have been distributed by the themes shown in Table 1.

Table 1. Composition of Savings
(in millions of FY 08 dollars)

Personnel Savings	**67**
Efficiency gains	27
Fewer programs, less review, fewer layers	16
Fewer resident representative/overseas staff	7
Streamline systems and administrative processes	7
Refocus capacity building	5
Refocus LIC work	2
Refocus surveillance	2
Eliminate policy overlaps	1
Non-personnel Savings	**33**
Travel related expenses	10
Less resident representative/overseas office costs	9
Increased leasing of HQ2	5
Funding investment office through SRP	2
Annual meetings' savings	2
IT services	2
Elimination of subsidies	2
More revenues (Concordia)	1
Total	**100**

12. **The proposed shift of administrative resources across outputs and activities supports the refocusing of the Fund.** It moves resources from non core to the core business of the institution, and it reallocates resources within core activities towards priority areas over the next three years. The proposed MTB provides not only a larger share but also greater absolute levels of expenditure for certain key areas. The real budgetary allocations to (i) multilateral surveillance; (ii) surveillance of systemically important countries; and (iii) regional surveillance have all increased in real terms (Table 2). These priorities have been met through smaller resource allocations to Fund-financed TA and to country programs and support. If the Fund succeeds in raising more external financing for TA, the output loss in this area can be mitigated.[3]

Table 2. Real Expenditure Allocation, FY08-11 1/

	Millions of FY 08 Dollars		Real percent change
	FY 08	FY 11	
Surveillance			
Multilateral	28	31	9
Bilateral surveillance	158	137	-13
Of which: Systemic countries	44	53	20
Regional	18	22	18
Country programs	122	103	-15
Fund-financed capacity building	106	86	-19
Support	313	272	-13

1/ Allocations are measured by the gross dollar inputs spent on each output area. Support and governance expenditures have not been allocated across outputs. Columns do not sum to the Fund total because of omitted categories. See Tables 17-19 for the comprehensive expenditure allocation.

[3] See Appendix II on receipts. Also note that allocations to the Key Output Areas (KOAs) presented are based on a conservative estimate of the expected range for receipts shown in Table 24.

13. **How are departments accommodating these budgetary shifts?** The departmental budgetary allocations are designed to match Fund-wide priorities. Table 3 shows these allocations across key output areas by departmental group. About 40 percent of the total output reduction for area departments will come from resources formerly allocated to country program-related activities. However, area and TA functional departments are planning a real increase in resources for regional surveillance and for surveillance of systemically important countries. As proposed by the Managing Director in his statement to the Board on March 12, the budget provides positions for new units to ensure coordination of work efforts across departments in two crucial areas: (i) multilateral surveillance and (ii) refocusing of LIC work. The methodology for constructing departmental budgets as well as departmental FTE and dollar budget reductions are described in Box 1.

Table 3. Key Output Areas, FY 11 Relative to FY 08

(percent contribution to real change by type of department)

Key output area	Total	Area	Capacity Building	Non-TA Functional	Units 2/	Other 3/
Global monitoring	-5.4	-1.1	-1.8	-41.1	41.3	-11.5
Of which: Multilateral surveillance	2.4	-0.3	0.8	-17.2	36.7	1.9
Country-specific and regional monitoring	-17.7	-33.5	-13.3	-6.4	7.1	-3.5
Bilateral surveillance	-19.6	-40.2	-9.7	-4.8	5.7	-6.5
Regional surveillance	3.1	8.5	0.4	-0.8	0.7	-0.3
Standards and codes and financial sector assessments	-1.2	-1.8	-3.9	-0.8	0.8	3.3
Country programs and financial support 4/	-17.7	-38.8	-6.6	-55.4	29.5	14.7
Capacity building	-10.1	-10.5	-66.5	-1.6	5.8	65.8
Support	-38.6	-16.2	-11.8	-1.0	16.0	-120.3
Governance	-10.5	0.0	0.0	5.4	0.4	-45.2
Total 1/	-100.0	-100.0	-100.0	-100.0	100.0	-100.0

1/ Excludes reserves.

2/ Includes work on low-income countries.

3/ Includes offices, and support and governance departments. More details are provided in Table 20.

Box 1. Reallocating Staff Positions

Staff positions were reallocated within and across departments through a multistep process. First, the number of economists and other professionals was established.

- In area departments, the number of economists was determined by each country's relationship with the Fund-program, or surveillance. Surveillance countries were further divided by anticipated level of intensity. More economists were notionally assigned to program and intensive surveillance cases.
- In capacity building and functional departments (PDR, RES, and others), economist allocations were linked to such outputs as surveillance, research, and capacity building in accordance with their centrality to the refocusing.
- Staffing levels in support and governance departments were also reallocated in line with strategic priorities, incorporating efficiency gains, for example through outsourcing.

Table 4. FTEs and Budget by Department, FY 08-11

	FY 08		Percent Reduction FY 08 - FY 11	
	FTEs	Budget (in $ millions)	FTEs	FY08 dollars
Area Departments	815	235	14	16
AFR	228	70	11	14
APD	126	37	16	18
EUR	170	48	17	19
MCD	139	41	13	14
WHD	153	40	16	16
TA Functional Departments	682	204	14	16
FAD	150	47	17	17
INS (incl. RTIs)	99	33	12	21
LEG	68	20	20	22
MCM	216	68	12	14
STA	148	36	12	12
Functional Departments 1/	481	113	16	15
EXR	88	25	13	16
FIN	135	28	19	15
PDR	167	37	17	14
RES	91	23	12	14
Support	510	221	17	18
EUO	12	4	44	44
HRD and SSG	105	33	17	18
INV	9	2	-27	100
OAP	6	3	33	18
TGS	374	179	16	16
UNO	4	1	71	45
Governance and Other	414	150	9	6
SEC	62	18	18	25
OMD	67	20	17	18
Other Offices	24	47	0	-4
IEO	13	5	0	0
OED 2/	248	59	10	13
Total	2,901	922	13	14
Memorandum items (in levels):				
Gross departmental reductions:			418	
Units/margin:			-38	
Net Fund FTE reductions:			380	

[1] Excludes resources associated with the units.
[2] Indicative reduction of 8 FTEs a year for 3 years.

In the second step, division sizes were increased to 15–20 staff to reflect industry standards for span of control, and immediate offices were reduced to a target of 10–12 percent of total department staff. Results from these steps were then reviewed and adjusted to correct for inconsistencies, such as unworkably small immediate offices in the smaller departments.

Finally, management made interdepartmental reallocations to reflect strategic priorities outlined earlier.

AFR and MCD are least affected because they have more program countries. Positions for economists and other professionals have been least affected (a 10 percent reduction). Manager positions and some support positions have been reduced by over 20 percent each.

III. The Design of the Proposed MTB for FY 09–11

14. **The phasing-in of the expenditure reductions is affected by technological considerations on the nonpersonnel side and by the separations framework on the personnel side (Table 5)**.

Table 5. Savings Under the FY 09-11 MTB
(in millions of FY 08 dollars)

	FY 09	FY 10	FY 11
Relative to FY 08 budget			
Total savings	87	109	127
Personnel	54	73	84
Non-personnel	33	36	43
Relative to FY 08-10 MTB 1/			
Total savings	79	96	100
Personnel	50	63	67
Non-personnel	29	33	33

1/ FY 08-10 MTB, rolled forward to FY 11. See Table 16.

Table 6. Phasing of Staffing Adjustment

	FY 09	FY 10	FY 11
Separations as budgeted			
Number of staff separating	220	103	57
Phasing (in percent)	58	27	15
All volunteers depart in FY 10			
Number of staff separating	70	253	57
Phasing (in percent)	18	67	15

Table 7. Structure and Phasing of Adjustment

	FY 09	FY 10	FY 11
(Real percent change relative to FY 08 budget)			
Budgetary reductions	9.5	11.8	13.7
Area	10.4	13.7	15.8
Functional	9.3	11.8	13.0
Support and other 1/	9.3	10.6	13.1
(Change relative to FY 08 budget)			
Budgeted FTE reductions	220	323	380
Area	93	108	115
Functional	89	126	141
Support and other 1/	38	89	124

1/ Includes OED and IEO.

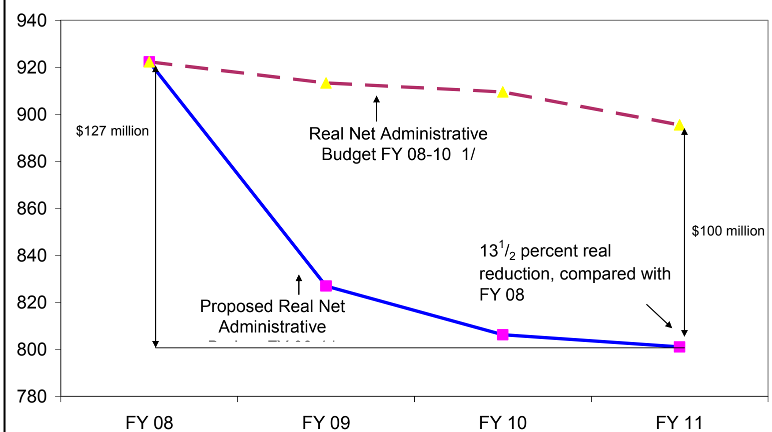
- **On the nonpersonnel side**, many measures such as the implementation of the new travel policy and new airline agreements, a smaller publications budget, and the elimination of selected subsidies can be implemented in FY 09. While the closure of selected resident representative offices will begin in FY 09, the full realization of the nonpersonnel gains will spill over into FY 10. Some of the more sizeable nonpersonnel measures, such as the leasing of HQ2 space to the World Bank, will need preparation and can be fully implemented in FY 10. Other measures such as further global sourcing of IT, will take longer.
- **From a budget perspective,** nearly 60 percent of the reductions in FTEs are planned for FY 09, with the remainder staggered over FY 10–11. The latter includes positions in areas where necessary IT procurement of sourcing will only be completed in the outer years (TGS, HRD, and also some in FIN). From the personnel perspective, voluntary separations can occur as late as May 13, 2009. As a consequence, the phasing of staff separations could shift significantly into FY 10. This is illustrated in Table 6.

15. **The depth and the speed of budgetary adjustment across departments has been designed to match the institution's strategic priorities**. Area departments will adjust the fastest: most of the changes that apply to them will come from the refocusing of outputs, and changes to the organizational structure and work practices (Table 7). Support departments will have to adjust more slowly: the bulk of the adjustment will come in FY 11 and FY 12.

IV. The Proposed Administrative MTB for FY 09–11

16. **The proposed MTB for FY 09–11 sets in motion the strategic and design considerations described above.** The net administrative budget proposed for FY 09 is $868 million, for FY 10 $880 million, and for FY 11 $895 million. Using an external deflator of 4 percent, the implied real reduction for FY 09 is 9½ percent, relative to the FY 08 net administrative budget.[4] As Figure 3 and Table 8 show, the real reduction over the three-year period is more than 13½ percent (with respect to FY 08).

Figure 3: The Proposed FY 09-11 Medium-Term Budget (in millions of FY 08 dollars)



1/ FY 11 figure is calculated assuming the policy stance of a one percent real reduction is continued.

Table 8. Net Administrative Budget, FY 08-11

	FY 08	FY 09	FY 10	FY 11
	(In millions of dollars)			
Approved net budget, FY 08-10 MTB	922	938	959	...
FY 08-10 MTB rolled forward one year	...	950	984	1,008
Proposed net budget, FY 09-11 MTB	...	868	880	895
	(In millions of FY 08 dollars 1/)			
Approved net budget, FY 08-10 MTB	922	913	910	...
FY 08-10 MTB rolled forward one year	...	913	910	896
Proposed net budget, FY 09-11 MTB	...	835	813	796
	(Real annual percent change)			
Approved net budget, FY 08-10 MTB 2/	-1.5	-1.0	-0.4	...
FY 08-10 MTB rolled forward one year 2/	...	-1.0	-0.4	-1.5
Proposed net budget, FY 09-11 MTB	...	-9.5	-2.6	-2.2
Memorandum items:				
FY 09-11 MTB relative to FY 08-10 MTB				
In millions of FY 08 dollars	...	-79	-96	-100
Real percent change	...	-8.6	-10.6	-11.2
FY 09-11 MTB relative to FY 08 budget				
In millions of FY 08 dollars	...	-87	-109	-127
Real percent change	...	-9.5	-11.8	-13.7

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ The FY 08-10 MTB is deflated using the FY 08-10 deflator (2.7 percent per annum); the FY 08-10 MTB rolled forward and the FY 09-11 MTB are deflated using the FY 09-11 deflator (4.0 percent per annum).
2/ Adjusting for the additional cost of holding the annual meetings overseas in FY 07 and FY 10, real percent reductions are uniformly 1 percent (see Table 16).

4 See Box 2 for details regarding the external delflator.

Box 2. The External Deflator

As agreed by the Executive Board, an external deflator is used in setting the Fund's nominal administrative budget.[1] The deflator is to be applied to all three years in setting the upcoming MTB envelope, and then updated each year in January, on a rolling basis. The deflator applied to the FY 08–10 envelope was 2.7 percent; the deflator applied to the proposed FY 09–11 envelope is 4.0 percent.

Table 9. The External Deflator
(in annual percent change)

	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
External deflator 1/	4.1	5.0	3.5	3.4	2.7	4.0
Washington-Baltimore CPI 2/	3.3	2.2	3.6	4.1	2.9	4.5
Compensation index 3/	4.4	6.1	3.4	3.1	2.7	3.7
Public sector compensation 4/	4.3	4.4	3.7	3.4	2.6	4.5
Private financial sector compensation 5/	4.8	8.8	2.8	2.2	2.9	3.1
Private industrial sector compensation 6/	3.0	4.1	4.3	4.6	2.0	2.4

Sources: U.S. Bureau of Labor Statistics, U.S. Office of Personnel Management.

1/ Calculated as: 0.7 x compensation index percent change + 0.3 x Washington-Baltimore CPI percent change.

2/ Washington-Baltimore Consumer Price Index, as published by the U.S. Bureau of Labor Statistics. For FY(X), percent increase in the index, January CY(X-1) over January CY(X-2), is used; except for FY 09 where, because of the compressed time frame for budget formulation, November CY(07) over November CY(06) is used.

3/ Calculated as: 0.5 x public sector percent change + 0.4 x financial sector percent change + 0.1 x private industrial sector percent change.

4/ Federal government scheduled salary increase for the locality pay area of Washington-Baltimore-Northern Virginia, as published by the U.S. Office of Personnel Management. For FY(X), percent increase effective January 1 CY(X-1) is used.

5/ Employment Cost Index for Total Compensation: Private Industry Workers: Service-providing industries: Finance and Insurance; as published by the U.S. Bureau of Labor Statistics. For FY(X), percent increase in the index, Q4 CY(X-2) over Q4 CY(X-3), is used.

6/ Employment Cost Index for Total Compensation: Private Industry Workers: Goods-producing industries: Management, Professional, and Related Occupations; as published by the U.S. Bureau of Labor Statistics. For FY(X), percent increase in the index, Q4 CY(X-2) over Q4 CY(X-3), is used.

[1] See Appendix I of "The FY2007–FY2009 Medium-Term Administrative and Capital Budgets" (3/31/06); and Box 1 of "The FY2008–FY2010 Medium-Term Administrative and Capital Budgets" (3/30/07).

17. **In the FY 09–11 MTB, contingency and planning reserves have been programmed as they were in the FY 08–10 MTB**. They have been set at 1 percent of the net administrative budget for FY 09, 1½ percent for FY10, and 2 percent for FY 11. This reflects two main considerations: First, uncertainties inherent in the implementation of the institutional restructuring require a buffer of reserves to insure against adverse developments. Second, this budget is unlike any in recent history in terms of the scale on which it has to accommodate the institution's shifting priorities over the medium term. In the outer years, there is a need to provide for planning reserves, should the needed allocations toward priority areas turn out to be larger than expected.

18. **The reduction in staffing is the main driver of the sizeable decline in expenditures because personnel outlays account for nearly three-quarters of the budget**. As Table 10 shows, FTE and contractual reductions cause expenditure on staffing to fall by 7½ percent in real terms, and by over 3½ percent in nominal terms in FY 09, even though standard staff costs are expected to rise 4½ percent. In the outer years, personnel

expenditures are budgeted to decline modestly in real terms. Other noteworthy drivers of expenditure changes include the following:

- A 6 percent real reduction in travel for FY 09; travel expenditures are expected to be 12 percent lower in real terms by FY 11 (both measured with respect to FY 08). This results from a policy decision to reduce travel volume, the introduction of the new travel policy and more favorable airline pricing.

- Building and other expenditures will fall 6 percent in real terms by FY 11, despite a slight nominal rise, due to some necessary IT replacements and building refurbishments. Spending on IT systems will also be necessary to facilitate day-to-day efficiency gains.

- As the Fund moves towards more external financing of TA and increased leasing of its properties, receipts are expected to rise over the MTB period. That said, expectations of increased receipts are subject to uncertainty. As external TA financing is used to hire outside experts and not to pay salaries of Fund staff, FTE levels will not be affected if external financing does not materialize. Appendix II provides more detail on receipts.

Table 10. Administrative Budget by Major Expenditure Category, FY 08-11

(in millions of U.S. dollars, unless otherwise indicated)

	FY 08	FY 09	FY 10	FY 11	FY 11 less FY 08
			(Nominal)		
I. Personnel	723	697	702	717	-6
II. Travel	100	98	99	99	-1
III. Building and other expenditures	161	163	165	170	10
IV. Annual Meetings	0	0	5	0	…
V. Reserves	10	9	13	18	…
Gross Expenditures	994	967	985	1004	10
Receipts	-71	-99	-105	-109	-38
Net Administrative Budget	922	868	880	895	-27
			(In FY 08 dollars)		
I. Personnel	723	670	649	637	-86
II. Travel	100	94	91	88	-12
III. Building and other expenditures	161	157	153	151	-9
IV. Annual Meetings	0	0	5	0	…
V. Reserves	10	8	12	16	…
Gross Expenditures	994	930	910	893	-101
Receipts	-71	-95	-97	-97	26
Net Administrative Budget	922	835	813	796	-127

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding. See also Tables 21 and 22.

Box 3. Achieving and Measuring Real Savings

The FY 08–10 MTB sought to reduce real administrative expenditures by one percent a year, measured using the external deflator (Box 2). Rolling this MTB forward to FY 09–11 for comparison purposes implies total real savings of some $27 million that would have been achieved through a mix of personnel ($17 million) and nonpersonnel ($10 million) savings (panel A of Table 11).

Table 11. Comparing the FY 08-10 and FY 09-11 MTBs 1/

(in millions of FY 08 dollars)

	FY2008	FY2009	FY2010	FY2011	Change, FY 08 - FY 11	
					Level	Percent
A. FY 08-10 MTB 2/						
Personnel	652	647	641	635	-17	-2.6
Non-Personnel	270	266	268	260	-10	-3.7
Total	922	913	910	896	-27	-2.9
B. FY09-11 MTB						
Personnel	652	598	579	568	-84	-12.8
Non-Personnel	270	237	234	227	-43	-15.9
Total	922	835	813	796	-127	-13.7
C. Difference						
Personnel	0	-50	-63	-67		
Non-Personnel	0	-29	-34	-33		
Total	**0**	**-79**	**-96**	**-100**		
Memorandum item:						
Funded staff positions	2901	2681	2579	2521	-380	-13.1

Source: Office of Budget and Planning.

1/ Fund-financed expenditures only; excludes salaries and benefits paid to non-staff employees working on externally-financed activities, and certain nonstandard benefits.

2/ Updating the deflator estimate, and assuming that the policy stance of a one percent real reduction is maintained.

The FY 09–11 MTB targets *an additional $100 million* in annual savings by FY 11, compared with last year's MTB (panel B). Measured in this way—MTB to MTB—the new MTB would save $67 million in personnel expenditures and $33 million in nonpersonnel expenditures (panel C).

Combining the two MTB scenarios means that annual net administrative spending would fall by $127 million in real terms over the period FY 08–11, underpinned by specific policies outlined in this paper. The reduction in staff positions is minimized by the $43 million projected savings in nonpersonnel areas (FY 08 to FY 11). Thus, the MTB incorporates a reduction of 380 funded staff positions and similar cutbacks in funding for contractuals to save $84 million in annual personnel costs by FY 11, relative to FY 08. As noted above, $17 million of this amount was already incorporated in the baseline FY 08–10 MTB and $67 million was added in the FY 09–11 MTB.

Table 12. Budgeted Personnel Expenditures /1

(in millions of U.S. dollars)

	FY 08	FY 11	FY 11 – FY 08 Percent Change
Nominal	652	639	-2.0
Real			
External deflator	652	568	-12.8
Implicit deflator	652	567	-13.1

1/ Fund-financed expenditures only.

A single deflator was used to translate all of the above figures into constant FY 08 prices. While the external deflator provides a useful benchmark, prices for different budget concepts can evolve in different ways. For example, personnel costs in the new MTB are assumed to increase by an (unweighted) average of 4.7 percent a year over FY 09–11, compared with the 4 percent annual increase in the external deflator. Estimating the "real" change in personnel costs using the external deflator approach understates the real adjustment compared with the true increase in salaries and benefits (Table 12).

V. THE RESTRUCTURING BUDGET

19. **The restructuring budget is a one-time appropriation over a multiyear period to meet the costs of refocusing the Fund.** Staff proposes that the one-time costs associated with the restructuring—estimated at up to $185 million in the most conservative scenario—be funded through a supplementary three-year appropriation.[5] Part of the cost would be defrayed by carrying forward unused FY 08 administrative budget resources (up to $30 million), so that the supplementary appropriation being sought would amount to $155 million.[6] Such an appropriation is subject to a separate Board decision (discussed below), authorizing management to incur expenses during FY 08–11 of up to the maximum of the appropriation. The execution of the restructuring budget will be reported to the Board periodically.

20. **The restructuring budget makes provisions for severance payments, allowances, and certain ancillary benefits.** Approximately two-thirds of it is expected to be used for severance payments to separating staff under the modified Separation Benefits Fund (SBF) approved by the Board in January 2008. The remainder would be spent on certain benefits, allowances, and other costs associated with separation, as well as a number of ancillary benefits.

21. **The restructuring budget has been formulated using fairly conservative assumptions:**

- There are three differences from the framework discussed in the February COB meeting: (i) the restructuring budget is formulated on the assumption that 300 staff (rather than 400 staff) will separate from the Fund,[7] reflecting lower overall reduction targets, and staff vacancies accumulated by end-FY 08; (ii) the period during which staff may decide to leave on voluntary terms has been extended from the initially envisaged 8 months to 12 months; and (iii) the budget includes all standard benefits and allowances (e.g., expatriate benefits) that will accrue to staff while delaying/deferring their separation, as well as the Fund's share of contributions to the

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[5] This is similar to the practice adopted by other international institutions that have been restructured. Under the 1997 compact agreement, the World Bank set aside $250 million; the Inter-American Development Bank (IADB) set aside a "multi-year realignment budget," that required a separate resolution from its Board.

[6] On the basis of the first 10 months of the financial year, staff project that the net administrative expenditures will be about $35 million under the approved FY 08 budget. To allow some margin of error, the envisaged carryover is limited to $30 million.

[7] These include a limited number of staff in OED and IEO with rights of return to the Fund.

Medical Benefits Plan (MBP) and the Staff Retirement Plan (SRP), for all separating staff on both their salaries and separation leave.[8]

- All separating staff are assumed to leave under the voluntary option, delaying their separation until May 13, 2009, and choose separation leave (under the SBF) instead of the newly introduced "Rule of Age 50" under the SRP.

- In formulating this budget, for each separating staff member, it is assumed that the Fund average salary is charged to the restructuring budget for 34.5 months, consisting of the maximum delay period (12 months) and the maximum eligibility period (22.5 months) under the modified SBF.

- The remainder of this budget consists of costs associated with separating staff, most notably outplacement services. It also contains certain ancillary benefits (described in Box 4); and initiatives to facilitate staff retooling via external mobility under the existing Short-Term External Assignment Program, and Leave Without Pay in the Interest of the Fund.

[8] Consistent with past business practice, and in compliance with International Accounting Standards (IAS 19) and with International Financial Reporting Standards (IFRS), Fund contributions to the SRP will be recognized when separations—whether mandatory or voluntary—are known. Actual contributions into the SRP for staff placed on separation leave (up to 22.5 months) will be made based on 14 percent of gross pensionable remuneration. Similar accounting treatment applies to the Fund's contributions to the MBP, Group Life Insurance (GLI), and tax allowances.

Box 4. Ancillary Separation Benefits

Management has decided to provide further assistance to separating staff by extending the applicability of (and eligibility for) certain existing benefits and allowances. These ancillary separation benefits, estimated at $11.5 million, are described below.

- **Outplacement Services ($8.1 million)** to facilitate the transition of a staff member to the external job market. These services are available for both mandatory and voluntary separations and in some cases to all staff:
  - Access to IMF in-house career counselor.
  - Access to services of an outplacement firm. This would include (i) one-on-one assistance on job search skills (interviewing, resume writing); (ii) career transition counseling program; and (iii) access to databases of private and public employers, international agencies, diplomatic missions, U.S. government departments, etc.
  - Access to short-term training sessions to enhance separating staff's skills.
  - Access to vacancies in IFIs, central banks, and private sector institutions.
  - Job search interview travel: one low fare economy class ticket for job search and interview outside the metropolitan area (for mandatory separations only).
- **Education Allowance ($3.4 million)** to provide for additional education allowances for the 2008/2009 academic year for both voluntary and mandatory separations, and for deferred separations for the 2009/2010 academic year.

Management has also decided to waive the following:

- **Payback obligations ($7 million in foregone reimbursements for all eligible staff)**:
  - **Appointment benefits**: staff members' obligation to repay the Fund for payments received in connection with his/her Fund appointment, if the staff member does not serve the first two years of his/her fixed-term appointment.
  - **Service requirement**: staff members' obligation to pay back costs associated with HR programs, such as short-term external assignments, study leave, sabbaticals, etc.

22. **Separation costs for three scenarios are summarized in Table 13.**[9]

- All scenarios assume that staff will delay their separation date until May 13, 2009.
- Scenarios 1 and 2 assume the maximum number of SBF eligible months (22.5). Scenario 1 assumes that staff will select the separation leave option, and thus continue to accrue service under both the SRP and the MBP by paying their contributions while the Fund continues to contribute its share into the plans. By contrast, Scenario 2 assumes that staff will choose the lump sum option.[10] Scenario 2 would cost about $18 million less than Scenario 1.

[9] As indicated in Table 13, certain costs associated with separating staff will be provided for by the Retired Staff Benefits Investment Account (RSBIA). These costs, which the Fund would have incurred regardless of the restructuring exercise, typically include a lump sum in lieu of unused annual leave (up to 60 days), a separation grant (inclusive of tax allowance for U.S. nationals), as well as resettlement allowances and separation travel. These costs are funded throught the Fund's regular annual contributions to the RSBIA.

[10] This option provides accrued service toward the age requirement for retiree medical eligibility under the MBP, as per the newly proposed post-retirement medical coverage policy, and not under the SRP.

Table 13: Multi-Year Restructuring Budget
(in millions of U.S. dollars; based on 300 separations with one-year delay)

	Scenario 1 Separation leave 22.5 months	Scenario 2 Lump sum 22.5 months	Scenario 3 Separation leave 15 months 1/
SBF salary payments 2/	76	76	51
One-year delay salary payments	39	39	39
Contribution to the SRP 3/	27	9	21
Tax allowance (U.S. nationals) 4/	14	14	11
MBP 5/	10	10	8
Home leave	3	3	3
Spouse and Child Allowances and Group Life Insurance	1	1	1
Ancillary benefits	12	12	12
Outplacement and other services	8	8	8
Education allowance	3	3	3
Retooling and retraining	4	4	4
Of which : Short-Term External Assignment Program	2	2	2
Total	**185**	**167**	**148**
New multi-year appropriation	155	137	118
FY2008 under spend	30	30	30
Memorandum items:			
Nonrecoverable costs	7	7	7
Retired Staff Benefits Investment Account (RSBIA)	62	62	62
Separation grant 6/	41	41	41
60 days of annual leave	10	10	10
Separation travel	8	8	8
Resettlement allowance	3	3	3

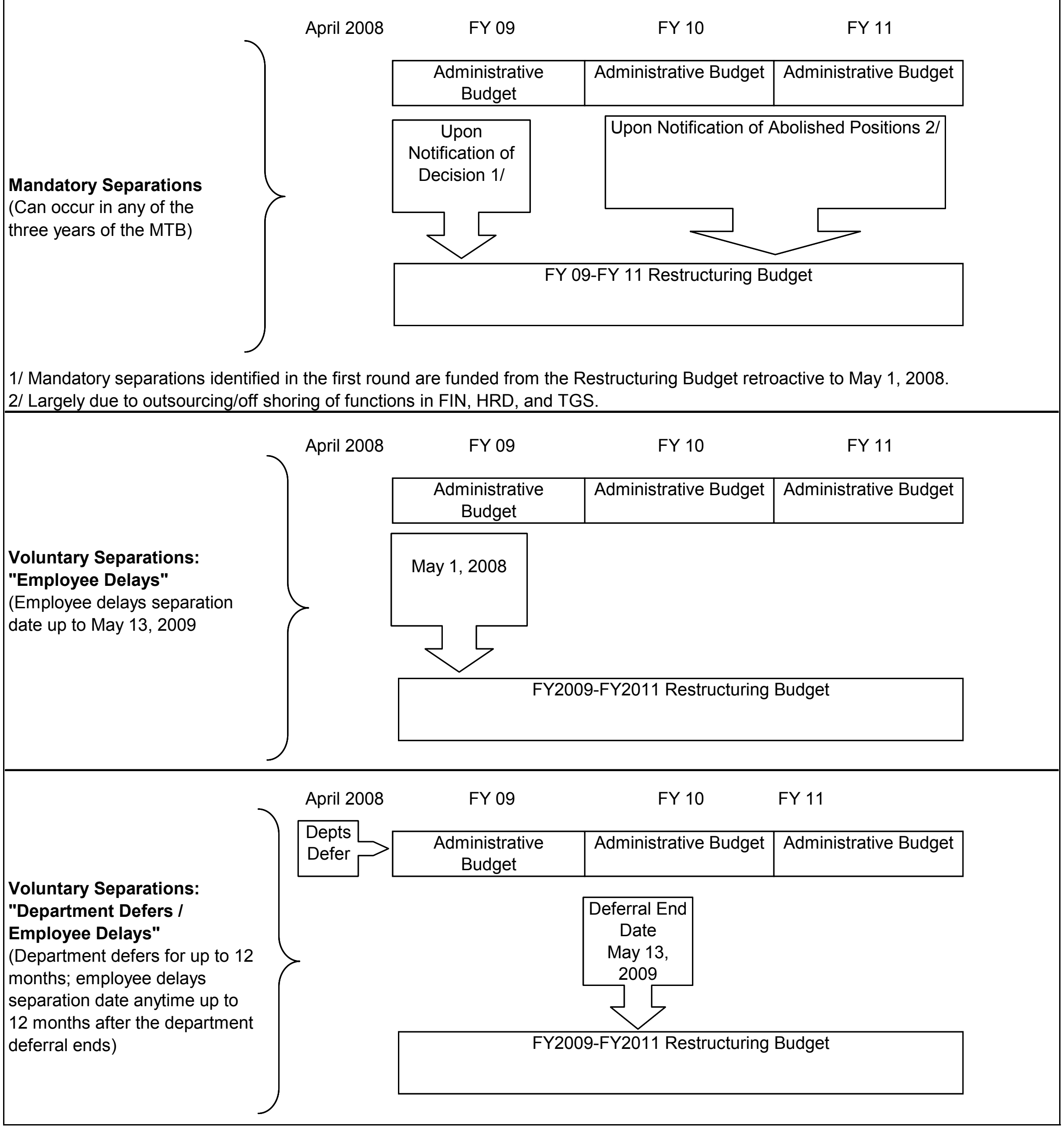
Source: Office of Budget and Planning (Totals may not add due to rounding).
Note: Figures may not add to totals due to rounding.
1/ Based on the sample of staff used to illustrate the cost of reforming the SBF.
That sample assumed that 15 percent of staff members would separate at the Rule of 85 thus receiving reduced benefits, while about 6 percent of the staff would qualify for the minimum SBF payment.
2/ All scenarios assume staff will delay their separation by 12 months, until May 13, 2009.
3/ Scenarios 1 and 3 provide for the SRP contingent liabilities arising from staff choosing the separation leave option under the SBF, thus remaining on the Fund's payroll for the entire period, whereas Scenario 2 reflects only the Fund's 14 percent of gross pensionable remuneration for FY 09 since staff choosing the lump sum option under the SBF cease accruing rights under the SRP (included in Scenarios 1 and 3).
4/ Assumes that 25 percent of those separating are U.S. nationals.
5/ Under Scenario 2, it is assumed that all separating staff are eligible for retiree medical coverage.
6/ Based on the maximum of 26 weeks; includes tax allowances for U.S. nationals.

- Scenario 3 is similar to Scenario 1, except that separation leave is assumed to be an average of 15 months.[11] The costs under this scenario are some $37 million lower than Scenario 1.
- Considering the uncertainty regarding separation choices (voluntary versus mandatory), the vehicle of separation (SRP Rule of Age 50 versus SBF), and timing, staff is of the view that the restructuring budget should be formulated on the basis of the most conservative assumptions. Should budgeted funds not be used, they would lapse at the end of the period (i.e., April 30, 2012).

[11] Based on the sample of staff used to illustrate the cost of reforming the SBF, as described in footnote 1 to Table 13.

23. **The restructuring budget will cover all costs related to separating staff.** Figure 4 illustrates the three modalities whereby staff costs will be charged to the restructuring budget.

Figure 4. Funding Separations From The Restructuring Budget



VI. The Capital Budget

24. **Executive Board approval is sought for an appropriation of \$48.3 million for capital projects beginning in FY 09**. Directors are also asked to take note of the capital budget envelope proposed for the following two years, resulting in the FY 09–11 capital plan of \$138 million. The appropriation for FY 09 provides for expenditures over the next three

years, and of this amount over one-third is for building facility projects and the remainder for information technology projects. Appendix III gives further details on the capital plan.

Table 14. Capital Plans, FY 07-11 1/
(in millions of U.S. dollars)

	FY 07	FY 08	FY 09	FY 10	FY 11	Total
	FY 07-09 Plan					
Total	**48**	**47**	**46**			**141**
Building Facilities	20	21	14			55
Information Technology	28	26	32			86
		FY 08-10 Plan				
Total		**47**	**47**	**45**		**138**
Building Facilities		21	15	19		55
Information Technology		26	32	26		83
Enterprise information		10	9	7		26
Financial & administrative		5	6	6		17
Infrastructure & connectivity		11	17	12		40
IT planning & management		1	0	0		1
			FY 09-11 Plan			
Total			**48**	**45**	**45**	**138**
Building Facilities			17	19	22	58
Information Technology			32	26	23	80
Enterprise information			9	7	11	27
Financial & administrative			6	6	8	20
Infrastructure & connectivity			15	11	4	30
IT planning & management			2	1	1	4

Source: Office of Budget and Planning.

1/ Figures indicate appropriations approved or requested for capital projects beginning in each financial year.

25. **In real terms, the capital budget reflects a significant downward adjustment**. Over the last decade, real capital expenditures have varied, inter alia, because of security enhancements for building facilities and IT expenditures. The security initiatives are now complete and no new funding is being sought for them.

26. **The overall size of the capital budget is effectively capped, relative to two benchmarks, and the appropriation being sought for FY 09 is in accordance with these caps**:

- **For building facility capital projects** (life cycle replacement and modernization), the annual appropriations have been capped at 3 percent (on a moving average basis) of the asset replacement value of the main HQ1 building—an industry-wide norm for buildings of the age and type of HQ1. With the addition of HQ2, this benchmark is being reviewed. The FY 10 budget will be formulated in a way that incorporates the results of this review.

- **For total IT expenditures**, the cap is set at 11 percent of the Fund's aggregate net administrative and capital budgets—a benchmark based on the practices of other major financial institutions.

27. **The actual outcomes with respect to these benchmarks have varied over time and are expected to do so over the FY 09–11 period.** The building facilities ratio would rise and the IT ratio decline, mostly reflecting building facilities and IT asset replacement cycles, respectively. That said, both ratios are expected to be below the reference benchmarks (Table 15).

Table 15. Capital Budget Benchmarks
(in percent)

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11
Building Facilities 1/	2.4	2.1	1.5	1.6	1.7	2.2
IT 2/	9.6	9.7	10.1	11.0	10.5	9.7

Source: Office of Budget and Planning.

1/ Three-year moving average (in FY 02 dollars) as a percentage of replacement value of HQ1 (estimated replacement value as of FY 02).
2/ Total IT expenditures (capital and administrative) as a percent of total net administrative and capital budgets. Fluctuations mostly due to asset replacement cycles

28. **About one-half of the budget requested for FY 09 is for projects that preserve the integrity of the Fund's asset base**. These projects are largely independent of staffing levels. They include office and building renovations and the replacement of building and technology infrastructure components at the end of their useful lives. The building facility portfolio includes a number of maintenance projects that were deferred in favor of investments in security enhancements following the September 2001 events. In the IT area, these projects include life cycle replacements of server and storage devices, printers, and microcomputers, as well as upgrades to hardware and software that support the Fund's network and communications infrastructure.

29. **The other part of the capital budget is aligned with the business needs of the institution.** In its formulation extensive consultations with the end-users of the projects have been conducted to ascertain that the projects are aligned with the overall refocusing strategy. Project sponsors have also worked closely with the governance bodies overseeing the capital budget to evaluate all projects competing for funding.[12] Particular attention has been paid to (i) supporting surveillance and LIC work; (ii) enabling a new framework for technical assistance, (iii) strengthening collaboration within and outside the Fund; and (iv) facilitating more efficient work practices.

30. **The capital budget also includes new and revised projects that will help facilitate the institutional restructuring and refocusing.** For example, projects such as the Financial Stability Portal, the Economic Data Facilities Warehouse, and the Financial Risk Analysis will support deeper analysis of macro-financial linkages and spillovers, streamline the WEO production process, and strengthen forecasting for surveillance.

[12] See Appendix III for details

Similarly, such projects as TA Regional Prioritization, TA Costing, TA Donor Portal and Collaboration with Trusted Partners will support capacity building activities. The projects Desktop@IMF, the Human Capital Management (HCM) Reengineering, the integrated Budgeting and Business Intelligence System (iBBIS) will help modernize the Fund.

VII. Supplementary Tables

Table 16. Rolling Forward the Medium-Term Budget, FY 08 - 11
(n millions of U.S. dollars)

	FY 08	FY 09	FY 10	FY 11
A. Approved FY 08-FY 10 MTB				
Net budget	922.3	938.0	959.4	
Of which: Overseas Annual Meetings	0.0	0.0	5.4	
Central receipts estimate	71.4	71.7	71.7	
Gross expenditures	993.8	1,009.7	1,031.1	
		69.8	68.0	66.2
B. Rolling forward the FY 08-10 MTB to FY 09-11				
Starting point top-down constraint on net expenditures 1/		938.0	959.4	970.2
Of which: Overseas Annual Meetings		0.0	5.4	0.0
Changes in assumptions: inflation		12.0	24.7	37.7
Revised starting point for net expenditures		950.0	984.0	1,007.8
Of which: Overseas Annual Meetings		0.0	5.6	0.0
C. Policy changes: restructuring		-81.8	-104.3	-113.0
D. FY 09-11 MTB				
Net budget		868.2	879.7	894.9
Of which: Overseas Annual Meetings		0.0	5.4	0.0
Revised central receipts estimate		98.6	105.0	109.3
Gross expenditures		966.8	984.7	1,004.2
Upper receipts estimate		98.6	111.0	119.0
Upper limit on gross expenditures		966.8	990.7	1,013.9
Memorandum items				
FY 08-10 Deflator (percentage change)	2.7	2.7	2.7	
FY 09-11 Deflator (percentage change)		4.0	4.0	4.0
Real net expenditures (FY 08 dollars)				
FY 08-FY 10 MTB	922.3	913.3	909.6	
Revised starting point from FY 08-10 MTB		913.4	909.8	895.6
FY 09-FY 11 MTB		834.8	813.3	795.6
Change		*-78.6*	*-96.5*	*-100.0*
Percentage change		*-8.6*	*-10.6*	*-11.2*
Real gross expenditures (FY 08 dollars)				
FY 08-10 MTB	993.8	983.1	977.6	
Revised starting point from FY 08-10 MTB 2/		983.2	977.8	962.2
FY 09-11 MTB		929.6	910.4	892.7
Change		-53.6	-67.4	-69.5
Percentage change		*-5.5*	*-6.9*	*-7.2*
Annual percentage change				
Approved FY 08-10 MTB				
Nominal net expenditures	1.1	1.7	2.3	
excluding the additional cost of holding Annual Meetings overseas	1.7	1.7	1.7	
Revised starting point				
Nominal net expenditures		3.0	3.6	2.4
excluding the additional cost of holding Annual Meetings overseas		3.0	3.0	3.0
FY09-FY11 MTB				
Nominal net expenditures		-5.9	1.3	1.7
excluding the additional cost of holding Annual Meetings overseas		-5.9	0.7	2.4

Source: Office of Budget and Planning.

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

1/ The starting point for the first two years of the new MTB is the last two years of the old MTB, and the assumption that the FY 11 envelope increases by the percentage change in the FY 08-10 deflator (2.7 percent), less the policy stance reduction (1 percent).

2/ Assumes nominal receipts in FY 11 are equal to nominal receipts estimated for FY 10 under the FY 08-10 MTB.

Table 17. Estimated Gross Administrative Budgeted Expenditures by Key Output Area and Constituent Output, FY 08 - FY 11 1/
(In millions of U.S. Dollars)

	FY 08	FY 09	FY 10	FY 11
Global Monitoring	171.6	169.5	173.8	179.3
Oversight of the international monetary system	51.1	44.1	45.3	46.6
Multilateral surveillance	44.3	48.8	51.4	53.8
Cross-country statistical info. & methodologies	29.9	31.0	30.9	31.6
General research	3.8	2.7	2.7	2.7
General outreach	42.5	42.9	43.5	44.5
Country specific and regional monitoring	346.2	350.3	355.0	361.8
Bilateral surveillance	278.5	271.4	274.5	279.6
Regional surveillance	30.0	34.8	36.2	37.6
Standards and codes and financial sector assessments	37.6	44.1	44.3	44.6
Country programs and financial support	228.5	202.5	203.1	201.4
Generally available facilities	98.4	77.4	77.3	76.7
Facilities specific to low-income countries	130.2	125.2	125.7	124.7
Capacity Building	237.8	235.9	239.7	243.7
Technical assistance	167.0	167.8	172.2	175.8
External training	70.8	68.0	67.5	67.9
Total, excluding reserves	984.1	958.2	971.6	986.2
Reserves	9.6	8.6	13.1	18.0
Total gross expenditures	993.7	966.8	984.7	1,004.2
Memorandum items				
Support	313.1	292.1	297.9	305.6
Governance	91.5	89.0	91.1	90.2

Source: Office of Budget and Planning.

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

1/ Support and Governance expenditures are allocated across outputs.

Table 18. Estimated Gross Real Administrative Budgeted Expenditures by Key Output Area and Constituent Output, FY 08-11 1/
(in millions of FY 08 U.S. dollars)

	FY 08	FY 09	FY 10	FY 11	FY 11 less FY 08
Global Monitoring	171.6	163.0	160.7	159.4	-12.2
Oversight of the international monetary system	51.1	42.4	41.9	41.4	-9.7
Multilateral surveillance	44.3	46.9	47.5	47.8	3.5
Cross-country statistical info. & methodologies	29.9	29.8	28.5	28.1	-1.8
General research	3.8	2.6	2.5	2.4	-1.4
General outreach	42.5	41.3	40.2	39.6	-2.9
Country specific and regional monitoring	346.2	336.9	328.3	321.6	-24.5
Bilateral surveillance	278.5	261.0	253.8	248.6	-29.9
Regional surveillance	30.0	33.5	33.5	33.4	3.3
Standards and codes and financial sector assessments	37.6	42.4	41.0	39.6	2.1
Country programs and financial support	228.5	194.7	187.7	179.1	-49.5
Generally available facilities	98.4	74.4	71.5	68.2	-30.2
Facilities specific to low-income countries	130.2	120.3	116.3	110.9	-19.3
Capacity Building	237.8	226.8	221.6	216.7	-21.2
Technical assistance	167.0	161.4	159.2	156.3	-10.7
External training	70.8	65.4	62.4	60.4	-10.5
Total, excluding reserves	984.1	921.3	898.3	876.7	-107.4
Reserves	9.6	8.9	14.2	20.2	10.6
Total gross expenditures	993.7	929.6	910.4	892.7	-96.8
Memorandum items					
Support	313.1	280.8	275.4	271.7	-41.4
Governance	91.5	85.6	84.2	80.2	-11.3

Source: Office of Budget and Planning.

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

1/ Support and Governance expenditures are allocated across outputs.

Table 19. Estimated Gross Administrative Budgeted Expenditure Shares by Key Output Area and Constituent Output, FY 08 - FY 11 1/
(In percent share of total gross expenditures, excluding reserves)

	FY 08	FY 09	FY 10	FY 11
Global Monitoring	17.4	17.7	17.9	18.2
Oversight of the international monetary system	5.2	4.6	4.7	4.7
Multilateral surveillance	4.5	5.1	5.3	5.5
Cross-country statistical info. & methodologies	3.0	3.2	3.2	3.2
General research	0.4	0.3	0.3	0.3
General outreach	4.3	4.5	4.5	4.5
Country specific and regional monitoring	35.2	36.6	36.5	36.7
Bilateral surveillance	28.3	28.3	28.2	28.4
Regional surveillance	3.1	3.6	3.7	3.8
Standards and codes and financial sector assessments	3.8	4.6	4.6	4.5
Country programs and financial support	23.2	21.1	20.9	20.4
Generally available facilities	10.0	8.1	8.0	7.8
Facilities specific to low-income countries	13.2	13.1	12.9	12.6
Capacity Building	24.2	24.6	24.7	24.7
Technical assistance	17.0	17.5	17.7	17.8
External training	7.2	7.1	6.9	6.9
Total, excluding reserves	100.0	100.0	100.0	100.0
Reserves	9.6	8.6	13.1	18.0
Total gross expenditures	101.0	100.9	101.3	101.8
Memorandum items				
Support	31.8	30.5	30.7	31.0
Governance	9.3	9.3	9.4	9.1

Source: Office of Budget and Planning.

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

1/ Support and Governance expenditures are allocated across outputs.

Table 20: Expenditure Allocation, FY 08 - FY 11

(in millions of FY 08 dollars)

Key Output Area	TOTAL 1/			AREA DEPTS			CAPACITY BUILDING			NON-TA FUNCTIONAL			SUPPORT & OFFICES			SPECIAL UNITS			OTHER 2/		
	FY08	FY11	Diff	FY08	FY11	Diff	FY08	FY11	Diff	FY08	FY11	Diff	FY08	FY11	Diff	FY08	FY11	Diff	FY08	FY11	Diff
Global Monitoring	107.7	101.9	-5.8	4.3	3.9	-0.4	32.4	31.7	-0.7	47.9	41.1	-6.9	11.8	14.0	2.3		5.3	5.3	11.3	5.9	-5.4
Oversight of the IMS	30.4	25.6	-4.8	0.2	0.2	0.0	7.8	7.1	-0.7	13.8	11.9	-1.8	0.7	2.5	1.9		0.4	0.4	8.0	3.5	-4.5
Multilateral surveillance	28.3	30.8	2.5	1.9	1.8	-0.1	8.5	8.8	0.3	14.9	12.1	-2.9	1.8	2.8	1.0		4.7	4.7	1.2	0.7	-0.5
Cross-country statistical information & methodologies	19.1	18.2	-0.9	0.0	0.0	0.0	14.1	13.9	-0.2	0.3	0.5	0.1	3.9	3.4	-0.5		0.1	0.1	0.8	0.4	-0.4
General research	2.4	1.2	-1.2	0.1	0.2	0.1	0.1	0.1	0.0	2.1	0.8	-1.2	0.0	0.1	0.0		0.0	0.0	0.1	0.1	0.0
General outreach	27.5	26.0	-1.5	2.2	1.8	-0.4	1.9	1.9	0.0	16.8	15.7	-1.1	5.4	5.3	-0.1		0.1	0.1	1.2	1.2	0.0
Country-Specific and Regional	196.3	177.3	-19.1	119.2	106.3	-12.9	44.5	39.5	-5.0	14.0	12.9	-1.1	9.1	8.3	-0.7		0.9	0.9	9.5	9.3	-0.2
Bilateral surveillance	157.8	136.8	-21.0	106.4	90.9	-15.5	25.1	21.4	-3.7	12.1	11.3	-0.8	6.5	4.7	-1.7		0.7	0.7	7.8	7.8	0.0
Regional surveillance	18.4	21.7	3.3	11.7	15.0	3.3	2.6	2.7	0.1	1.6	1.5	-0.1	1.6	1.4	-0.2		0.1	0.1	0.8	1.0	0.1
Standards and codes and financial sector assessments	20.1	18.8	-1.3	1.1	0.4	-0.7	16.8	15.3	-1.5	0.3	0.2	-0.1	1.0	2.2	1.2		0.1	0.1	0.9	0.6	-0.3
Country Programs and Financial Support	122.4	103.5	-19.0	77.6	62.7	-15.0	10.8	8.3	-2.5	26.7	17.4	-9.3	0.9	3.8	2.9		3.8	3.8	6.5	7.6	1.1
Generally available facilities	55.6	43.2	-12.4	35.4	25.7	-9.6	5.9	4.4	-1.4	10.8	6.8	-3.9	0.6	2.6	2.0		0.3	0.3	2.9	3.3	0.3
Facilities specific to low-income countries	66.8	60.3	-6.6	42.3	36.9	-5.4	4.9	3.9	-1.1	15.9	10.5	-5.3	0.2	1.1	0.9		3.5	3.5	3.5	4.3	0.8
Capacity Building	153.1	142.2	-10.9	8.6	4.6	-4.0	130.2	105.1	-25.2	1.0	0.8	-0.3	6.6	7.5	0.9		0.7	0.7	6.7	23.6	16.9
Technical assistance	107.3	102.3	-5.0	7.2	4.4	-2.7	92.3	73.0	-19.3	0.7	0.5	-0.2	2.2	2.2	0.0		0.5	0.5	5.0	21.7	16.8
External training	45.7	39.9	-5.9	1.4	0.1	-1.3	37.9	32.1	-5.8	0.4	0.3	-0.1	4.3	5.3	0.9		0.2	0.2	1.7	1.9	0.2
Support	313.1	271.7	-41.4	26.6	20.4	-6.2	28.2	23.7	-4.5	24.7	24.6	-0.2	217.5	183.3	-34.2		2.0	2.0	16.0	17.6	1.6
Governance	91.5	80.2	-11.3							2.4	3.3	0.9	0.7	0.7	0.0		0.0	0.0	88.4	76.1	-12.3
Total	984.1	876.7	-107.4	236.4	197.8	-38.6	246.2	208.3	-37.8	116.7	100.0	-16.8	246.5	217.7	-28.8		12.8	12.8	138.3	140.1	1.8

Source: Office of Budget and Planning

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

1/ Excludes reserves. Governance and support expenditures are not allocated across outpus.
2/ Includes governance departments and central resources.

Table 21. Administrative Budget by Major Expenditure Category, FY 08 - 11
(in millions of U.S. dollars, unless otherwise indicated)

	FY 08	FY 09	FY 10	FY 11
		(nominal)		
I. Personnel	723.1	696.8	702.2	716.8
Salaries	424.6	417.2	422.4	433.4
Benefits	298.5	279.6	279.8	283.3
II. Travel	100.5	98.0	98.8	99.1
III. Building and other expenditures	160.6	163.4	165.2	170.3
IV. Annual Meetings	0.0	0.0	5.4	0.0
V. Reserves	9.6	8.6	13.1	18.0
Gross Expenditures	993.7	966.8	984.7	1004.2
Receipts	-71.4	-98.6	-105.0	-109.3
Net Administrative Budget	922.3	868.2	879.7	894.9
		(percentage share of total net expenditures)		
I. Personnel	78.4	80.3	79.8	80.1
Salaries	46.0	48.1	48.0	48.4
Benefits	32.4	32.2	31.8	31.7
II. Travel	10.9	11.3	11.2	11.1
III. Building and other expenditures	17.4	18.8	18.8	19.0
IV. Annual Meetings	0.0	0.0	0.6	0.0
V. Reserves	1.0	1.0	1.5	2.0
Gross Expenditures	107.7	111.4	111.9	112.2
Receipts	-7.7	-11.4	-11.9	-12.2
Net Administrative Budget	100.0	100.0	100.0	100.0
		(annual nominal percent change)		
I. Personnel	...	-3.6	0.8	2.1
Salaries	...	-1.7	1.3	2.6
Benefits	...	-6.3	0.1	1.3
II. Travel	...	-2.5	0.8	0.3
III. Building and other expenditures	...	1.7	1.1	3.1
Gross Expenditures	...	-2.7	1.9	2.0
Receipts	...	38.0	6.5	4.1
Net Administrative Budget	...	-5.9	1.3	1.7

Source: Office of Budget and Planning.

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

Table 22. Real Administrative Budget by Major Expenditure Category, FY 08 - FY 11

(In millions of FY 08 dollars, unless otherwise indicated)

	FY 08	FY 09	FY 10	FY 11	FY 11 less FY 08
			(real)		
I. Personnel	723.1	670.0	649.2	637.2	-85.9
Salaries	424.6	401.1	390.5	385.3	-39.3
Benefits	298.5	268.9	258.7	251.9	-46.6
II. Travel	100.5	94.2	91.4	88.1	-12.3
III. Building and other expenditures	160.6	157.1	152.7	151.4	-9.2
IV. Annual Meetings	0.0	0.0	5.0	0.0	0.0
V. Reserves	9.6	8.3	12.1	16.0	6.4
Gross Expenditures	993.7	929.6	910.4	892.7	-101.0
Receipts	-71.4	-94.8	-97.1	-97.2	-25.7
Net Administrative Budget	922.3	834.8	813.3	795.6	-126.8
			(annual real percent change 1/)		
I. Personnel	...	-7.3	-3.1	-1.9	-11.9
Salaries	...	-5.5	-2.6	-1.3	-9.2
Benefits	...	-9.9	-3.8	-2.6	-15.6
II. Travel	...	-6.2	-3.0	-3.5	-12.3
III. Building and other expenditures	...	-2.2	-2.8	-0.9	-5.7
IV. Annual Meetings	...	n/a	n/a	n/a	n/a
V. Reserves	...	n/a	n/a	n/a	n/a
Gross Expenditures	...	-6.5	-2.1	-1.9	-10.2
Receipts	...	32.7	2.4	0.1	36.0
Net Administrative Budget	...	-9.5	-2.6	-2.2	-13.7

Source: Office of Budget and Planning.

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

1/ Figures shown for FY 11 less FY 08 are real percent changes, FY 11 relative to FY 08.

APPENDIX I

FINANCING ADMINISTRATIVE EXPENSES

31. **This appendix reconciles the budget proposals with the Fund's income statement.** Using the accompanying paper on income, it derives the Fund's income shortfall. The differences between the administrative and capital budgets, and the administrative expenses shown in the Fund's financial statements, are described in Box 5. Table 23 shows the impact of projected administrative expenses on the Fund's net income in FY2008 and beyond. Although the data in the Fund's financial statements are expressed in SDRs, the data in this section are presented in US dollars in order to facilitate comparisons with the budget information contained in this paper.

Box 5. Administrative/Capital Budgets and Administrative Expenses

The Fund's administrative budget differs from the concept of the Fund's administrative expenses (used in financial statements). This box provides a reconciliation between the two concepts.

The definition of administrative expenses used by the Fund in its financial statements accords with International Financial Reporting Standards (IFRS). Two types of adjustments are required to translate the administrative budget figures into administrative expenses. They both affect capital expenditure. As regards capital expenditure, the administrative expenses reported under IFRS must include:

- depreciation expenses for capitalized assets over periods reflecting their useful lives: major buildings, such as HQ2, are depreciated over 30 years; IT equipment is depreciated over 3–5 years; and
- certain "capital" budget items, which are not capitalized under the Fund's accounting treatment, that are expensed directly in administrative expenditures in the year the disbursements are made.[14]

32. **Key points on administrative expenses are the following:**

- The FY 08 estimated outturn for capital budget expenditures is $46 million. Of this, $25 million is capitalized on the Fund's balance sheet. The remaining $21 million, which includes expenditures on renovations and repairs, security enhancements, and some IT development work, is expensed directly.

[14] Examples of such items include some repair work and those below a threshold of $100,000.

- In addition, a depreciation charge of $35 million related to assets capitalized in previous years is also expensed.

- Thus, the capital items included in overall administrative expenses in FY 08 total $56 million compared with the capital budget expenditure figure of $46 million.

- With the projected outturn for the net administrative budget in FY 08 of $886 million, administrative expenses (including capital–related adjustments) are estimated to be $942 million, and with income of $845 million, there is an estimated income shortfall of $97 million in FY2008.

Over the course of the medium–term budget, administrative expenses very much mirror the path of the net administrative budget, reflecting the $100 million real reduction in spending. In nominal terms, net administrative expenses decline 1.5 percent in FY 09, rise 1.4 percent in FY 10, and rise 1.9 percent in FY 11.

In turn, with projected income rising from about $832 million in FY 09 to about $1,023 million in FY 12, there is a small surplus in net operational income in FY 12.

33. **Under Art. IV, Section 2(b), staff is required to provide estimates of the expenses associated with the administration of the Multilateral Debt Relief Initiative (No. 1 Trust) (MDRI–I), Poverty Reduction and Growth Facility–Exogenous Shocks Facility Trust (PRGF–ESF), and the SDR Departmen**t.[15]

- The estimated cost of administering the MDRI–I in FY 08 is SDR 2.3 million, compared with a budget estimate of SDR 1.6 million. The projected cost for FY 09 is SDR 1.7 million.

- The estimated cost of administering the PRGF–ESF Trust account in FY 08 is SDR 42.8 million, compared with a budget estimate of SDR 50.2 million. The projected cost for FY 09 is SDR 43.0 million.

- The estimated cost of administering the SDR Department in FY 08 is SDR 1.5 million, compared with a budget estimated of 1.3 million. The projected cost for FY 09 is SDR 1.4 million.

[15] In recent years, the Executive Board has decided not to seek reimbursement for the costs of administering the PRGF–ESF Trust. For example, see "Review of the Fund's Income Position for FY2007 and FY2008," April 9, 2007.

Table 23. Projected Net Income and Administrative Expenses, FY 08 – FY 12

(in millions of U.S. dollars)

	Projected	Budget			
	FY 08	FY 09	FY 10	FY 11	FY 12
Net administrative budget	886	868	880	895	931
Add: Capital budget items not capitalized	21	21	19	18	18
Depreciation expense	35	38	42	46	46
A. Administrative expenses after capital-related adjustments	942	928	941	959	994
Percent change over previous year	0.8	-1.5	1.4	1.9	3.7
B. Operational income	845	832	858	934	1,023
Lending income	307	238	140	101	99
Investment income	432	393	508	576	644
Interest free resources	100	125	133	181	203
Reimbursements	6	76	76	76	76
C. Net operational income (B-A)	-97	-96	-84	-25	28
Memorandum items:					
Administrative expenses after capital-related adjustments (FY 08 dollars)	942	892	870	852	850
Operational income (FY 08 dollars)	845	800	793	830	874
Capital expenditures (budget definition)	46	59	52	44	44
Capital-related expenses (accounting definition)	56	60	62	64	64
Assumed U.S. dollar/SDR exchange rate	1.57	1.65	1.65	1.65	1.65

Sources: Finance Department and Office of Budget and Planning.

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

Appendix II

Receipts

1. **Increasing Fund receipts is a central part of the new budget strategy.** Receipts fall into two categories: (i) general receipts, which result from items like sharing arrangements with the World Bank, parking revenues, Concordia Hotel, etc; and (ii) external donor funding, principally for TA and training. In maximizing non–personnel savings, efforts have been made to increase general receipts where possible, without compromising the attractiveness of the Fund as an employer. Additional donor support for capacity building galvanized through topical trust funds (see below) is expected to help the Fund offset some of the cuts in TA and training. Moreover, should there be strong demand for TA delivered through RTACs, there could also be an increase in TA output in real terms relative to the pre–downsizing baseline.

Table 24. Receipts, FY 08 – FY 11
(in millions of U.S. dollars)

	FY 08	FY 09	FY 10	FY 11	Percent Change FY11 - FY08 1/
Externally financed technical assistance 2/	44	61	60-69	63-76	32
Scholarships (including administrative fees)	5	6	5	5	-19
Fund-sponsored sharing agreements 3/	6	5	5	6	-22
Publications income	4	4	4	4	-9
Concordia apartment	2	3	4	4	53
Other miscellaneous reimbursements 4/	7	17	20	21	153
Of which:					
HQ2 leasing	0	2	5	5	...
Reimbursement of investment office costs	...	3	3	3	...
Travel commissions and rebates	5	10	10	10	71
Parking	2	3	4	4	57
Total	71	99	102-111	106-119	36

Source: Office of Budget and Planning.

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

1/ Percentage change based on central estimates.

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

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

4/ Includes reimbursement for overseas offices and revenue and funding from agreements with donors, reimbursement from the SRP of administrative expenses of the Investment Office, rent from HQ2 commercial leases, travel commissions and rebates, and interest.

APPENDIX III

The FY 09 Capital Budget and the Medium–Term Capital Plan

A. The Fund's Capital Budget: An Overview

1. **The capital budget comprises projects under three categories**: building facilities, IT, and major building works (Table 25).

- Building facilities comprise regulatory, replacement, revenue generating, and new facility projects.
  - *Regulatory or security project*s are mandated by changes to building codes or industry regulations, or are considered to be essential for the protection of Fund staff and property.
  - *Replacement projects* provide for the replacement of building structures or equipment for life–cycle reasons, business requirements, or to increase reliability to avoid high cost and risk of system failure towards the end of their life-cycle.
  - *Revenue generating* projects enable the Fund to develop with partners new business opportunities to earn income on a sustainable basis on existing capacity.
  - *New facility projects* provide new functions or capacity within the existing headquarters buildings (e.g., the reconfiguration of office and cafeteria space to accommodate the childcare center).

Table 25. Outturn and Projected Capital Expenditures, FY 02 – FY 11 1/
(in millions of U.S. dollars)

	Outturn						Estimated	Planned		
Major Program Area	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11
Building Facilities	22.9	14.0	14.3	30.6	21.0	16.1	17.5	25.8	22.3	18.5
Budgets approved prior to FY 09	22.9	14.0	14.3	30.6	21.0	16.1	17.5	18.4	9.9	n/a
FY 09 Budget								7.4	7.0	2.3
Medium-term FY2010-FY2011 Plan								n/a	5.4	16.2
Information Technology (IT)	30.7	24.8	21.5	34.2	26.9	24.1	28.4	33.3	29.4	25.5
Budgets approved prior to FY 09	30.7	24.8	21.5	34.2	26.9	24.1	28.4	17.2	4.2	n/a
FY 09 Budget								16.1	9.7	5.7
Medium-term FY 10-11 Plan								n/a	15.5	20.2
Total Building Facilities and IT	53.6	38.8	35.8	64.8	47.9	40.2	45.9	59.1	51.7	44.0
Major Building 2/	7.9	13.5	52.4	61.2	7.0	5.3	0.1	0.0	0.0	0.0
Budgets approved prior to FY 09	7.9	13.5	52.4	61.2	7.0	5.3	0.1	0.0	0.0	0.0
Total Capital Expenditures	61.5	52.3	88.2	126.0	54.9	45.5	46.0	59.1	51.7	44.0

Source: Office of Budget and Planning.

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

1/ Expenditures reflect disbursements against budget approvals, which for capital items have a life of three years. Thus, expenditures in any given financial year may correspond to projects budgeted for under any of the last three capital plans.

2/ Includes HQ Phase III and HQ2.

2. **General receipts** are expected to increase by some 50 percent in nominal terms, largely reflecting initiatives identified by several of the working groups commissioned by the Managing Director. The salient contributors are:

- The reduction in staff, which will free up office space that will be leased to the World Bank, and higher rates at the Concordia.
- On the recommendation of the pension committee, administrative expenses of the pension investment office will be reimbursed by the staff retirement plan.
- Parking charges will be aligned with market levels.
- An increase in travel rebates have been negotiated by TGS.

3. **Donor financed capacity building activities** are expected to rise sharply by FY 11. While in the short term this reflects an increase in commitments for ongoing programs, the Fund in the medium term will strengthen its partnership with donors through:[16]

- Bundling TA through a **menu of topical trust funds.** This menu will focus on trust funds, which fit well into donors' development strategies and reflect our institutional priorities.
- Expanding delivery through the **RTAC's model,** which complements headquarters–based TA. RTACs are considered highly successful partly because their structure (recipient countries, donors, and Fund staff together prioritize TA) builds stakeholder ownership of work programs. Also RTACs physical proximity to the countries they serve, allows them to respond promptly to urgent or frequent TA requests.

[16] The Fund will also maintain existing partnerships with donors through the current subaccount structure, which is important for those donors that have delegated their budgets to field offices for TA interventions.

- The purchase of IT microcomputers, servers and other infrastructure equipment, and similar IT projects have been a part of the capital budget since FY 88. In FY 00, the Executive Board approved the inclusion of major software development projects in the capital budget, reflecting public and private sector best practices. All IT projects are grouped into four major initiatives:

    - Projects in the *Enterprise Information Portfolio* are dedicated to the core work of the Fund. These projects support enhanced economic analysis and data management, strengthen our ability to share and manage the Fund's knowledge and information assets, and transform the way that staff work and interact with colleagues and key constituencies.

    - The *Financial and Administrative Information Portfolio* supports modernization and automation of the Fund's financial, human resource and other administrative processes. These projects support a more automated data manipulation and efficient administrative operations to deliver the modernization agenda.

    - Underpinning all IT projects is the *Infrastructure and Connectivity Portfolio* which finances the life cycle replacement of computing, printing, and communications assets to ensure that the Fund continues to have a modern, cost–effective, secure, and robust IT environment.

    - The *IT Planning and Management Portfolio* covers projects that affect the entire IT function and/or the way IT is delivered.

- The construction of HQ2 has been the only major building works project in recent years; no major building projects are planned in the medium term.

2. **The capital budget procedures have remained unchanged since the major reforms that occurred in FY 03**, when the budget regime changed to a multi–year funding approach in which approved funds are available to projects for a period of three consecutive years. Funds unused by the end of the three–year period lapse; projects that extend longer than three years necessitate Executive Board approval of new funding appropriations.

3. **All capital projects are subject to careful scrutiny before funding is approved**. All IT capital projects are reviewed by a steering committee, which assesses project alignment with business needs, return on investment, and cost–benefit analysis (CBA). Building facility capital projects are evaluated based on need, urgency, and contribution to the life of the building and are subject to CBA.

B. The Formulation of the Capital Budget

4. **The resource envelopes for the IT and building facilities components of the Fund's capital budget are derived using benchmarks, as described below**. However, these benchmarks establish upper limits—not the precise size of the budget needed. A bottom–up exercise is required to assess the business case for each project, assign priorities, and build up the capital plans on a project–by–project basis within the limits of the overall envelopes. Box 6 describes this bottom–up approach.

- **The benchmark for building facilities.** In recent years, investment in facilities replacement/modernization capital projects was about three percent of the replacement value of HQ1–consistent with external benchmarks for similar buildings. However, following the events of September 2001, considerable resources were appropriated to security initiatives, which crowded out several life–cycle replacement and modernization projects. Since FY 06, the share of security expenditures have decreased from 41 percent of total facilities expenditures to 15 percent in FY 08. Going forward, the focus will be on life–cycle replacements and modernization to maintain high quality office space and generate additional revenues to the Fund.

  More recently, a new method of assessing and evaluating life cycle replacement and modernization projects was adopted. According to the new approach, the condition of all building components will be assessed on a regular cycle of 3 to 5 years. In FY 08, TGS engaged outside consultants to conduct a facilities assessment and develop a program going forward. As a result, a comprehensive categorization of all of the architectural systems of HQ1 (and a partial analysis of other major assets, their life expectancy, and projected capital expenditures necessary to maintain them) was undertaken. By early FY 09, all of the major building assets will have been analyzed and a thorough assessment completed. This will allow the Fund to assess alternative scenarios of investment, and the resultant change in the asset valuation over a longer period of time. This will help provide a more robust methodology for formulating the building facilities capital plan. The new approach will be fully implemented for the FY 10 capital budget submission.

- **The benchmark for IT.** In recent years, the Fund has generally contained total IT expenditures (capital plus administrative) to a benchmark figure of no more than 11 percent of the total net administrative and capital budgets.

  The overall FY 09 IT capital budget proposal is unchanged in dollar terms relative to that of last year's capital plan. However the composition of the four portfolios and the distribution of proposed funds among portfolios have changed to accommodate new projects that support the Fund's refocusing. The IT budget also reflects planned, necessary PC and server refreshes in FY 09 and FY 10.

- **The benchmark for major building works.** In this area, each project is treated as one–off; budgets are approved by the Executive Board, and regular progress reports of expenditures against the budget profile are submitted. No further projects in this category are planned for the medium–term.

5. **New governance arrangements and processes have been put in place to oversee the IT capital budget and to monitor project status throughout the year** (Box 7). Business-led IT governance committees oversee, and are responsible for, the effective management of the Fund's IT investment, including the bottom-up formulation of the IT capital budget. Projects have strong business ownership and sponsorship to ensure that they are well aligned with the institution's business needs, and project performance is continually monitored to ensure that projects deliver the expected benefits.

Box 6. Formulation of the Capital Budget—The Bottom Up Approach

Vetting projects for inclusion in the capital plan

All proposed capital projects undergo careful scrutiny before they are recommended for inclusion in the capital budget. Project sponsors must provide a business case that clearly justifies the costs of the project in terms of the value it will provide.

For most projects, the business case takes the form of a formal cost–benefit analysis with the following components: (i) an estimate of all costs over the useful life of the investment less the estimated terminal value; (ii) an estimate of all quantifiable benefits, and descriptions of all non–quantifiable benefits; (iii) key assumptions (including price increases) and calculations; (iv) a net present value calculation for projects of $1 million or more and a payback analysis for projects under $1 million; and (v) sensitivity analyses using alternative assumptions and discount rates.

Priorities for building facilities capital projects are established by TGS, as the Fund's facilities manager, in consultation with OBP, based on the scale and nature of the proposed project—whether driven by regulatory, security, capital maintenance or equipment redundancy considerations.

For IT projects, a new process was introduced this year with the aim of ensuring alignment with the Fund's reform agenda and strengthening business involvement. The process, has several key elements:

- *Strategic planning* – The Chief Information Officer (CIO) initiated a new exercise involving discussions with senior staff throughout the Fund to understand medium–term business objectives and how IT could serve as an enabler in key business areas of the Fund (e.g., surveillance, capacity building). These findings were endorsed by Committee on Business and Information Technology (CBIT) and provided the context for project bids.
- *Alignment with "refocusing and modernization*"–As IT capital proposals were reviewed, their fit with the Managing Director's statement on the strategic directions for the Fund was also ascertained.
- *Reformulation "from the ground up"*—To ensure that the entire IT portfolio would be aligned with business needs, projects already under way were—for the first time—re–evaluated together with proposals for new initiatives
- *IT governance involvement* (see Box 7)—The IT Steering Committees led evaluations of the proposals, often seeking clarification from sponsors on the promised business value. The Steering Committees also recommended funding allocations to fit the proposals within the budget envelope. The Steering Committee recommendations were subsequently endorsed by the Business and Information Technology Advisory Group (BITAG) and CBIT.

Vetting projects when funds are released

Approved projects receive financing in tranches which balance the needs of the project with the efficient use of budgetary resources. Funding releases do not occur automatically; sponsors must provide OBP with up–to–date information on the project status, including a revised cost–benefit analysis. In addition, releases are typically tied to the accomplishment of specific project milestones to facilitate project monitoring.

Box 7. IT Governance

The CIO position was established in FY 07, in line with a key recommendation in the FY 05 IT Spending Review. The CIO has overall responsibility for the Fund's IT and information management program.

Following the appointment of the CIO, IT governance arrangements were revamped to strengthen accountability, business involvement, alignment with business needs, and project management. The new arrangements include:

- *CBIT* is an executive–level committee chaired by management with membership at the department head level. It ensures that the Fund's IT strategy is aligned with institutional objectives, oversees the management of IT investments, and sets Fund–wide information management and IT policy and standards.

- *Steering Committees* have been established to oversee each of the three main capital project portfolios. Steering Committees are chaired at the department–head level with membership from senior staff across departments. Responsibilities include

  - Reviewing IT projects, and making funding recommendations to CBIT;

  - Monitoring and reporting on project progress and outcomes, and intervening to ensure that projects stay on track and deliver expected benefits; and,

  - Advising CBIT on proposed business practices and technology standards.

- *BITAG,* with representatives from all departments, serves as a sounding board for the CIO to provide advice and feedback on IT priorities, service delivery, and approaches.

Strengthened project management practices have also been put in place. All IT capital projects must prepare, register, and maintain project plans in a portfolio management tool which is used to monitor project progress and spending against scheduled milestones and budgets. The Steering Committee chairs receive monthly reports on the projects within their purviews.