INTERNATIONAL MONETARY FUND

The FY2013–FY2015 Medium-Term Budget

PREPARED BY THE OFFICE OF BUDGET & PLANNING

Approved By
Daniel Citrin

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The FY 13–15 Medium-Term Budget presented in this paper reflects the following main features:

- **Unchanged administrative budget in real terms for FY 13**. Overall spending (structural plus crisis/temporary) will be kept unchanged in real terms in FY 13 relative to the FY 12 budget (excluding the one-off additional cost of the 2012 Annual Meetings in Tokyo).

- **Broadly unchanged administrative envelope in nominal terms for FY 13**. This reflects the impact of the Executive Board's decision in March to grant no increase in the staff salary structure in the context of the 2012 Compensation Review. The "structure increase" is the main component in the budget deflator applied to map the real total envelope into nominal terms.

- **A capital budget dominated by the impact of the HQ1 Renewal Program**. The final appropriation for this project, approved by the Executive Board in March 2011, is reflected in the proposed capital budget for FY 13.

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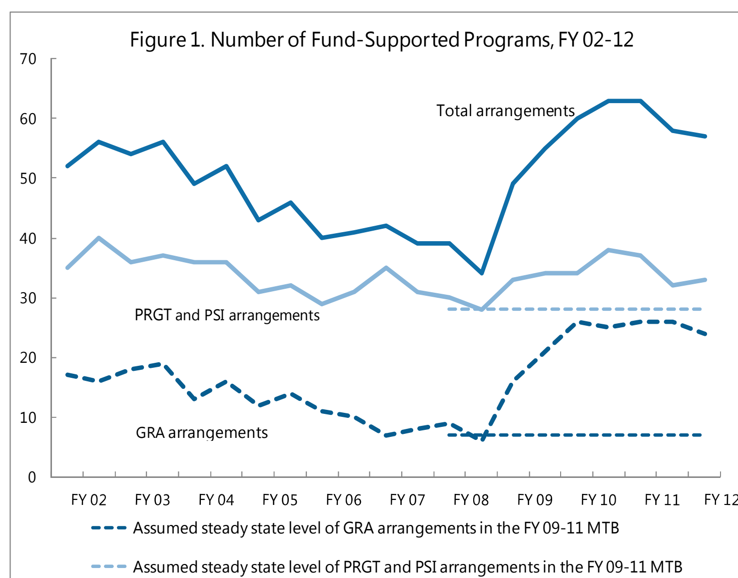
I. SETTING THE BUDGET CONTEXT

1. **The Fund continues to play an active role in the global effort to restore financial stability**. Risks to stability remain high, in particular associated with the ongoing Eurozone crisis, and the Fund continues to be heavily engaged in supporting member countries put in place policies toward a comprehensive solution. The number of financial arrangements remains elevated (Figure 1), and several systemic and vulnerable countries require intensive monitoring. Further, the Fund faces considerable multilateral demands from new and ongoing policy initiatives. And the Fund needs to continue to provide services, including technical assistance, across its member countries—a responsibility that cannot be eschewed in crisis times.



2. **Formulating the budget at a time when so many demands are placed on the institution poses considerable challenges—but also opportunities**. The *size of the budget* (the budget envelope) and the *shape of the budget* (its composition) need to appropriately reflect the Fund's mandate and commitment to serve all its member countries regardless of the form of engagement, while also devoting sufficient resources to crisis cases and evolving needs. At the same time, following a real increase in the structural budget last year (by about $30 million), efforts to reallocate this year to meet new demands provide a signal of fiscal responsibility and an opportunity to assess critically a number of Fund activities and seek efficiencies.

3. **In this vein, the FY 13–15 Medium-Term Budget seeks to present a balanced proposal**. The FY 13 budget is built on zero real growth compared to FY 12. This unchanged envelope needs to be reprioritized to accommodate crisis and other demands—including a larger contingency to deal with the unusual degree of uncertainty associated with current global conditions.

4. **The nominal budget envelope is lower than earlier anticipated, and virtually unchanged from its FY 12 level**. Following this year's compensation round, the budget deflator is slightly lower than earlier projected, resulting in a lower FY 13 nominal envelope than envisaged in last year's MTB.

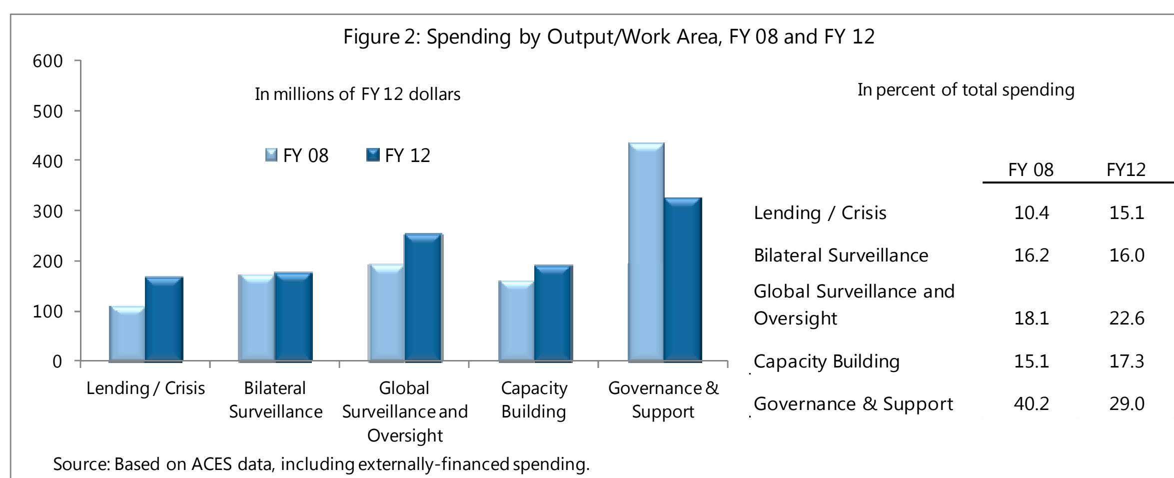
5. **The proposed budget envelope is also consistent with sustainability over the longer term, notwithstanding currently high levels of lending income**. The sharp surge in lending in the last few years—and the number of exceptional access cases—will not continue indefinitely. Past experience suggests that the Fund's lending income is volatile, while staffing and spending levels tend to be less flexible. Although the medium-term income outlook has improved due to the high demand for Fund credit, the longer-term outlook has not changed significantly. When access to capital markets improves and lending activities normalize, the income-expenditure position is projected to remain broadly balanced.[1]

6. **The rest of this paper is organized as follows**. This paper outlines the strategic budget priorities for the FY 13–15 MTB and their impact on the Fund's main activities and outputs, contrasted with the pre-crisis experience (Section II). It reviews the new budget demands and discusses ways to accommodate them within the proposed fixed budget envelope (Section III). The FY 13–15 capital budget is in Section IV.

II. STRATEGIC DIRECTIONS IN THE MEDIUM-TERM BUDGET

A. Taking Stock

7. **The Fund has changed significantly in the last few years, and the evolution of the budget reflects this transformation**. While spending was reduced under the Fund's restructuring—and staff levels were downsized—the FY 09–11 MTB in April 2008 set the course for reallocations of resources toward priority areas.[2] Spending changes by output reflect the strategic reorientation of the Fund's operations and policies since then (Figure 2).



	FY 08	FY12
Lending / Crisis	10.4	15.1
Bilateral Surveillance	16.2	16.0
Global Surveillance and Oversight	18.1	22.6
Capacity Building	15.1	17.3
Governance & Support	40.2	29.0

Figure 2: Spending by Output/Work Area, FY 08 and FY 12

Source: Based on ACES data, including externally-financed spending.

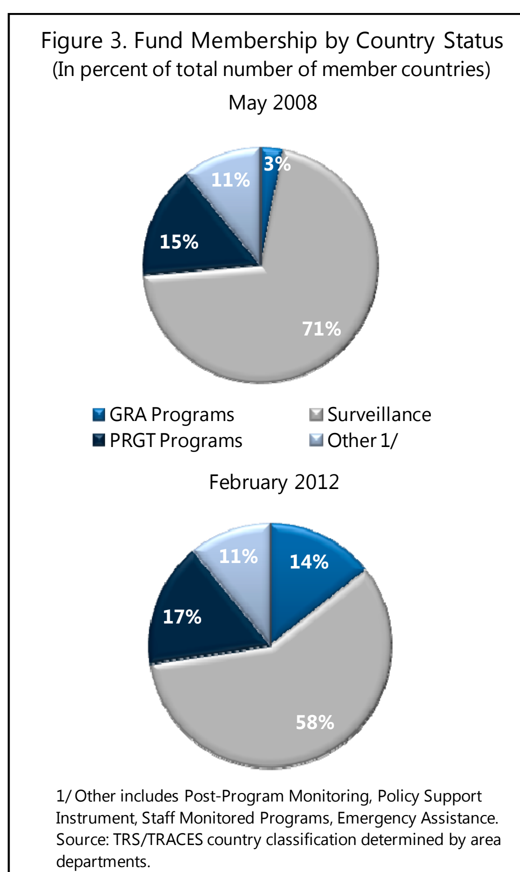
[1] *The Consolidated Medium-Term Income and Expenditure Framework*.

[2] To recall, significant cuts were effected during the restructuring period FY 09–11 (13 percent on average and 380 staff positions, yielding some $114 million in savings measured in FY 12 dollars).

A number of changes have taken place between FY 08 and FY 12:

- *Program and program-related activities* (lending) have intensified—a development not expected at the time the restructuring was designed. While the share of concessional programs has remained broadly stable, the share of Fund members with General Resource Account (GRA) programs has increased by more than 10 percentage points (Figure 3). This has required flexible funding through the use of temporary budget allocations, given that program work is more expensive than standard surveillance (due to increased staffing, travel, and overseas costs). During FY 12, compared to the same period last year, spending has been reallocated toward two critical regions: Europe, as the epicenter of the current crisis, and the Middle East, following the Arab Spring (Box 1).

Figure 3. Fund Membership by Country Status
(In percent of total number of member countries)



1/ Other includes Post-Program Monitoring, Policy Support Instrument, Staff Monitored Programs, Emergency Assistance.
Source: TRS/TRACES country classification determined by area departments.

- Spending on *bilateral surveillance* has remained stable, despite a number of countries switching from surveillance to program status over this period (Figure 3). Efforts have also been made to enhance the effectiveness and traction of bilateral surveillance, for example by deepening macrofinancial analysis, assessing risks and vulnerabilities, and broadening the coverage to macro-social issues where relevant for stability.

- More resources have been devoted to *global surveillance*, reflecting both the introduction of new products—the Fiscal Monitor, new Vulnerability Exercises, the Early Warning Exercise, the G-20 Mutual Assessment Program, and, more recently, spillover reports—as well as new policy initiatives (including the review of the lending toolkit, macro prudential policy frameworks, and capital flows framework, among others).

- The financing model for *capacity building* has been enhanced by boosting the availability of external financing, which has allowed an increase in the level of services in this area (capacity building activities are further discussed below).

- Significant efficiency gains in *support and governance*—reflecting steps taken to streamline and automate services, along with changes in Board practices to ensure a smoother work flow—have helped create fiscal space for priority activities in other areas.

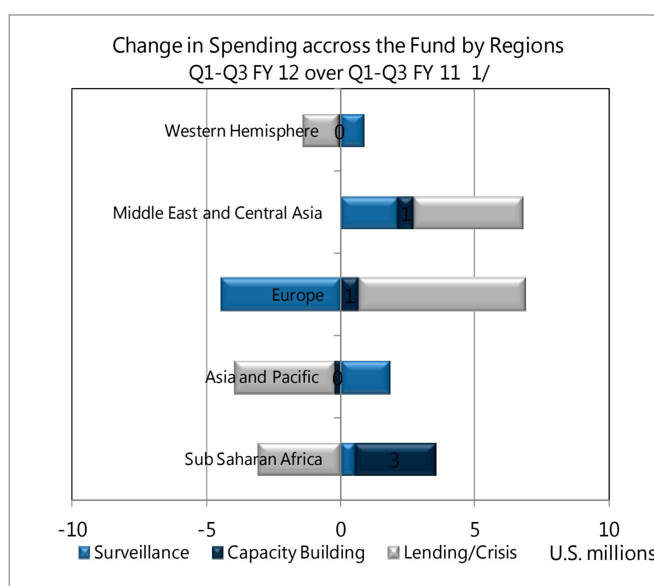
Box 1. Expenditure Prioritization: A Regional Analysis

The Fund has sought to respond flexibly to pressures arising from policy developments in its member countries and regional vulnerabilities. Fund-wide spending patterns exhibit a heightened focus on two regions:

- Europe, reflecting the protracted debt crisis, and
- the Middle East, following the Arab Spring and related political changes; and a prospective new member (South Sudan).[1]

The increase in activity and involvement is visible not only at the level of the two area departments responsible for these regions (the European Department and the Middle East and Central Asia Department), but more generally across the institution, reflecting intensified participation and support from functional and functional technical assistance departments.

Changes in Fund-wide spending by region illustrate this recent trend. Fund-wide expenditure in the first nine months of FY 12 has increased in Europe and the Middle East, compared to the same period last year.[2] In Europe, there has been a jump in the cost of lending activities (even after adjusting for the drop in surveillance as countries have changed status). The increase primarily reflects more spending on the Portugal program (including the opening of an office with two resident representatives), but also intensification of work on Greece. There has also been an increase in technical assistance to Portugal and Greece. In the Middle East, there has been higher spending across all areas of Fund involvement, reflecting intensified surveillance, program and near-program work, and capacity building efforts, as well as the need to scale up security for Fund staff. The largest increase in the cost of activities occurred in Sudan, Egypt, and Djibouti (reflecting the opening of new resident representative posts).



Source: ACES data.

[1] Fully loaded Fund-financed costs.

At the same time, the level of Fund-wide activity in the Western Hemisphere region has remained broadly unchanged, with reduced activity in Jamaica, Guatemala and Trinidad and Tobago offset by increases in spending on Brazil, Colombia, St. Kitts and Nevis, and Panama. The decline in lending in Asia reflects the unwinding of program activity in Mongolia and a less intense program engagement in Sri Lanka, while the increase in surveillance primarily reflects the Japan FSAP update. In the Africa region, the provision of technical assistance has intensified, as a new Regional Technical Assistance Center (AFRITAC South) has come on line; while the shift from program to surveillance for the Democratic Republic of Congo, Ethiopia, and Zambia has driven the drop in lending.

[1] South Sudan moved to the African Department on January 3, 2012.

[2] Estimates are based on the Analytical Costing and Estimation System (ACES).

B. Strategic Priorities for FY 13–15

8. **The Fund's strategic priorities have been spelled out by Management and the Executive Board on a number of recent occasions**:

- In March 2011, the *Managing Director's Statement on Updating the Strategic Directions in the Medium-Term Budget* emphasized the need to foster global coordination through new products (spillover reports) and processes (such as the G-20 Mutual Assessment Program); enhance links between multilateral and bilateral surveillance (for example by focusing on systemic risks); sharpen the focus on macrofinancial issues (including through the development of macro-prudential policy frameworks); and provide improved policy support to Low-Income Countries (LICs).[3] These strategic objectives entailed a sustained degree of Fund participation and leadership not envisioned in 2008, and thus justified a modest increase in the Fund's underlying or "structural budget."
- The *Fund's Action Plan* of September 2011 underlined that "the immediate priority must be to address the causes and consequences of global instability, and to foster the international coordination that will be needed. At the same time, we cannot lose sight of the long-term strengthening of the international monetary system, where we need visible progress if not closure."[4]
- With the conclusion of the *Triennial Surveillance Review* (TSR) in October 2011, clear recommendations were made on placing more emphasis on interconnectedness, financial and external stability issues, more systemic risk analysis (both in bilateral surveillance and in multilateral flagship products), and the traction of surveillance.[5] Efforts to reform the legal framework for surveillance would also continue.

9. **The FY 13–15 MTB is based on continued efforts to implement these priorities**.

- Fund-supported programs will continue to play a critical role in containing and resolving crises, and policies will be reviewed and adapted to changing circumstances. Adequate funding for efforts in these areas will be provided, including through a continuation of crisis-related spending and, if needed, a larger-than-usual contingency reserve (see below).
- The surveillance apparatus will be aligned to the TSR recommendations, both in bilateral and multilateral surveillance.

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[3] *Statement by the Managing Director on Updating the Strategic Directions in the Medium-Term Budget* (March 30, 2011). http://www.imf.org/external/np/pp/eng/2011/033011a.pdf

[4] *The Managing Director's Action Plan to the International Monetary and Financial Committee* (September 20, 2011). http://www.imf.org/external/np/pp/eng/2011/092411.pdf

[5] *The Managing Director's Statement on Strengthening Surveillance—2011 Triennial Surveillance Review*, (October 27, 2011). http://www.imf.org/external/np/pp/eng/2011/102711.pdf

- Capacity building—often at the crossroad between technical guidance and policy advice—will help support member countries, in particular LICs, given the heightened vigilance needed to fend off vulnerabilities to global shocks.

10. **Mapping the institutional objectives into the budget strategy will be further supported by a number of process changes introduced this year**. Management took a more pronounced role last fall in the discussions of priorities and resource needs, by holding bilateral meetings with individual Department Heads and chairing two joint sessions on the budget strategy. In addition, a new departmental Accountability Framework is being introduced to enhance the focus on outputs and deliverables, as well as the management of the budget and human resources. This tool will provide the basis for semi-annual discussions with Management on departmental performance.

11. **Departmental Business Plans specify how the institutional objectives are being implemented**. Departments this year are producing business plans in a streamlined format, highlighting the FY 13 key objectives and deliverables—based on the earlier meetings with Management and the agreed objectives in the Accountability Framework. Going forward, with the preparation of the FY 14–16 MTB, business plans will be drafted earlier in the budget cycle, and will help specify the strategic deliverables *ex ante*.

III. ACCOMMODATING BUDGET DEMANDS WITHIN AN UNCHANGED ENVELOPE

A. The Budget Envelope

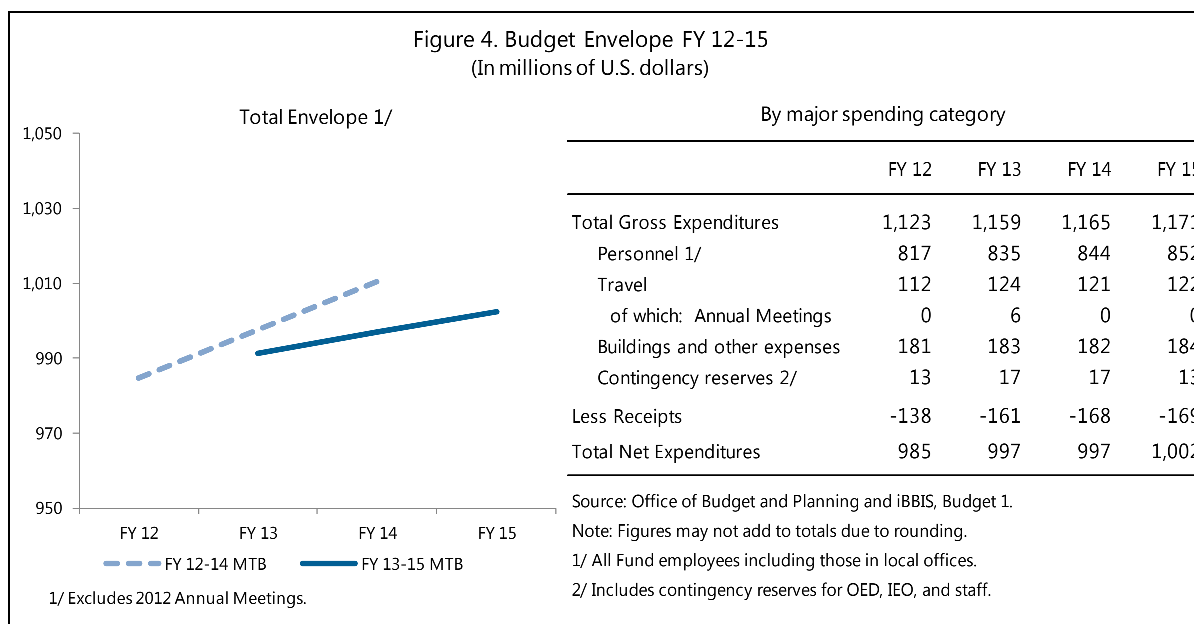
12. **The proposed FY 13 budget envelope is unchanged from its FY 12 level, both in real and (virtually) in nominal terms**. The size of the real budget envelope—based on no real growth in spending—was endorsed at the Committee on the Budget meeting in February. Since then, the Board decision on the 2012 Staff Compensation has determined the size of the deflator for the FY 13 budget (Table 1)—mapping into a virtually flat nominal envelope (Figure 4).[6]

Table 1. Global External Deflator, FY 13

	FY 13
Global External Deflator	0.6
Personnel Component (70 percent)	0.0
Non-Personnel Component (30 percent)	2.0

Source: Office of Budget and Planning.
Note: The personnel component is equal to the structure adjustment decided annually in the Review of Staff Compensation; the non-personnel component is based on the projected U.S. CPI in the April WEO.

[6] Established practice, in the absence of projections for the salary index, is to use the salary increase adopted for the current year as a placeholder for the two outer years of the MTB, without prejudicing future salary discussions. The resulting hypothetical FY 14 and FY 15 envelopes will be updated in the context of future budget discussions, reflecting the actual salary increases in the relevant years.



	FY 12	FY 13	FY 14	FY 15
Total Gross Expenditures	1,123	1,159	1,165	1,171
Personnel 1/	817	835	844	852
Travel	112	124	121	122
of which: Annual Meetings	0	6	0	0
Buildings and other expenses	181	183	182	184
Contingency reserves 2/	13	17	17	13
Less Receipts	-138	-161	-168	-169
Total Net Expenditures	985	997	997	1,002

Source: Office of Budget and Planning and iBBIS, Budget 1.
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.

13. **The budget envelope also includes an unchanged level of funding for crisis-related needs**. To strike a balance between preserving budget discipline and appropriately funding crisis-needs, the concept of crisis-spending will be retained. The COB discussion in February revealed some uneasiness with the concept of the temporary budget, given its protracted nature and the difficulties in defining a "steady state" level of program-related activity. On balance, though, this concept has proved a useful tool to signal the Fund's commitment to return to more "normal" levels of activity—and therefore funding—when the current crisis abates. A close monitoring of crisis-related spending is also needed to ensure that program and near-program work—especially related to the Eurozone crisis—does not divert resources away from non-systemic surveillance cases.

14. **Crisis-related needs are expected to persist at a broadly unchanged level over the MTB horizon**. The main drivers underlying crisis spending are GRA (or non-concessional lending) arrangements, work on near-program cases, and intensified surveillance. If the existing GRA arrangements expire as scheduled, and no new programs are approved, the number of arrangements would decline to the pre-crisis level by the end-of FY 13. However, this scenario is unlikely to materialize:

- some of the current programs are likely to be followed by successor arrangements; and
- the crisis in Europe and the aftermath of the Arab Spring may generate further demand for Fund programs or intensified engagement (for example, in Egypt and Libya).

In any case, even if the number of programs were to decline markedly, part of the crisis related spending would unwind more slowly, as post-program surveillance would remain intensive and Resident Representative posts would remain open for some time.

15. **It is too early to tell whether part of the crisis-related spending will turn out to be more structural in nature**. While the demand for Fund arrangements seems set to remain elevated for some time, it is not clear what the level of GRA arrangements will be in the longer run, and whether this will converge to a stable number.

16. **More fundamentally, seeking to anchor the budget mechanically *ex ante* on the prospective number of arrangements may not be feasible**.[7] Earlier projections at the time of the restructuring have clearly demonstrated the limits of such an exercise. As a first step toward a better understanding of the main drivers of crisis-related spending, temporary budget allocations were reviewed to include only crisis-related activities.[8] The resulting composition of crisis-related spending reflects current pressure points (Table 2).

- Additional resources in Area Departments, account for the lion's share of crisis spending (with a share of about three-quarters of the total); the European Department (EUR) alone accounts for more than half.

- Additional personnel at Headquarters represent close to 60 percent of crisis-spending, with the rest explained by the additional cost of Resident Representatives and higher travel needs.

Table 2. Crisis-Related Spending, FY 13

	Millions of U.S. Dollars	In Percent of Total
By Department Group	53	100
Area Departments	40	76
Of which: EUR	29	54
Functional Departments	13	24
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.
1/ Excludes staff on resident representative assignments.

17. **As is the case every three years, additional resources will be needed in FY 13 for holding the Annual Meetings outside Washington**. The initial estimate for the COB discussion in February included a placeholder of $6 million to cover the direct costs of travel of staff and the members of the Executive Board to Tokyo. This amount was derived based on the travel budget in FY 10 when the meetings were held in Istanbul. This paper proposes to retain the $6 million allocation as the change in the deflator estimate since February does not affect travel costs.

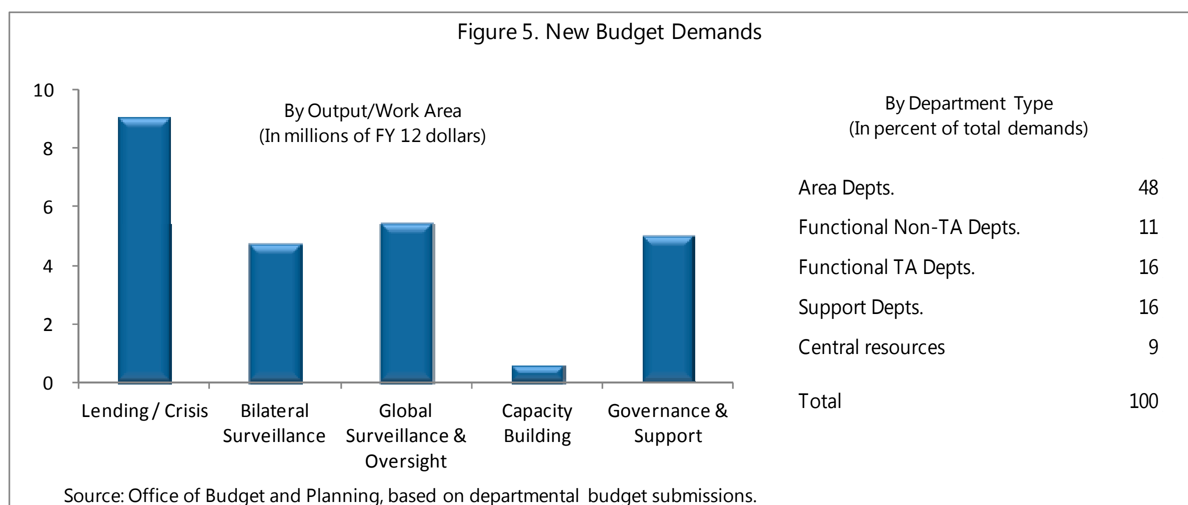
[7] A formal proposal to establish a direct link between funding and the level of Fund-supported programs was presented in April 2010 but discarded for the reasons mentioned above (see Appendix II "Financing Unanticipated Demands" in *The FY 2011-2013 Medium-Term Budget* (March 29, 2010). http://www.imf.org/external/np/pp/eng/2010/032910.pdf

[8] In FY 12, the temporary budget included also non-crisis related temporary spending of about $7 million.

B. Budget Demands

18. **Work pressures remain high and demands on the budget are not abating—creating a tension with the delivery of an unchanged budget envelope**. Overtime has remained elevated in the course of FY 12 notwithstanding the budget increase approved last year; it varies across the institution, with higher peaks in departments more directly involved with the crisis (Box 2). At the same time, new demands have been placed on the FY 13 budget— reflecting both departmental requests for ongoing and new activities as well as some institution-wide initiatives (Figure 5).

Figure 5. New Budget Demands



By Department Type
(In percent of total demands)

Area Depts.	48
Functional Non-TA Depts.	11
Functional TA Depts.	16
Support Depts.	16
Central resources	9
Total	100

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

19. **New demands total $25 million (in FY 12 dollars) and are in line with the main output/work priorities**:

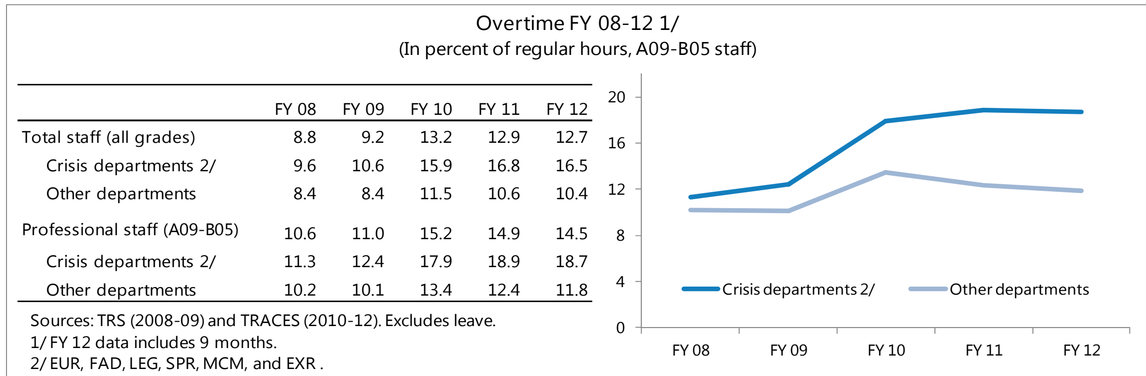
- Demands for *lending/crisis work* dominate the requests. These largely reflect increased funding for EUR, but also additional resource needs in functional departments to support program work in area departments at large.

- In the area of *bilateral surveillance*, additional funding would be devoted to intensified surveillance (largely in Europe and the Middle East). Also, in order to strengthen financial sector surveillance, a financial expert would be assigned to each Article IV team for countries with systemically important financial sectors—a new mandate recommended by the TSR.[9] Additional resources will be required for other countries as needed (e.g., in case of mounting financial vulnerabilities). At the same time, a number of other initiatives and actions mandated by the TSR will be implemented within existing budget allocations, including the shift in emphasis and focus in Article IV reports toward economic and financial stability assessments, as well as analysis of risks.

[9] *Managing Director's Statement on Strengthening Surveillance—2011 Triennial Surveillance Review* (October 27, 2011). http://www.imf.org/external/np/pp/eng/2011/102711.pdf

Box 2. Workload Pressures

Workload pressures have increased in recent years and remain elevated, despite an increase in budget resources in FY 12. Overtime—measured in percent of regular hours worked—started to increase with the onset of the financial crisis and reached 13 percent by FY 10–11 (or 14.9 percent for staff at grades A09 to B05).[1] Overtime has only marginally declined in the first nine months of FY 12, to 12.7 percent, even as some departments obtained more budget resources in the context of the FY 12 budget.

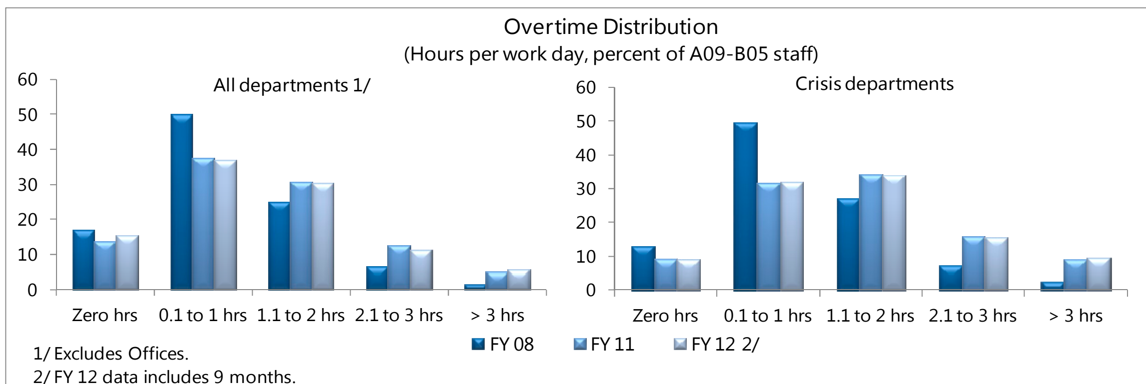


Overtime FY 08-12 1/
(In percent of regular hours, A09-B05 staff)

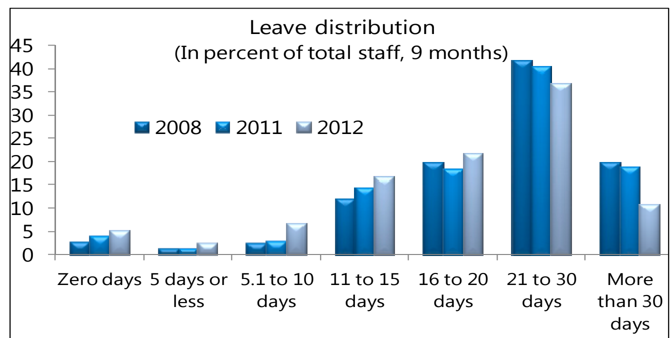
	FY 08	FY 09	FY 10	FY 11	FY 12
Total staff (all grades)	8.8	9.2	13.2	12.9	12.7
Crisis departments 2/	9.6	10.6	15.9	16.8	16.5
Other departments	8.4	8.4	11.5	10.6	10.4
Professional staff (A09-B05)	10.6	11.0	15.2	14.9	14.5
Crisis departments 2/	11.3	12.4	17.9	18.9	18.7
Other departments	10.2	10.1	13.4	12.4	11.8

Sources: TRS (2008-09) and TRACES (2010-12). Excludes leave.
1/ FY 12 data includes 9 months.
2/ EUR, FAD, LEG, SPR, MCM, and EXR .

The incidence of overtime is uneven. Average overtime in departments most involved in crisis work (European, External Relations, Fiscal Affairs, Legal, Monetary and Capital Markets, and Strategy, Policy and Review departments), is significantly higher than the Fund average (almost 19 percent among professional staff in FY 12, only marginally lower than in FY 11). The proportion of staff recording more than 2 hours overtime a day in crisis departments has jumped from less than 10 percent in FY 08 to 25 percent in FY 12, notwithstanding higher budget allocations in FY 12. While 40 percent of staff in these departments still report less than 1 hour overtime a day, this is 20 percentage points lower than before the crisis.



Annual leave is used less than in the past. About half of staff have taken more than 15 days of leave in the first nine months of FY 12, though the share of leave above 20 days has declined compared to the same period FY 08. The share of staff taking less than 5 days of leave has increased, possibly reflecting a larger intake of new staff (as new/more recent hires generally tend to build up their leave balances).



[1] Overtime is self-reported and its accuracy depends on reporting practices. Data is based on time recorded in TRS/TRACES. Leave is excluded from the denominator to provide a measure of workload relative to hours worked (although the inclusion of leave does not significantly alter the results).

- The TSR also called for strengthening *global surveillance*. The coverage, consistency, and transparency of external stability issues will be strengthened—including through enhanced methodologies for assessment and the publication of a new External Stability Report covering multilaterally-consistent assessments of external balances. The TSR also favored the continuation of spillover analysis, following the pilot reports in the summer of 2011. A unified spillover report (covering the five economies included in the initial pilots) will be prepared by an inter-departmental task force, though the cost and scale of the exercise will be lower than for the initial round. Finally, budget allocations for commercial financial data will be increased, to inform critical macro-financial surveillance work and a better understanding of macro-financial linkages (as also discussed below).

- In the area of *capacity building*, the FY 13 budget will maintain the level of Fund financing, while higher external financing will enable an increase in overall TA delivery.[10] The new department resulting from the merger of the IMF Institute and the Office of Technical Assistance Management will periodically report to and seek strategic guidance from the Executive Board so as to ensure that the Fund's capacity building can meet the evolving needs of the membership (Box 3).

- Some institution-wide initiatives falling under *governance and support* also require funding in the FY 13 budget. These can be grouped into three main areas:

  - ✓ *HR actions* to address concerns identified in the 2010 staff survey, along with Management's commitment to address shortcomings identified in the TSR and IEO studies—in particular to promote diversity of views and of staff, and address issues of staff mobility. This agenda includes an expanded external mobility program, a new framework for facilitating internal mobility, and initiatives to strengthen leadership skills and enhance teamwork and cooperation across the Fund;
  - ✓ *IT spending* (in the administrative budget) to enhance IT security, following the security breach last summer, and provide maintenance for new IT systems—although more of an issue in FY 14 and 15 when some new systems will be introduced; and
  - ✓ *Governance arrangements* to strengthen data management, with the creation of a small Economic Data Team under the Economic Data Management Initiative (Box 4).

C. Funding the Budget Demands within an Unchanged Envelope

20. **Consistent with the unchanged overall budget envelope, demands on the FY 13 budget will be offset by a combination of measures**. These measures are further discussed below; they update the preliminary package presented at the COB meeting in February.

[10] Figure 5 understates demands for capacity building, as some of the resources requested for lending/crisis and bilateral surveillance (such as the inclusion of financial sector—and in some cases, legal—experts) straddle capacity building activities.

Box 3. Capacity Building: Meeting the Changing Needs of the Membership

Significant changes. The Fund's capacity building work has evolved in major ways over the last few years.

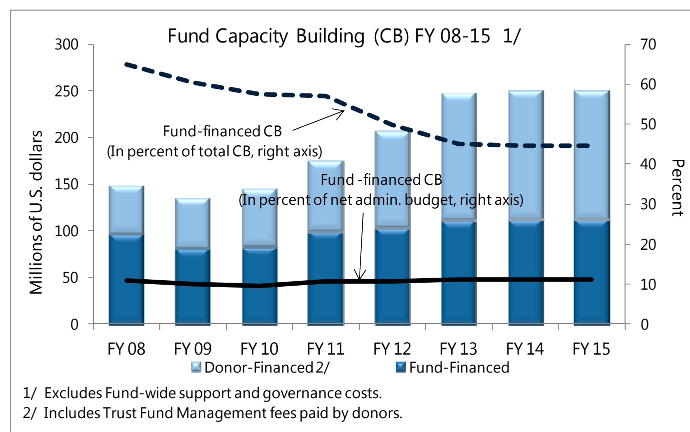
- On the *demand side*, there has been increased interest in longer-term, implementation-oriented initiatives, "second generation" reforms, and new topics. The crisis has also necessitated rapid deployment of "firefighting" technical assistance (TA) in selected areas.
- On the *supply side*, Fund TA and training are increasingly financed by donors (see figure below), and increasingly delivered through experts located in the field, including in eight Regional Technical Assistance Centers (RTACs) and seven Regional Training Centers (RTCs).

The developments on the demand side have required hiring of TA experts and a shift to a more medium-term planning of TA, including greater involvement of donors and beneficiary countries in the formulation of capacity building plans. At the same time, the increased availability of external financing has allowed a rapid growth in TA but has also raised issues about the balance between internal and external financing for capacity building.

A new capacity building department. To better exploit synergies between TA and training in serving the needs of Fund members, a new department will be established by merging the IMF Institute and the Office of Technical Assistance Management. The new department will be responsible for defining a capacity building strategy for the Fund, including by seeking strategic guidance from the Executive Board in the context of periodic reviews of the Fund's TA and training. Such guidance will then inform future discussions on the Fund's medium-term budget.

Financing of capacity building. It is important to maintain the appropriate balance between internal and external financing. The Funds' budget constraint prevents financing of its capacity building efforts wholly with internal resources. Conversely, relying solely on external financing would not be consistent with the Fund's strategic priorities, and would make the provision of TA efforts subject to potentially volatile donor flows. Therefore, an adequate level of internal financing needs to be maintained to enable a flexible and rapid response to crisis situations (donor funds are typically earmarked for specific purposes); moreover, donors typically seek additionality in TA delivery.

Capacity building and the FY 13–15 MTB. As planned, Fund-financed capacity building initially fell during the restructuring, but has since then recovered. In the FY 12 budget, internal financing (excluding support and governance) was about $103 million or slightly over 10 percent of the Fund's net administrative budget; representing close to half of the total funding for capacity building. As discussed in the recent strategic review of TA, the current level of internal financing seems broadly appropriate. Consistent with this, the proposed MTB would preserve the current level of internal financing for capacity building. Given that external financing is projected to increase in FY 13 and in FY 14 the share of internally financed capacity building in the fund's total capacity building will decline slightly further (though projected to stabilize thereafter, if the level of external funding normalizes).



Box 4. The Economic Data Management Initiative

The Fund is a heavy consumer and producer of economic data, yet there is a broad recognition that its data management strategy, governance, and practices require improvements. These views were reiterated in the context of the *Economic Data Management Initiative* (EDMI), which highlighted the following issues and proposed a number of recommendations:[1]

- ***Governance***. Current structures and arrangements are complex and insufficiently coordinated. Departmental Senior Data Managers (SDMs) will be appointed and jointly (in the Economic Data Steering Committee) formulate strategic plans for data management. A newly created Economic Data Team (with two staff and half assistant) will help coordinate these efforts.
- ***Structured databases***. Resources have been provided to area departments to expedite migration of their country desk data to structured databases—which enhances data quality and facilitates data sharing.
- ***Cross-country databases***. Many databases exist across the Fund, but the different departmental practices and technologies make data search and retrieval functions difficult. As a starting point, a registry of all available databases will be developed, and standards for data sharing are being established.
- ***Commercial data***. While needs for commercial data have grown—reflecting the rising priority of financial sector surveillance—budget allocations for such data have become strained—especially when cast against the related price increases that generally exceed the Fund's budget deflator. As offsets elsewhere in the budget have become unsustainable, the FY 13 administrative budget includes an additional allocation of $1.5 million for commercial data ($1 million to accommodate projected price increases and $0.5 million to acquire new data).
- ***Integrated monetary database (IMD)***. Joint data sourcing initiatives, like the IMD, could provide savings to country teams through better leveraging of the data collected by STA. Outreach to area departments is ongoing to identify countries for new IMDs and to improve country teams' access to IMD data.
- ***WEO data validation***. WEO data diverge from other IMF published sources, such as IFS, and differences are not always well documented. A validation pilot has been proposed to strengthen the consistency and quality of WEO historical data and is pending discussion on appropriate approach and tool, practical process, and resource allocation by the new data governance body.

These recommendations were costed and their impact is included in the FY 13 proposed budget allocations (both administrative and capital). Beyond the initial costs in FY 13, annual costs in subsequent years should be lower (for example, reflecting the completion of the migration to structured databases). Other capital projects with data components are not covered under the EDMI umbrella.

Cost of EDMI, FY 13 (in millions of U.S. dollars)

Measures	Administrative budget	Capital budget
Establish SDMs in relevant departments	No extra cost	
Establish Economic Data Team	0.7	
Increase budget for commercial data	1.5	
Migration to structured databases in area depts.		1.7
Cross-country data sharing, WEO historical data, Integrated Monetary Database and monitoring of commercial data usage		0.8
Reserve pool		1.0
Total	2.2	3.5

Source: Office of Budget and Planning and Technology and General Services Dept.

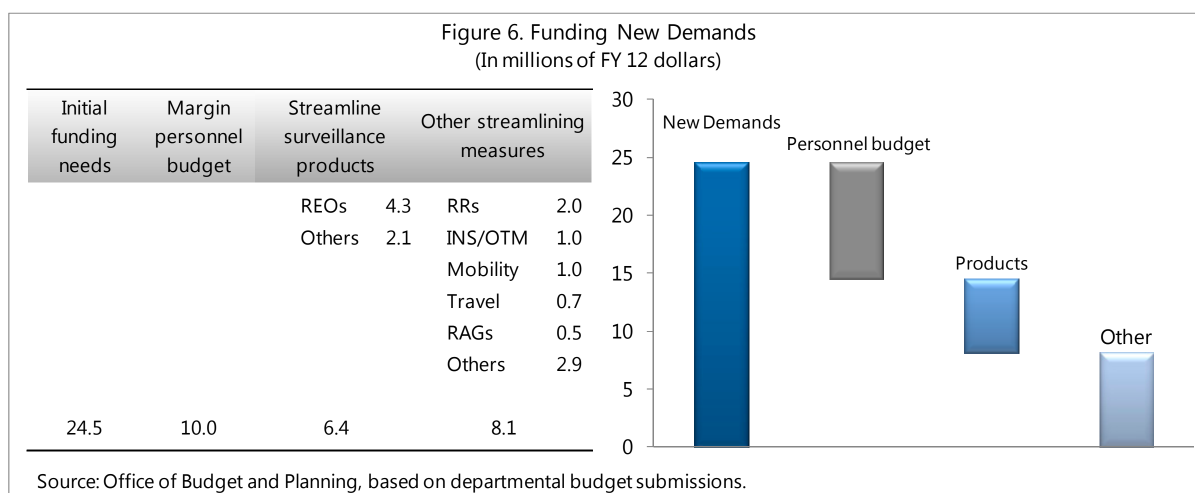
[1] The EDMI Task Force was appointed by management in April 2010.

21. **An offset of about $10 million will come from lower budgeted personnel costs, related to the recent change in the formulation of the budget deflator**. The inclusion of the comparatio adjustment in the deflator at the time of the restructuring led to some room that went unutilized. When the deflator methodology was changed last year, this margin (not precisely known at that time) remained in the base for the personnel budget. The related savings are now estimated at around 1.5 percent of the personnel budget. Rebasing the personnel budget will more appropriately reflect the actual cost of staff going forward, while allowing about 30 additional staff for priority activities in FY 13.

22. **The remaining net demands of about $15 million will be funded through a combination of reallocation measures** (Figure 6). These fall into two broad groups:

- Refocusing and streamlining of selected multilateral surveillance products; and
- Other efficiency measures.

Figure 6. Funding New Demands
(In millions of FY 12 dollars)



Initial funding needs	Margin personnel budget	Streamline surveillance products		Other streamlining measures	
		REOs	4.3	RRs	2.0
		Others	2.1	INS/OTM	1.0
				Mobility	1.0
				Travel	0.7
				RAGs	0.5
				Others	2.9
24.5	10.0	6.4		8.1	

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

23. **The product streamlining package will yield $6½ million in savings**. It consists of a combination of refocusing the scope of the flagship products, reducing the frequency of targeted products, and streamlining review and data submission processes.

- *Refocusing*. FAD, MCM, RES, and SPR will scale back their multilateral surveillance activities, including the Vulnerability Exercise (VE), the Early Warning Exercise (EWE), and G20 work; combined with a streamlined production process for the Fiscal Monitor and Spillover Reports, these measures will yield some $2 million in savings.
- *Reducing frequency*. The EUR REO will be suspended, given pressures from crisis-related work, while one issue of the APD, MCD, and WHD REOs will be replaced by a short note and tables. (The AFR REO will be kept unchanged given the unique relevance of this publication in the region). These measures will generate savings of about $4½ million.

- *Streamlining processes*. The WEO data submissions by country desks will be streamlined by replacing initial flash submissions with projections from the Global Projection Model and by limiting subsequent submissions only to G20 countries in two out of the three updates. One third of the resources currently used in the data cycle (now amounting to $1.5 million) would thus be saved, largely in area departments (however these savings have not been factored in the package, as they are diffuse across country desks).

24. **Additional reallocation and efficiency measures cover a broad range of areas**:

- Savings on the resident representative program (RR) by closing some posts in countries that have not had programs for some time (e.g., Argentina) or can be covered by other representative offices in the region (e.g., Belarus).

- Efficiency gains resulting from the merger of INS/OTM. The new capacity building department (Box 3) will allow the Fund to better exploit synergies between TA and training, including by realizing efficiency gains in administrative activities. In FY 13 savings from the merger amount to about $1 million.

- Repurposing financing of study leave (i.e., sabbaticals) and short-term external assignments to fund a doubling of leave without pay slots.

- Some savings will also arise from maintaining the FY 13 travel budget allocations broadly unchanged in nominal terms. This step implies a tax in real terms that can be achieved through continued implementation of better ticketing practices and more use of video conferencing (Box 5 reviews recent efficiency gains in travel).

- Savings will also be realized by implementing more cost effective (less travel-intensive) modes of interactions with the Regional Advisory Groups (RAGs) and area department staff (the RAG for EUR will be discontinued).

D. Contingency Planning

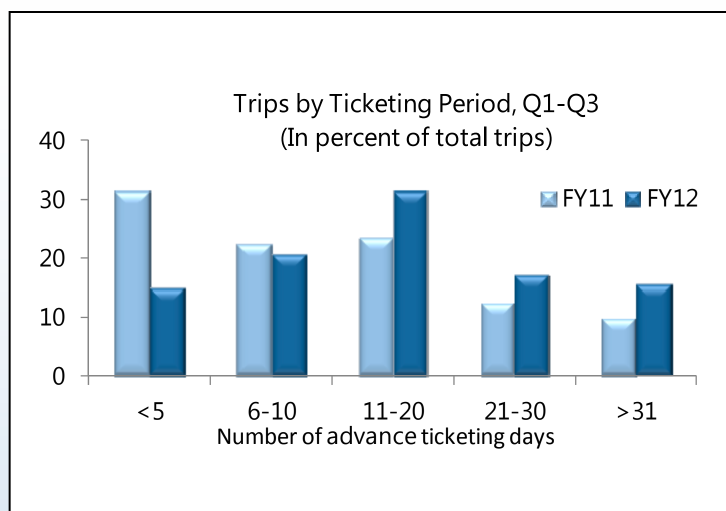
25. **The FY 13 envelope allows for a larger contingency reserve than under the current year**. Under the FY 12–14 MTB, the contingency was set at 1 percent of budget for the initial year, with 1.5 percent and 2 percent allocated for FY 13 and FY 14, respectively. The proposed FY 13 budget retains this contingency of close to 1.5 percent of total resources—equivalent to $14 million. Were global conditions to deteriorate—and importantly if there were no other demands—this could cover up to some 10 new programs (based on an estimated additional cost of about $1–1½ million when a country shifts from standard surveillance to program status,

reflecting the cost of a larger team size, more frequent travel, and the creation of a new resident representative post).[11]

Box 5. Efficiencies in Travel

Advance ticketing

Departments have made significant strides in maximizing their travel resources and making more efficient use of their travel budgets. One key strategy has been taking advantage of better ticket prices through advance ticketing. For example, the number of trips ticketed five or fewer days before departure declined from 32 percent in FY 11 Q1–Q3 to 15 percent in FY 12 Q1–Q3. In addition, 13 percent of trips were ticketed over 30 days in advance, relative to 8 percent for the same period last year.



Why (and when) is advance ticketing effective?

Purchasing tickets in advance offers the widest selection of ticket inventory, and thus the best selection of flight schedules and ticket prices. For example, a round trip business class ticket from Washington, DC to Johannesburg on British Airways can range from $2,726 (28 day advance purchase with change restrictions) to $9,298 for J-class unrestricted airfare—a difference of some $6,500. In other words, the costs of a four-member mission team could be about the same as the cost of just one traveler, depending on the timing of the ticket purchase. While this is an extreme example, savings from early ticketing can often amount to $2,000 per ticket. Against these should be set possible penalties for change or cancellation, which normally amount to $400–500 per ticket. Thus, unless there is a high probability that a ticket will have to be changed, early ticketing can be expected to generate positive savings for the travel budget.

Other efficiencies

The Fund is also seeking to improve other travel booking practices, including for externally-financed travel. Through better information and monitoring, departments can identify bookings out of a normal price range before travel arrangements are finalized. Moreover, experts in the field have been encouraged to use the Fund's travel management system, allowing departments to better monitor their travel costs.

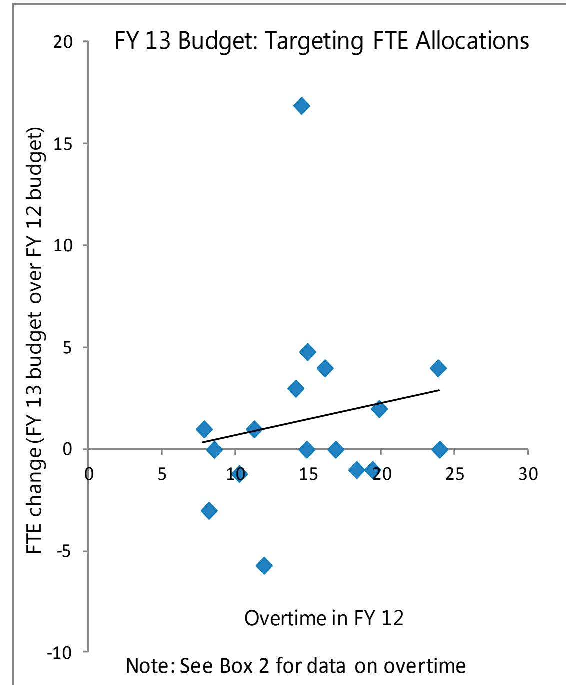
26. **However, even this larger contingency could be exhausted quickly in the event of a serious downside scenario with increased demand for Fund-supported programs**. While it is difficult to speculate what the precise needs might be, a serious deterioration of global conditions with an even larger number of new program or near program cases could imply

[11] The contingency would not be earmarked for crisis-related needs only. Clearly, in case unforeseen events during the financial year—unrelated to the crisis—claimed a portion of the contingency, there would be less room to fund additional crisis-related needs.

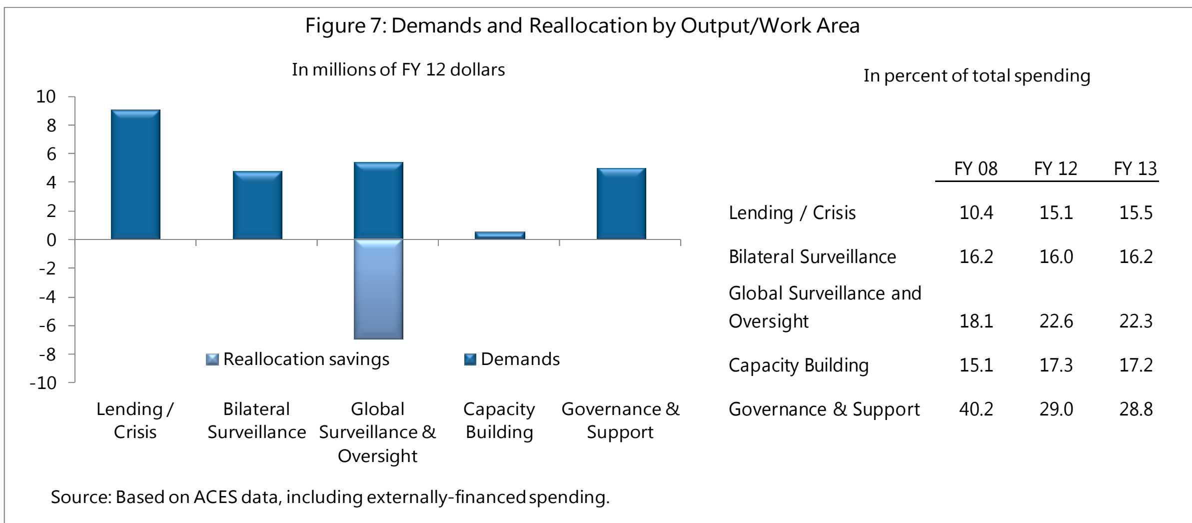
substantial additional costs over and above the current contingency. While maximum efforts would then be made to suspend less critical work, it cannot be ruled out that Management may need to approach the Board with a request for a supplementary budget if the need arises.

E. From Inputs to Outputs

27. **The proposed reallocations will allow a redistribution of resources across departments**. The resource shift towards crisis and priority activities—and the addition of about 30 new staff positions (FTES) in the FY 13 budget mentioned above—should help to ease work pressures. There is a positive relationship between the allocation (and reallocation) of staff (measured as the increase in budgeted FTE allocations compared to FY 12) and the incidence of overtime—with crisis-related departments with a higher overtime receiving comparatively more staff resources. Nonetheless, given that last year's budget increase has only marginally alleviated work pressures in affected departments (Box 2), close scrutiny of staff overtime will be needed going forward.



28. **Reallocations also affect the distribution of Fund's outputs**. Output shares in FY 13 will be somewhat different from FY 12. In broad terms, however, they will continue to reflect the reorientation of the Fund's activities over the past several years (Figure 7).



	FY 08	FY 12	FY 13
Lending / Crisis	10.4	15.1	15.5
Bilateral Surveillance	16.2	16.0	16.2
Global Surveillance and Oversight	18.1	22.6	22.3
Capacity Building	15.1	17.3	17.2
Governance & Support	40.2	29.0	28.8

Source: Based on ACES data, including externally-financed spending.

IV. THE CAPITAL BUDGET

29. **This paper seeks Executive Board approval for two main components in the FY 13 capital budget:**

- the final tranche for the multi-year HQ1 Building Renewal project; and
- $41 million for information technology capital and other facility capital investments.

In FY 14 and FY 15 the capital budget will return to more typical levels (Table 3).[12]

Table 3. Medium-Term Capital Plans, FY 12–15
(In millions of U.S. dollars)

FY 12	FY 13	FY 14	FY 15	Total
FY 12 Current Plan				
162	374	35		571
	FY 13 Proposed Plan			
	388	35	35	459

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

Note: Figures may not add due to rounding.

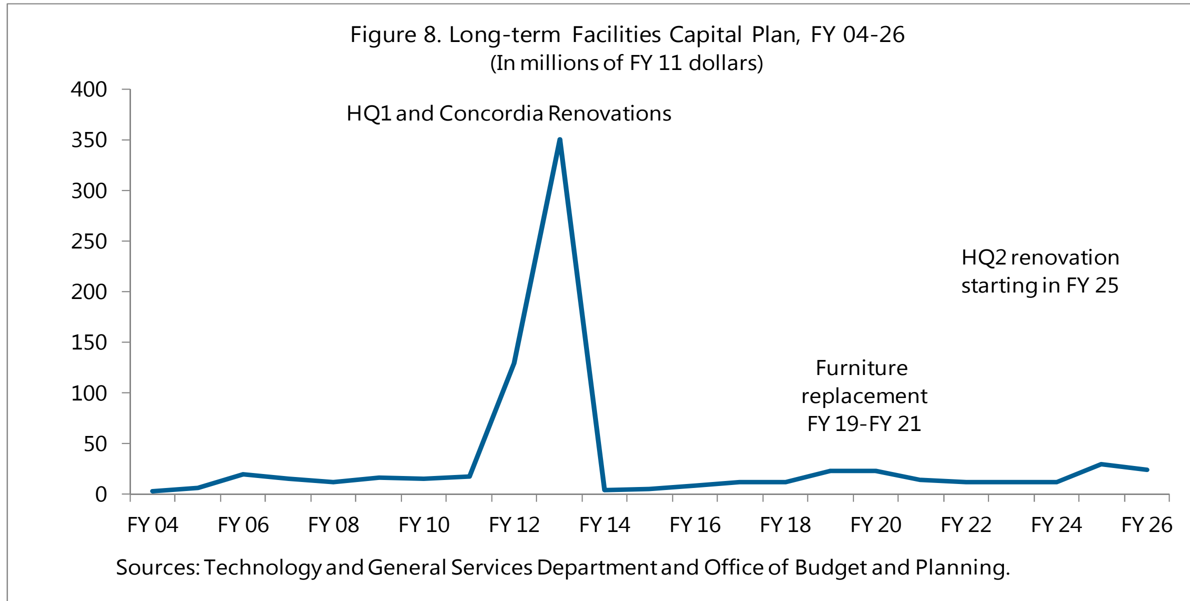
Major Building Projects and Capital Facility Improvements

30. **The HQ1 Renewal is a major effort by any measure**. It is critical to ensure the continuity in the building over the next several decades, while also adapting the physical work environment to promote collaboration across staff, through its emphasis on team spaces.[13] The design phase for this project is already in train, and actual construction is expected to start in early 2013 and run through 2017. As a limited exception to the general capital budget framework, staff proposes that the full amount be appropriated up front, and that this appropriation remain available for HQ1 Renewal expenses (including close-out expenses)

[12] All capital expenditures have an impact on the Fund's net income, but the timing of the expense varies depending on the nature of the investment.

[13] *Management Implementation Plan for the EIO Report on the Fund's Performance in the Run-Up to the Crisis* (forthcoming).

through the end of the project (FY 18).[14] Work on the renovation of the Concordia has also started and should be completed by the end of FY 13 (see Box I.1). No other major building project is envisaged through 2025 (Figure 8).



31. **Capital plans also include limited appropriations for facilities**. The FY 13 facility capital appropriation provides for restroom renovations, replacing some broken furniture, and landscape and irrigation improvements. TGS is currently in the process of assessing further audio-visual needs, including a plan for life-cycle replacement that could entail higher spending over the medium term. This issue will be further explored in the context of the FY 14 budget.

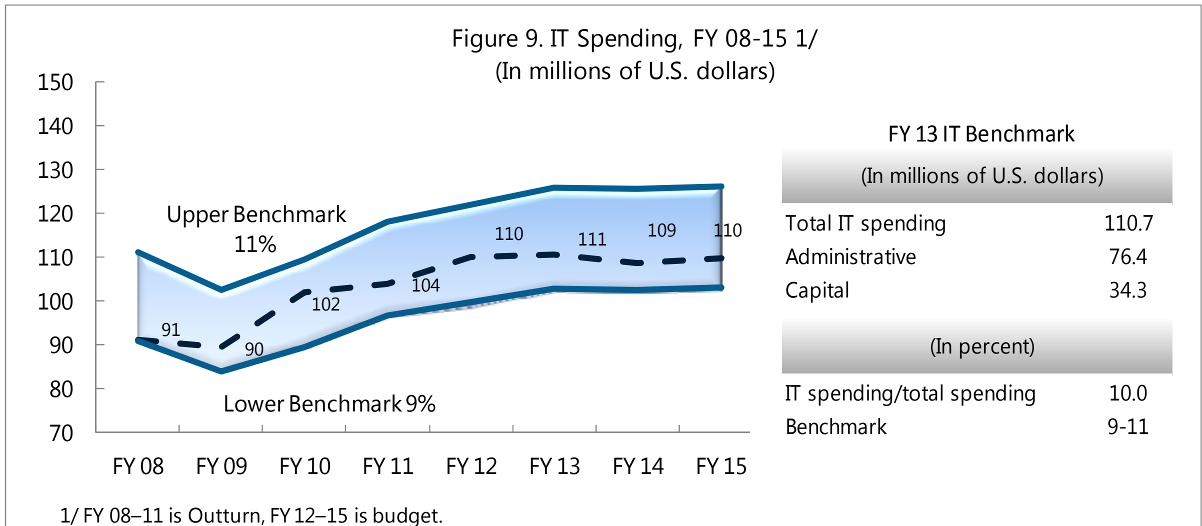
Information Technology (IT) Capital Projects

32. **The IT capital budget reflects an emphasis on improving the stability and usability of core enterprise, financial, and administrative systems**. It provides for the periodic replacement of computers and servers that have reached the end of their useful lives; resources to address key security concerns identified last year; and continued investment in information and data management initiatives started in response to the financial crisis. Projected spending beyond FY 13 is subject to some uncertainty related to evolving IT security demands.

33. **Despite a sizeable increase compared to last year's placeholder for FY 13, IT spending will remain well within its benchmark**. As indicated to the COB in February, the IT

[14] Under the capital budget framework in place since 2002, it is envisaged that capital projects of more than three years are subject to multiple appropriations, with the full cost of the project being disclosed when funds are first appropriated.

capital budget increases by $10 million over last year's FY 13 placeholder budget of $24 million, mainly due to investments in IT security and EDMI-related projects (Box 4) not expected at that time. Nevertheless, it remains within the benchmark spending levels that have guided IT capital budgeting over the last few years (Figure 9).[15]



[15] The IT benchmark is computed as the ratio of total IT spending (both administrative and capital) over the sum of the total net administrative budget plus capital spending (excluding the HQ1 Renewal and Concordia renovation projects). The benchmark was introduced in 2004 and is based on an annual survey of 10-15 IFIs.

ANNEX I. THE FY 12 PROJECTED OUTTURN[1]

A. Overview

1. **A small underspend of under 2 percent is projected for total net administrative expenditures in FY 12** (Table I.1). Net expenditure (after receipts) would reach $968 million, unchanged from the projection reported to the COB in February, largely due to lower-than-planned personnel and travel expenditures. As indicated at the time, it is proposed that an additional contribution of up to US$ 30 million (to be fully funded within the FY2012 budget envelope) will be made to the Retired Staff Benefit Investment Account (RSBIA) in FY 12 to help narrow the gap between assets in the plan and forecasted liabilities; this is in line with past years' practice to help address the structural deficit in the plan.

Table I.1. Administrative Budget, FY 12
(In millions of U.S. dollars)

	FY 12 Budget	FY 12 Est. Outturn In U.S. dollars	FY 12 Est. Outturn In percent
Gross Expenditures	1,123	1,093	-2.7
Personnel 1/	817	808	-1.1
Travel	112	105	-6.6
Buildings and Other Expenses	181	181	0.0
Other	13 2/	-	
Less: Receipts	138	126	-9.3
Net Expenditure	985	968	-1.8
Memorandum item:			
Carry Forward funds from FY 11	34		

Sources: Office of Budget and Planning and PeopleSoft Financials.
Note: Figures may not add to totals due to rounding.
1/ Includes an additional contribution to the RSBIA.
2/ Includes contingencies for OED, IEO, and staff.

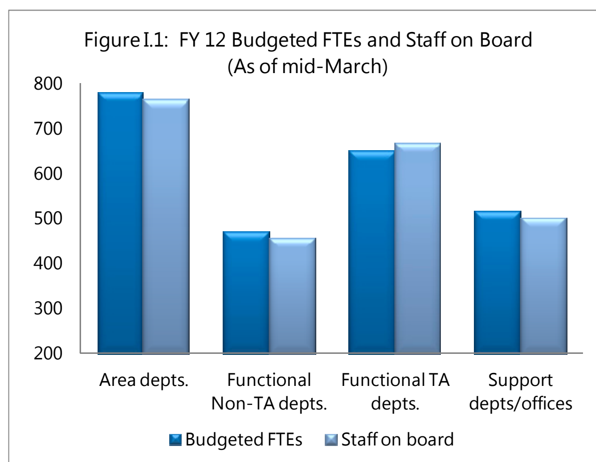
2. **The work agenda of departments continues to center heavily on crisis-related activities**. Dominant features are the engagement with countries on Fund programs, near-program work and intensified surveillance, as well as crisis-related policy work.

B. Major Expense Categories and Receipts

3. **Lags in filling vacancies explain the projected under spending in the personnel budget** (Figure I.1). Although many departments had filled their budgeted positions by March, staff positions are funded for the whole financial year, staff turnover takes place during the year,

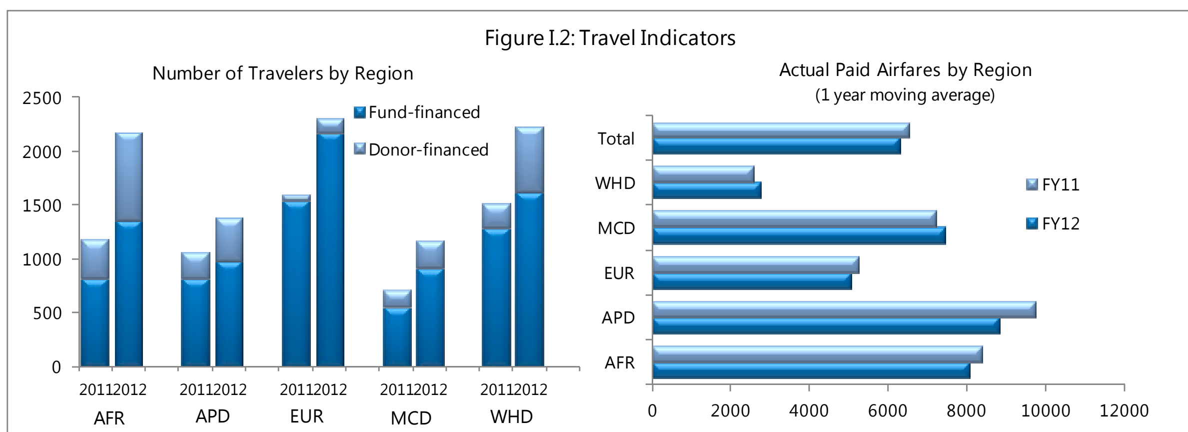
[1] After the financial books are closed for FY 12, an outturn paper will be issued reporting on the final year-end expenditures.

and there is a lag in filling position. In addition to these volume savings, salary costs are also projected to end the year slightly lower-than-planned. These margins are being used to make an additional contribution to the RSBIA, as noted above.



4. **Travel expenditure is expected to be within budget**. On current trends, travel volume (measured by the number of mission travelers) is projected to increase by some 10 percent compared to FY 11. This is partly explained by higher resources in the FY 12 budget, including a large increase in donor-funded travel. Departments have also made significant efforts to maximize their travel dollars—for example, by taking advantage of lower airfares including by purchasing their tickets well ahead of planned departure dates, resulting in lower average airfares (Figure I.2; see also Box 4).

5. **Spending on building and other Fund-wide services is projected to end the year on budget**. Additional spending was required to address the IT security breach earlier this year, covering both remediation as well as new preventive measures. Savings in other services, such as printing and telecommunication, are expected to help offset the higher-than-planned IT outlays.



6. **Total receipts are expected to end the year close to planned levels**. Revenue projections take into account the expanded program in externally-funded technical assistance, including new Topical Trust Funds (Tax Policy and Managing Natural Resource Wealth) and larger financing for RTACs, such as for the new RTAC (AFRITAC South) and CARTAC, which was previously administered by the UNDP. General receipts from Fund-financed activities (e.g., sale of Fund publications, leases, parking revenues) are projected to be at budget.

C. Capital Investment

7. **Two major capital projects were initiated in FY 12**—the replacement of major building

systems in HQ1 and the renovation of the Concordia. For the HQ1 Renewal Program, the project management phase is well under way and design services are under contract. Demolition activities at the Concordia are completed and major construction has begun (Box I.1).[2] Capital spending under these two projects for FY 12 is projected to end the year as planned. The Bond building was sold in January 2012 for $22 million, with net proceeds credited to the Fund's General Resources Account. In addition to these major activities, there are also capital investment projects in information technology and a small number of facilities maintenance projects—spending in these areas is on track (Table I.3).

Box I.1. Concordia Building Redevelopment Project Update

In 2011, the Executive Board approved a plan to renovate the Concordia building (used to house participants in courses organized by the IMF Institute) and to sell the adjacent Bond building in light of its deteriorating condition. A capital project of $40.6 million was approved for the Concordia project (of which $38.9 million in the FY 12–14 Medium-Term Capital Plan, and the remaining $1.7 million coming from earlier unused allocations for maintenance, then repurposed to the renovation).[2]

The project is proceeding on schedule and on budget, with inauguration of a renovated Concordia slated for March 2013. Progress to date includes: (i) completion of design and programming; (ii) securing of regulatory approvals (zoning, permits); and (iii) completion of competitive procurements of key contracts. Demolition activities are completed and major construction is under way.

The Bond building was successfully marketed and sold for $22.05 million. Offers were solicited, and ranged from $5 million to $19.5 million, followed by an online auction that resulted in the winning bid. The settlement transaction was concluded in January 2012, and the net proceeds have been credited to the Fund's General Resources Account, after deduction of related expenses (e.g., broker's fee and cost of separating the Bond and Concordia buildings).

Table I.3. Capital Expenditures, FY 12
(In millions of U.S. dollars)

	Facilities	IT
Appropriations in the FY 12 budget	5.1	33.9
+ Unspent from FY 10 and FY 11 budgets	20.4	19.7
= Total funds available in FY 12 1/	25.5	53.6
Planned expenditures in FY 12	9.0	24.0

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

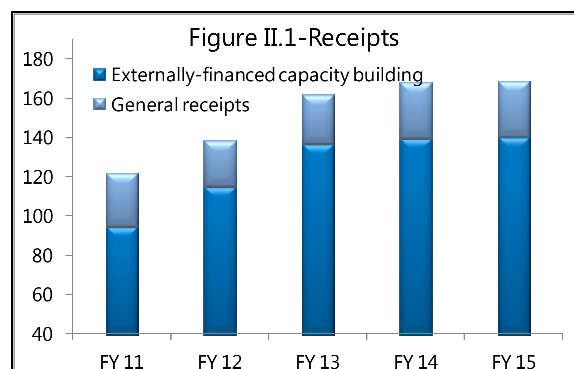
1/ Approved capital budget funds are available to projects for three consecutive years. Unspent funds appropriated under the FY 10 capital budget will lapse at the end of FY 12.

[2] Progress reports will be made available to the Executive Board on the HQ1 building and Concordia projects.

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. **Following intensified fund-raising efforts, donor-funded capacity building activities are expected to expand in FY 13 and FY 14** (Figure II.1). This largely reflects stepped-up activities in several of the Regional Technical Assistance Centers, and the anticipated increased use of resources from Topical Trust Funds (TTFs).



3. **General receipts are expected to remain broadly unchanged in FY 13**. In FY 13, the reduction in receipts related to the ongoing renovation of the Concordia (and the suspension of its operations) is more than offset by increases in other general receipts, including from the sale of Fund publications. Following the completion of the Concordia renovation, receipts are expected increase in FY 14 (Table II.1). Separately, revenue from leasing additional space in HQ2 will be delayed until the HQ1 Renewal project is completed. At that time, the space available for leasing will be evaluated.

Table II.1 Receipts, Comparing the FY 12–14 and FY 13–15 MTBs
(In millions of U.S. dollars)

	FY 12	FY 13	FY 14	FY 15	MTB Total 1/
A. FY 12-14 MTB	138	155-175	159-179		475
Externally-financed capacity building 2/	115	125-145	125-145		383
General receipts	24	24	27		75
B. FY 13-15 MTB		161	168	169	498
Externally-financed capacity building		137	140	140	417
Technical assistance 2/		129	132	132	393
Scholarships (including administrative fees)		8	8	8	24
General receipts		25	28	29	81
Of which:					
Fund-sponsored sharing agreements 3/		5	5	5	16
Publications income		5	5	5	16
Concordia apartment		0	3	4	7
HQ2 leasing		4	4	4	11
Reimbursement of investment office costs		4	4	4	13
Parking		3	3	3	9

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