INTERNATIONAL MONETARY FUND

FY2012–FY2014 Medium-Term Budget

Prepared by the Office of Budget and Planning

Approved by Daniel Citrin

March 30, 2011

The FY 12–14 Medium-Term Budget (MTB) presented in this paper aims to address recent changes in the core work of the Fund through a modest increase in the Fund's underlying or "structural" budget while meeting continued temporary needs associated with the recent global financial crisis through an additional temporary expenditure envelope. At the same time, the MTB incorporates substantial efforts that have been made to reallocate resources within and across departments so that the bulk of the savings achieved during the recent restructuring can be preserved despite the need for higher spending. The MTB also envisages the repeal of the charging regime for capacity building, currently scheduled to enter into effect on May 1, 2011.

For FY 12, Board approval is sought for:

(i) a structural budget envelope of $932 million, which includes a small increase in real spending, but due to a lower deflator implies a largely unchanged nominal spending path compared to that outlined in the FY11–13 MTB;

(ii) a temporary budget envelope of $53 million to finance the increase in crisis-related activities; and

(iii) a capital budget ($162 million) for: (i) HQ1 repairs; (ii) Concordia renovations; (iii) other minor capital facilities repairs; and (iv) information technology investments.

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I. MAIN ISSUES

1. **With the global financial landscape still unsettled, temporary spending looks set to remain at current levels over the next few years**. Lending commitments and crisis-management activities have surged since the onset of the crisis: by the end of December 2010, there were 60 program and financial arrangements in place, compared with 40 at the time of the Fund's restructuring in early 2008. The higher lending has generated a sharp but temporary rise in income, but has also required an increase in temporary spending. This expenditure will unwind over time, but only marginally over the FY 12–14 MTB period.

2. **Small adjustments are also required to the underlying structural budget to enable the institution to play its enhanced role in the oversight of the global economy as endorsed by the membership**. The membership has requested the Fund to strengthen its work on crisis prevention, cross-country analysis, and financial sector surveillance, as well as to increase provision of technical assistance. While in part precipitated by the crisis, these activities will be sustained well beyond the end of the current crisis; responding to calls for increased efforts in these areas is essential for the continued effectiveness of the institution.

3. **The budget impact of this enhanced role has been minimized through reallocation of resources within and across departments**. Support departments will contribute the bulk of resources reallocated across departments, through changes in services, focusing on efficiency, and in the case of HRD a comprehensive restructuring. Other departments are reprioritizing their activities, reducing the scope of some work, and better leveraging a wide range of outputs.

4. **Notwithstanding a higher envelope in real terms, changes in the construction of the budget deflator will help to provide a nominal spending path that is broadly unchanged from that presented in the FY 11–13 MTB**. Under the new methodology, the personnel component of the global external deflator has been constructed solely on the basis of the increase in the salary structure, and now excludes the merit increase. Changes in the compensation system approved in March 2011 will ensure that the merit increase is financed by salary erosion due to staff turnover, in line with its budget-neutral design.

5. **The capital budget provides financing for long-needed repairs to HQ1 and a complete renovation of the Concordia building, and for necessary investments in information technology equipment and software**. Unlike the core administrative budget, capital spending by nature is uneven: projects are considered one-off and do not come at regular intervals. The FY 12 capital facilities budget will provide financing for the HQ1 renewal project, and for the renovation required for the Concordia. The FY 12 capital IT budget supports the updated IT strategy and provides resources for the replacement of outdated hardware, acquiring and updating software, improving information and data management, and protecting the Fund's IT assets from external threat.

6. **As part of the ongoing budget reforms, the carry forward limit for the budget for general administrative expenses (other than OED and IEO) will be revised downward to the levels envisaged when the policy was originally adopted**. Funding crisis-related work cannot be sustainably provided through the carry-forward policy, as done in the last couple of years. Consistent with the original intent of the policy—allowing for smoothing of expenditures across financial years—the maximum carry forward for general administrative expenses has been revised downward from 6 percent to 3 percent.

II. Shaping the FY 12–14 MTB to Reflect the Fund's Strategy

7. **As highlighted in the accompanying Managing Director's statement,[1] the world looks much different from 2008 when the Fund launched its ambitious reform agenda**. Many of the core elements of the reform agenda (e.g., more focused surveillance, increased multilateral and bilateral surveillance) have guided the reorientation of the Fund's work. Other changes in work over the past years, however, were not anticipated and required an adjustment to the priorities set out at the time (e.g., more rather than fewer program countries, accompanied by more rather than fewer resident representative posts) with a temporary budget providing supplementary financing. The new MTB provides an opportunity to assess the extent to which the Fund's work has been reoriented to meet the 2008 strategic directions, and evaluate the resource requirements to meet new and evolving spending needs over the medium term.

III. The FY 12–14 MTB Envelope

A. The Temporary Budget

8. **A temporary budget envelope continues to be required over the medium term to carry out the additional work associated with the global financial crisis**. From the time the temporary budget was initially established in FY 09, management has been clear in its commitment to unwind the increased temporary spending as the crisis abates. However, the scenario outlined in the FY 11–13 MTB—that work associated with the crisis would decline by one-third each year—has proved too optimistic, as the number of Fund financial programs and other arrangements have continued to increase. Temporary needs are estimated to total $52 million (FY 11 dollars) in FY 12, declining in real terms by around 10 percent by FY 14 (Table 1).

Table 1. Continued Crisis and Temporary Needs
(In millions of FY 11 U.S. dollars)

	FY 12	FY 13	FY 14
Area Departments	32	30	27
Of which: Res. Reps.	12	12	11
TA Functional Departments	7	7	6
Other Functional Departments	5	5	4
Other	7	8	9
Reformed Annual Meetings	2	2	1
Delay in Leasing HQ2 2nd Floor	2	2	2
B-Level Diversity Program	3	4	5
Total	**52**	**50**	**47**

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

[1] Statement by the Managing Director: Updating the Strategic Directions in the Medium-Term Budget, March 30, 2011.

9. **Temporary resource pressures also include some non-crisis activities**. The FY11–13 MTB assumed an increase in revenue from leasing excess space in HQ2. However, as major repairs are envisaged to the HQ1 building, plans for leasing space in HQ2 have been delayed during the repair period. The temporary budget also includes resources to increase the representation in the Fund of B-level staff from under-represented areas; after an acclimation period, these staff will be absorbed into the structural budget and temporary financing will be phased out. The temporary cost of reforming and modernizing the Annual and Spring Meetings will likewise be phased out as strengthened budgetary oversight will result in efficiency gains and offsetting savings.

B. The Structural Budget

10. **The Fund's enhanced role in the international community's efforts to ensure smooth functioning of the global financial system is more permanent in nature, and will require an increase in the institution's structural budget envelope** (Table 2). New

Table 2. New Structural Demands

(In millions of FY 11 U.S. dollars)

	New Requests (per annum)	Proposed FY 12	Proposed FY 13	Proposed FY 14
Operational Departments	**39**	**20**	**20**	**20**
Increased Country Work and Resident Representative Posts	19	7	7	7
Increased Multilateral Initiatives (e.g., Spillover Reports, New Data Initiative)	7	3	3	3
Enhanced Outreach and Dialogue with Membership	5	4	4	4
Increased Financial Sector Work (e.g., macrofinancial modeling, FSB, Additional FSAPs)	8	6	6	6
Support Departments	**10**	**-5**	**-6**	**-6**
Increased Spending/Reallocated from Support Departments	10	-5	-6	-6
Institution-wide Needs and Savings	**11**	**13**	**14**	**14**
OED	…	2	2	2
Reform to the Staff Retirement Plan		0	-6	-7
Reform of overseas allowances	--	-1	-1	-2
Promotions (0.5 percent skills upgrade)	4	3	6	10
Suspend Charging Policy for TA and Training	6	6	6	6
Restore Contingency	0	0	5	3
Other	1	2	1	2
Total increase in structural budget	**59**	**28**	**28**	**28**

Source: Office of Budget and Planning

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

mandates include, for example, support for the G-20 and other international fora, other new products related to multilateral or systemic surveillance, and enhanced financial sector surveillance notably through mandatory and regular FSAPs in countries with systemically important financial sectors. Global analysis includes a strengthened WEO and GFSR process, the recently-introduced Fiscal Monitor, as well as continued examination of systemic vulnerabilities in the context of the FSB/IMF Early Warning System and vulnerability exercises. Also, external presence—including through a modest expansion in the number of Resident Representative posts—has been strengthened in systemically important countries; this is part of a broader strategy to increase the traction of the Fund's policy advice through stepped up efforts in outreach and communications.

11. **The new structural budget also reflects the recently-approved reforms to the compensation system**. The new merit pay system is designed to be budget neutral, and a specific provision (0.5 percent) has been provided in the structural budget for selected faster promotions and skills upgrades. Together, these changes replace a comparatio system that, while sound in principle, had a number of shortcomings: it was not bound by a strict budget constraint, it was difficult to explain and communicate (particularly to the outside community), and it created an inaccurate perception of the actual increase in Fund salaries. The new compensation system addresses these shortcomings.

12. **The Managing Director's intention to repeal the plan to charge for technical assistance and training would also add to the structural budget**. Charging for technical assistance was scheduled to begin on May 1, 2011, and was envisaged to produce a modest stream of revenue. The requirement for member countries to contribute to the cost of Fund-financed capacity building activities had been agreed in October 2008 as part of a broad set of capacity building reforms. It was initially delayed in view of the global financial crisis, which made more apparent the public good nature of the Fund's technical assistance. Moreover, many of the objectives of a charging regime have been achieved through other means.[2] The repeal of the plan to charge for TA and training has been recommended by the Working Group on Technical Assistance Financing. In the context of the discussions on the FY 12–14 medium-term budget, and following informal staff consultations with Executive Directors, the Managing Director is seeking the views of the Executive Board on the intention to no longer pursue a charging regime for TA.

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[2] For example, donors have become increasingly involved in allocation decisions. Also, strengthened interdepartmental coordination in the preparation of Regional Strategy Notes and TA plans, and the reaffirmation of the area departments' responsibility in determining country priorities has ensured a better allocation of TA resources and contributed to giving high priority to recipient countries displaying commitment and ownership. This change also resulted in a closer alignment of TA with surveillance priorities and program work.

13. **Significant reallocation of resources within and across departments helped to minimize the budget impact of the new mandate activities and the other changes**. Initial departmental requests for additional resources to deal with the increased workload were substantial—amounting to $59 million in FY 11 dollars. Through a combination of reprioritization, shedding low-value added activities, and garnering further efficiencies, the increase in structural spending has been limited to $28 million (in FY 11 dollars). Box 1 provides additional details on the reallocation measures.

14. **In real terms, the savings in the structural budget that were targeted by the restructuring have been broadly preserved**. After factoring in the above-mentioned increase associated with the new activities, the FY 12 structural budget maintains a real reduction of $75 million (FY 08 dollars) relative to the FY 08 pre-restructuring budget (Figure 1). Temporary demands will cause some of these savings to be deferred until the crisis subsides, but total employment (structural and temporary) will nevertheless remain well below the pre-restructuring levels (Figure 2).

Figure 1: Structural Spending, FY 08-14

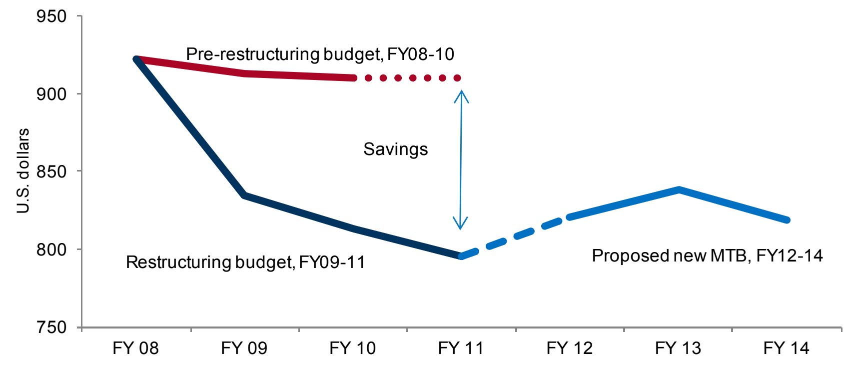
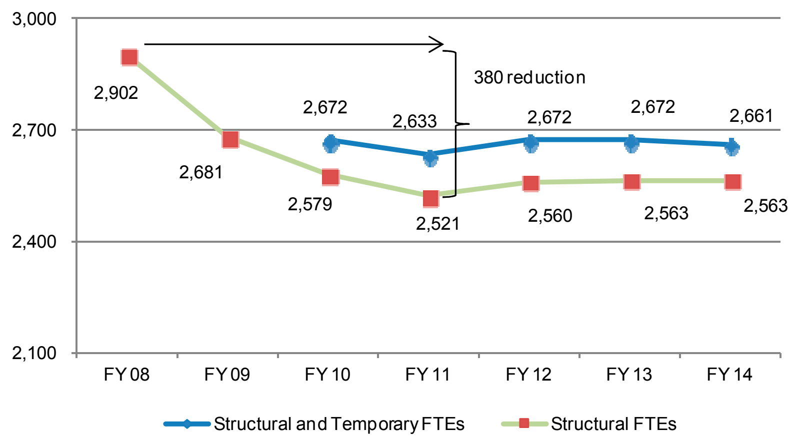


Figure 2. FTEs, FY 08 - 14



Note: Includes OED and IEO.

Box 1. Reallocating Resources Within and Across Departments

New requests for allocations from the structural budget were substantial. Initial departmental requests for extra resources to deal with the increased structural workload were $49 million. Additional requests to finance Fund-wide needs and offset lost revenue amounted to a further $11 million. Significant efforts were made to reduce this spending pressure and to reallocate resources within and across departments.

A large share of the new resource needs will be accommodated by increased efficiency in support departments. HRD has embarked on a medium-term restructuring that will reduce its headcount by around 20 percent. Following on from steps already taken (e.g., rebidding of several large contracts, outsourcing and off shoring activities, and introduction of new IT systems), TGS has rationalized a number of services and realized cost savings through joint procurement with the World Bank of items such as computers. In addition, TGS has reallocated around $7 million to accommodate increased maintenance costs associated with new and ongoing IT capital investments. Changes to Board practices also have the potential to produce efficiency gains and a smoother work flow (e.g., through increased use of LOT basis and early circulation of Grays).

Operational departments have made similar efforts to contain spending. Original requests by area and functional departments were reduced by about $20 million. Savings stemmed from:

- Scaling back plans to open additional resident representative posts. Extra staff have been posted in Asia, as recommended by the Working Group on External Presence, but other plans for additional posts are being shelved (new regional centers, posts in some small non-crisis program countries).
- Resources will be reallocated internally within SPR and RES to accommodate some of the additional work on spillovers and macroeconomic modeling; in part through reducing overlaps of work with area departments in multilateral surveillance and LIC work, and streamlining of trade-related analysis.
- Continuing to cut the number of Selected Issues papers, especially in non-core areas, while reducing lower priority research across the Fund more generally.
- Moving gradually in attempting to fill data gaps pending greater clarity about Fund's role.
- Improving prioritization of ROSCs across standards.

Departments are also more efficiently managing their travel budgets. Following the introduction of the Travel Portal, departments are able to access information about the prices that other travelers are able to obtain, thus enabling better decisions to be made. Staff have also been alerted to the advantages of ticketing early, which in some cases can save as much as 50 percent on airline tickets. These actions have helped to offset some of the additional travel costs resulting from price and volume increases.

Additional savings are expected to come on stream over the medium term. Changes to the Staff Retirement Plan will yield savings of about $6 million a year starting in FY 13. Allowances paid to staff overseas will be harmonized to ensure consistency across various types of staff postings and align practices more closely with other institutions, thereby saving over $2 million a year after the transition.

C. Redefining the Deflator

15. **An important change has been made in the construction of the global external deflator (GED) that reduces the increase in the nominal budget**. The GED consists of:

- A personnel component (70 percent) constructed from an external salary index derived on the basis of the Board-endorsed methodology for comparing Fund salaries to the national markets and sectors that comprise its comparator market; and

- A non-personnel component (30 percent) based on an index that reflects most closely the Fund's non-staff related costs (travel, facilities, and IT). This is measured by the projected U.S. CPI in the most recently published version of the World Economic Outlook (WEO).

During earlier discussions on the budget and the merit pay proposal, Directors strongly welcomed a change in the deflator formula that would use only the salary structure adjustment for the personnel component (Table 3). The change in methodology is aimed at increasing transparency and more appropriately reflecting actual staff costs. It also is consistent with the reformed compensation system that has been recently approved. With no change in inflation assumptions, the change would result in a downward adjustment in the deflator for FY 12 from 4.0 percent to 2.4 percent.

Table 3. Global External Deflator
(In percent)

	FY 11	FY 12	FY 13	FY 14
	FY 11-13 MTB			
Global External Deflator 1/	4.0	4.0	4.1	
Personnel Component (70) 2/	4.9	4.9	4.9	
Non-Personnel Component (30)	1.7	1.9	2.2	
		FY 12-14 MTB - Prior Assumptions and New Methodology		
Global External Deflator 3/		2.4	2.5	
Personnel Component (70)		2.6	2.6	
Non-Personnel Component (30)		1.9	2.2	
		FY 12-14 MTB - New Assumptions and Methodology		
Global External Deflator 4/		1.4	1.5	1.5
Personnel Component (70)		1.5	1.5	1.5
Non-Personnel Component (30)		1.1	1.4	1.6

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ Based on the 2009 salary index; October 2009 WEO and US CPI.
2/ Includes 2.6 percent structural, and 2.3 percent comparatio
3/ Includes 2.6 percent structural and October 2009 WEO and US CPI.
4/ Based on the 2010 salary index; October 2010 WEO and US CPI.

16. **In addition to the change in formula, the new deflator value also reflects a downward adjustment in price assumptions relative to last year's MTB**. In line with the actual increase in the structural pay-line for FY 12, the increase in the personnel component was adjusted from 2.6 to 1.5 percent, while that in the non-personnel component was adjusted from 1.9 percent to 1.1 percent, reflecting the updated WEO price data for 2010.

17. **The application of the new methodology, together with the fall in underlying inflation, results in a nominal spending path that is broadly similar to the spending path envisaged a year ago**. Notwithstanding the increase in spending in real terms (Table 4), the new deflator methodology combined with lower inflation serves to keep nominal spending for FY 12–14 at about the same level outlined in the FY 11–13 MTB. Structural spending in FY 12 is only slightly higher in nominal terms than outlined in the FY 11–13 MTB, and becomes lower by FY 13. By FY 14, total spending (temporary and structural) is at a level consistent with that set out last year. Estimated spending by input category is reflected in Table 5.

Table 4. Comparison of Nominal Spending Envelopes
(In millions of U.S. dollars)

	FY 11	FY 12	FY 13 1/	FY 14
Structural Budget				
FY 11-13 MTB 2/	891	927	971	1,010
FY 12-14 MTB		932	952	960
Temporary and Crisis Needs				
FY 11-13 MTB	42	23	11	-
FY 12-14 MTB		53	52	50
Total Budget (Structural and Temporary)				
FY 11-13 MTB	933	950	982	1,010
FY 12-14 MTB		985	1,004	1,010

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ Structural budget includes $6 million for annual meetings held abroad.
2/ FY 14 has been calculated by extending the FY 11-13 structural budget for another year and applying the deflator in use at that time.

Table 5. MTB FY 12-14 by Major Expense and Receipt Categories
(in millions of U.S. dollars)

	FY 12	FY 13	FY 14
Personnel	823	849	857
Travel	107	116	111
Building and other	181	183	185
Contingency 1/	12	15	18
Gross expenditures	**1,123**	**1,163**	**1,172**
Receipts	138	159	162
Net expenditures	**985**	**1,004**	**1,010**

Source: Office of Budget and Planning.
1/ Includes the contingencies of the Offices of Executive Directors and the IEO.

D. Business Plans

18. **Departmental Business Plans outline how budgeted resources will be allocated to support the strategy communicated in the Managing Director's statement**. Departmental Business Plans contain detailed information on departments' strategies and key priorities over the medium term and how these translate into their work plans. In keeping with past presentations, outputs are measured by the broad Responsibility and Key Output Areas as summarized in Table 6; the stability of the allocations over time reflect the assessment that the current crisis activities are unlikely to change over the medium term. Looking forward to FY 13, the Analytic Costing and Estimation System (ACES) will move away from this broad representation and will provide greater detail on the cost of producing selected outputs (e.g., the WEO, GFSR, Article IV Consultations, etc.). This more detailed information will provide

the basis for internal benchmarking of costs across departments and over time, and enable better decision making when assessing whether the Fund is delivering value for money.

Table 6. Planned Activities and Services by Responsibility Area 1/
(in percentages)

	FY 11	FY 12	FY 13	FY 14
Global cooperative economic solutions	**21.2**	**22.2**	**22.0**	**22.1**
Lead the global economic policy dialogue	13.2	14.3	14.2	14.2
Oversight of the global economic and financial system	8.0	7.9	7.8	7.8
Direct Member Services	**45.9**	**46.3**	**46.5**	**46.3**
Advise member countries on economic policies	14.5	14.7	14.6	14.7
Support countries' economic policy adjustments	12.4	12.9	12.6	12.4
Provide capacity building	19.0	18.7	19.3	19.1
Institutional Services	**33.0**	**31.5**	**31.5**	**31.7**
Governance 2/	9.5	9.4	9.5	9.4
Support	23.4	22.1	22.0	22.3
Total Expenditures	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Budget and Planning

1/ Completed from individual departments' business plans
2/ Includes expenses with Board of Governors, IMFC, Executive Board as well as Reform of IMF processes and procedures.

IV. The FY12–14 Capital Budget

19. **Executive Board approval is sought for an appropriation of $162 million for major building repairs to HQ1, the Concordia renovation, other facilities capital projects, and IT investments**. Directors are also asked to take note of the capital budget envelope proposed for the following two years, resulting in an FY 12–14 capital plan of $572 million (Table 7).[3] Consistent with the Fund's general framework for capital expenditures, the FY 12 appropriation allows for expenditures to take place over the next three years, after which time any unspent funds will lapse.

Table 7. Medium-Term Capital Plans, FY 11–14
(In millions of U.S. dollars)

	FY 11	FY 12	FY 13	FY 14	Total
FY 11 Current Plan					
	48	52	48		**148**
FY 12 Proposed Plan					
		162	374	35	**572**

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

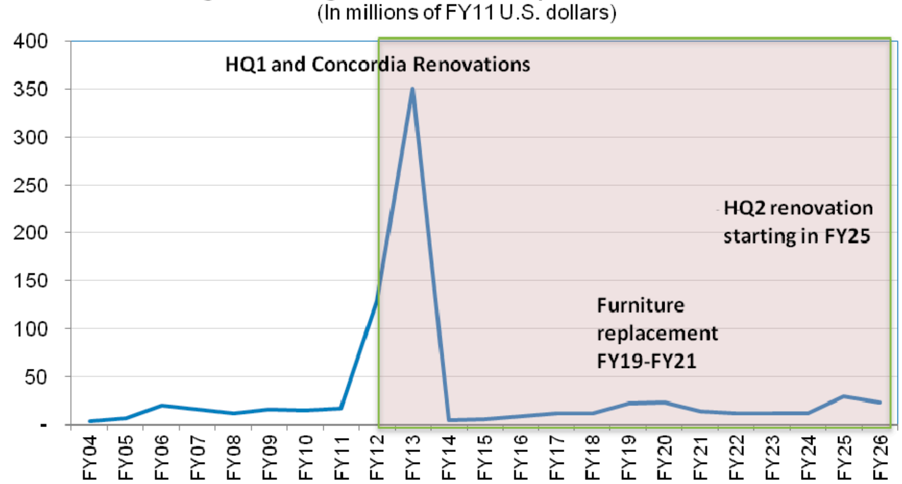
[3] All capital expenditures have an impact on the Fund's net income, but the timing of the expense varies depending on the nature of the investment. The classification is based on requirements under the Fund's accounting framework, International Financial Reporting Standards (IFRS).

Major Building Projects and Capital Facility Improvements

20. **The main facilities capital expenditures over the FY 12–14 period will be on the replacement of major building systems in HQ1 and the renovation of the Concordia building**. Each of these projects are large by any measure, but have become inevitable as major building systems have reached or exceeded the end of their useful lives. Given the size and one-off nature of these projects, the Committee on the Budget (COB) has considered these projects separately and individually. Outside of major expenditures on HQ1 and the Concordia, spending on other capital facilities projects will be limited. Planned expenditures include the maintenance of some HQ2 equipment not covered by warranties, and a provision for minor building modifications to support departmental reorganizations and staff movements as well as to prepare "swing space" in HQ2 to accommodate staff during HQ1 renovation work.

21. **Spending of this scale is rare, and other major investments in the Fund buildings are not expected for another 12–15 years** (Figure 3**)**. Although the Fund does not intend to set aside resources to finance large expenditures, as some other organizations do, preparing a long-term outlook for large building renovations is necessary to ensure that management and the Board have sufficient time to consider alternatives and plan in advance for large building remediation. Facilities condition assessments are a common tool to plan for building life cycle replacement costs, and such assessments have helped to inform the resource requirements for HQ1 and the Concordia. A comprehensive assessment of HQ2 was recently undertaken that concluded that major expenditures are not projected until the next decade, reflecting the relatively recent construction of the building.

Figure 3. Long-term Facilities Capital Plan, FY04 - 26
(In millions of FY11 U.S. dollars)

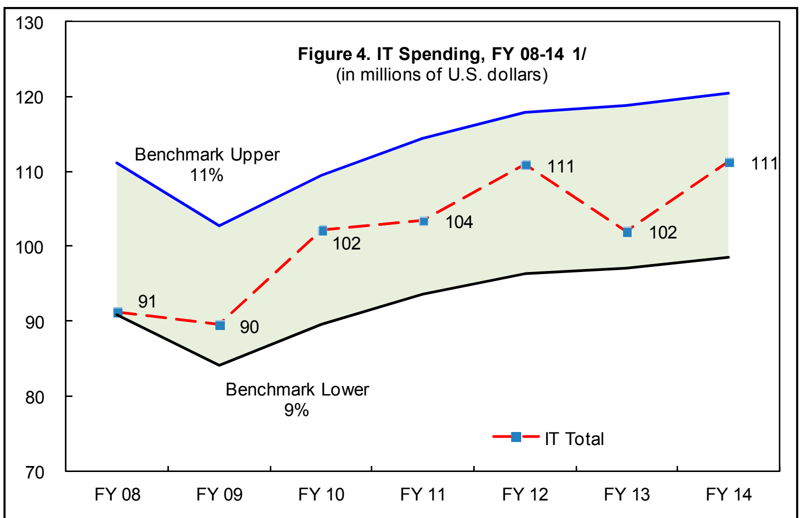


Sources: Technology and General Services, and Office of Budget and Planning.

Information Technology Capital Projects

22. **Continued capital investments in information technology are necessary to keep pace with the demands of the institution and developments in the industry**. The IT capital budget provides resources for the replacement of outdated hardware, acquiring and updating software, and protecting the Fund's IT assets from external threat.

23. **Relative to the preliminary IT capital budget presented to the COB in January, an increase of $5.4 million in FY 12 is proposed to provide funding for improvements in data and information management**. Improving data and information management tools and practices, a long-standing problem, was a theme that emerged during the formulation of the capital budget. The Committee on Business and Information Technology (CBIT) recommended that improvements in this area should be addressed now, recognizing the importance of these initiatives and the recent momentum that has been achieved. At the same time, these initiatives should not compromise funding for other critical IT investments, many of which are not discretionary (e.g., replacement of major IT systems that will no longer be supported by the vendors; hardware that has reached the end of its useful life, etc.). For now, the capital budget envelope for FY 13–14 is a placeholder and subject to re-evaluation.



1/ FY08 - 10 is Outturn, FY11 - 14 is budget.

24. **Even with this increased level of investment, the Fund remains well within the benchmark spending levels that have guided IT investments for many years** (Figure 4). The level of capital IT funding is guided by a broad benchmark that seeks to keep total IT expenditures (administrative and capital) within a range of 9–11 percent of the total expenditures of the institution (gross administrative and capital).[4]

[4] This benchmark was derived in 2004 and has been a useful means to compare the spending at the Fund with that of other IFIs.

V. Integrated Income and Expenditure Framework

25. **The consolidated income and expenditure outlook over the medium term remains largely unchanged since the projection in January**. Expenses will be lower than earlier estimated as a result of the downward adjustment of the deflator (reflecting the actual structural salary increase of 1.5 percent relative to the holding assumption of 2.6 percent). This will have a slight upward impact on net operational income in the medium term. The companion paper "Consolidated Medium-Term Income and Expenditure Framework" provides a comprehensive outlook, integrating revised estimates on income and expenditures.

VI. Further Budget Reforms

26. **The Fund's budget regime continues to evolve to ensure that resources are allocated and used in a strategic, transparent, and efficient manner**. In line with earlier budget reforms (Box 2), further improvements are envisaged for FY 12. These include:

- The link between the carry forward budget and financing crisis needs is no longer necessary, and as a consequence the cap on the carry forward can be reduced. In principle, linking the temporary crisis budget to the carry forward policy was a strong signaling mechanism: it communicated clearly (both to departments and the Board) that higher temporary spending was explicitly financed through temporary means. However, as foreshadowed last year, using the carry forward for this purpose is no longer sustainable given the duration of the crisis.[5] Nonetheless, the carry forward policy will remain in effect, but with a much lower 3 percent cap for general administrative expenses;[6] this is in line with the expectations when the policy was established—i.e. that the carry-forward policy should be used only to smooth end-of-year spending pressures from one financial year to the next.

- The Analytical Costing and Estimation System (ACES) will become operational in FY 12 and will offer insights on the cost of producing the Fund's outputs and allow a more informed assessment of whether Fund spending is delivering value. ACES will be utilized a year from now when developing the FY 13–15 MTB.

- The increased reliance on donor financing for delivery of capacity building requires further improvements in systems and processes to ensure transparency of the availability and use of these funds.

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[5] "The FY2011–FY2013 Medium-Term Budget."

[6] The carry forward limits for OED and IEO will remain at 20 and 5 percent, respectively.

Box 2. Overview of Recent Budget Reforms

In 2001, a comprehensive review of the Fund's internal budgetary practices was conducted and significant reforms to the budgetary process were recommended. The reforms aimed to:

(i) develop a more formal three-year window for budgeting, to include the cost of all new initiatives;

(ii) associate budget inputs (staff and dollars) with the delivery of the main outputs of the Fund, as described in business plans;

(iii) increase transparency of the cost of resources (mainly staff) by moving from a headcount to a standard cost concept;

(iv) better align the responsibility and accountability for outputs and expenditures within departments, and measure performance relative to plan;

(v) report annually on departmental outturn performance against business plans, and report to the Executive Board on the overall outturn against the budget strategy; and

(vi) undertake zero-base reviews of administrative and organizational policies.

In keeping with the spirit of the reforms, measures continued to be introduced even after the substantial completion of the original reforms. These additional measures have included:

(i) a substantial revision and refinement to the staff standard cost, through the introduction in 2008 of a standard cost for each salary grade;

(ii) the introduction in 2009 of a carry-forward policy to allow expenditures to be smoothed across financial years, reducing the incentive for inefficient year-end spending;

(iii) embarking on an activity-based costing project to more accurately determine the cost of Fund products; and

(iv) the implementation of IT systems to provide improved budgeting tools to assist OBP and departments in the formulation, communication, and execution of the budget.

- Responsibility for some remaining items that are budgeted centrally will be devolved to departments where greater accountability and oversight can be exercised. In particular, the budgets associated with staff assigned to overseas locations will be further devolved to departments in FY 12 allowing them to make more informed decisions regarding the trade-offs of increased cost for on-site presence. The budgets for printer and paper supplies will also be devolved.

ANNEX I. THE FY 11 PROJECTED OUTTURN

Overview

1. **This annex reports on budget execution and provides outturn projections for the year as a whole based on expenses recorded through the third quarter of FY 11**. It also presents an overview of capital investment spending and restructuring expenses. Total available budgetary resources in the net administrative budget amount to $953.4 million, including carry forward provisions from the previous year.

2. **Projections for the year as a whole indicate net expenditures will be under budget by around $25 million (**Table I.1). The expected under run is due to under-spending in travel and support and governance areas. The bulk of these unspent resources will be eligible to be carried forward to FY 12.

Table I.1. Administrative Budget by Major Budget Category, FY 11
(in millions of U.S. dollars, unless otherwise noted)

	Budgets 1/			Estimated Outturn			Budget utilization (in percent)		
	Fund-financed	External funds	Total	Fund-financed	External funds	Total	Fund-financed	External funds	Total
A. Total available net resources			953						
Structural budget			891						
Crisis budget			42						
Other carry forward provisions			20						
B. Major budget category									
Personnel	719	56	775	718	45	763 2/	99.8	80.4	98.4
Travel	81	23	104	74	19	93	91.6	81.8	89.4
Building and Other Expenses	175	10	185	167	6	173	95.8	58.3	93.8
Contingency Reserve 3/	2	-	2	-	-	n.a.	0.0		
Unallocated Carry Forward	9	-	9	-	-	n.a.	0.0		
Of which: OED	9		9			-	0.0		0.0
Gross Expenditures	986	89	1,075	959	70	1,029	97.3	78.3	95.7
Less: Receipts 4/	32	89	122	31	70	101	94.5	78.7	82.9
Net Budget	953	0	953	928	0	928	97.4		97.3

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

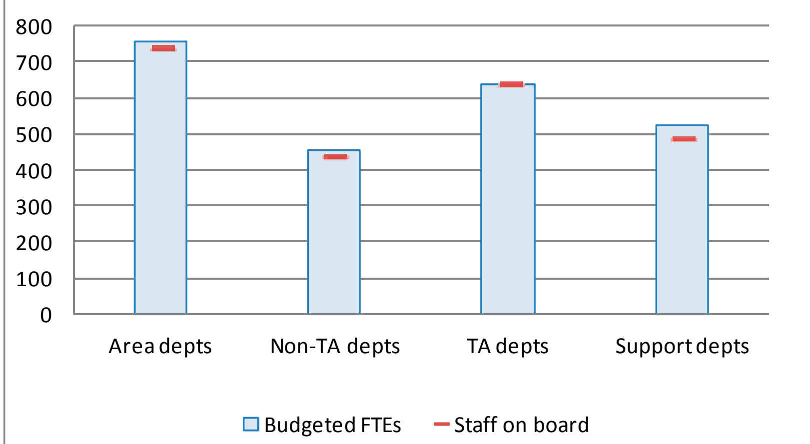
1/ Includes crisis budgets and carry forward provisions.
2/ Includes contributions to the RSBIA.
3/ Represents the contingencies for the Offices of Executive Directors (OED) and the Independent Evaluation Office (IEO).
4/ Figures are based on central estimates for receipts.

Major Expense Categories and Receipts

3. Notable developments in the main budget categories are summarized below:

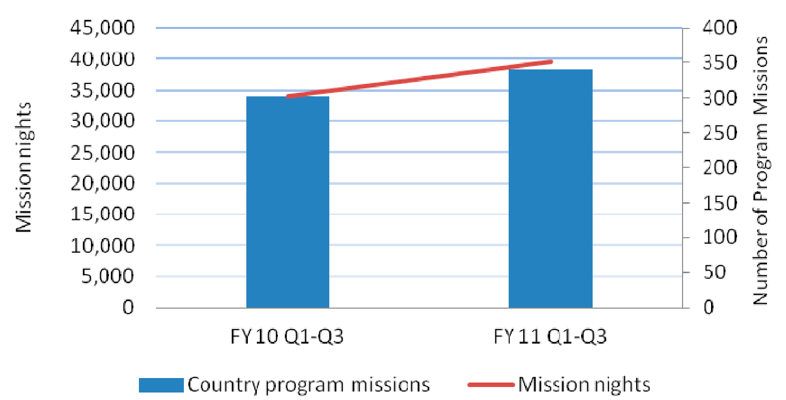
- **Personnel expenditures**: The majority of departments started the financial year with vacancies both at professional and support levels. A consistent net inflow of new hires has steadily reduced vacancies, and the few that now remain are largely in support departments (Figure I.1). Because hiring occurred late in the year, the salary and benefit cost of the higher staffing numbers were not fully reflected in the execution of the FY 11 budget, leading to an under spend of personnel expenditure. In keeping with the practice of the past two years, it is intended to use the margin in personnel spending for an additional contribution to the RSBIA at financial year end. The resulting contribution of about $45 million will help to close the gap between assets in the plan and the forecast liabilities.

Figure I.1 Staffing Levels



- **Travel**: Mission travel volumes rose relative to the first three quarters of FY 10, with total mission nights and the number of missions to program countries increasing by 16 percent and 13 percent, respectively (Figure I.2). The growth in travel is partly a reflection of the increase in the number of programs, but also of additional work on intensive surveillance countries, in particular in Europe.

Figure I.2. Number of Country Program Missions and Total Mission Nights



- **Building and other operational expenditures**: Savings in building maintenance, IT services, and other contractual services kept expenditures below planned resource needs.

- **Receipts**: Relative to the same period last year, receipts increased by close to 15 percent, although they remain below the central estimate assumed in the budget. About 75 percent of receipts are from donor-financed activities, which experienced a slow start during the first half of the year. These activities picked up in the second half but still look set to fall short of planned levels by year end. General receipts from Fund-financed activities (e.g., the sale of Fund publications, leases of HQ2 space to tenants) are largely on track.

Capital Investments

4. **Spending on capital information technology (IT) projects was according to plan, while spending on facilities projects was kept to minimum levels** (Table I.2).[1] As the long-term investment plans for the HQ1 renewal project and the Concordia complex are developed and finalized, only the most urgent facilities remediation or maintenance investments were undertaken. The majority of unspent funds in the facilities investment plan will be repurposed for work on the HQ1 renewal project. A proposal on HQ1 was endorsed by the Committee on the Budget on March 15, 2011. Consistent with last year, IT investments focused on improving information and data management, the delivery of systems to support reforms to HR, and improving operational efficiency.

Table I.2. Capital Expenditures, FY 11 Q1-Q3
(In millions of U.S. dollars)

	Facilities	IT
Total Funds Available	48	52
Expenditures	8	21
Lapsed Funds	…	…
Remaining Funds	40	31

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

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

[1] Approved funds under the capital budget are available to projects for a period of three consecutive years and as such “total funds available” in this presentation are funds appropriated during the period FY 09–11 and which have not yet been spent. Funds appropriated in FY 09 and which will not be spent in FY 11 will lapse at the end of this financial year.

Restructuring Costs

5. **A one-time appropriation of $185 million was approved as part of the FY 09–11 medium-term budget to meet the institution's restructuring costs**. This included a provision of up to $7.6 million for restructuring initiatives in OED.

6. **Staff restructuring expenses incurred during the first three quarters of FY 11 amounted to $27 million**—mainly for separation benefit payments (Table I.3). In May 2010, the remaining volunteers either left the Fund or entered into separation benefit leave status. Based on current expenditure levels, the execution of the restructuring provision is within budget.

Table I.3. Staff Restructuring Budget Execution
(in millions of U.S. dollars)

	FY 09	FY 10	FY 11 Q1-Q3	Total
Total restructuring expenses	**83**	**62**	**27**	**173**
Staff restructuring expenses	**81**	**61**	**27**	**169**
Total charged to restructuring budget	74	56	27	157
Delay costs	45	12	1	58
Separation benefits payments	28	44	26	98
Retooling and Outplacement	1	0	0	1
Total charged to administrative budget	7	5	1	12
OED restructuring expenses 1/	2	1	…	3

Source: Office of Budget and Planning.
Note: Figures may not add to totals due to rounding.
1/ OED restructuring expenses are booked at year-end.

ANNEX II. RECEIPTS

1. **Receipts contribute to the Fund's gross administrative budget and fall into two categories**: (i) external donor funding (about 75 percent), used to finance TA and training; and (ii) general receipts (about 25 percent), which includes for example revenues from cost-sharing arrangements with the World Bank, publications, and parking (Table II.1).

1. **Following intensified fund-raising efforts recently, donor funded capacity building activities are expected to expand over the FY 12–14 MTB relative to FY 11**. This reflects an increase in demand for technical assistance in light of the current global economic and financial crisis as countries work on strengthening their institutional capabilities. It also reflects stepped up activities in several of the regional technical assistance centers, and the anticipated increased use of resources from Topical Trust Funds (TTFs).

2. **General receipts, on the other hand, are expected to decline, both relative to FY 11 receipts and to the plan set out in last year's MTB**. Revenue from the Concordia property will decline in FY 12 as major repairs will make it unavailable for rental in FY 12 and FY 13; this decline in receipts will be mirrored by lower expenditures for Concordia administration, and the net effect on the administrative budget is projected to be minimal. Separately, an assumed increase in revenue from leasing a 2nd floor of HQ2 will be delayed; excess space in HQ2 will instead be used to temporarily house staff who are displaced during the HQ1 repair project.

Table II.1 Receipts, Comparing the FY 10-12, FY 11–13 and FY 12-14 MTBs
(In millions of U.S. dollars)

	FY 10	FY 11	FY 12	FY 13	FY 14	MTB Total 1/
A. FY 10-12 MTB						
Externally-financed capacity building	**72**	**79-89**	**85-95**	**..**	**..**	**246**
Technical assistance 2/	67	75-85	80-90	..	..	232
Scholarships (including administrative fees)	5	4	5	..	..	14
General receipts	**28**	**30**	**31**	**..**	**..**	**89**
Of which:				..	..	
Fund-sponsored sharing agreements 3/	5	5	5	..	..	16
Publications income	4	4	4	..	..	12
Concordia apartment	3	4	4	..	..	11
HQ2 leasing	3	4	5	..	..	12
Reimbursement of investment office costs	3	3	4	..	..	10
Parking	3	3	4	..	..	10
Total	**100**	**109-119**	**121-126**	**..**	**..**	**335**
B. FY 11-13 MTB						
Externally-financed capacity building	**..**	**95**	**117-137**	**131-151**	**..**	**363**
Technical assistance 2/	..	90	113-133	127-147	..	350
Scholarships (including administrative fees)	..	4	4	5	..	13
General receipts	..	**27**	**31**	**32**	..	**91**
Of which:	..				..	
Fund-sponsored sharing agreements 3/	..	5	5	5	..	16
Publications income	..	4	4	4	..	12
Concordia apartment	..	4	4	4	..	11
HQ2 leasing	..	3	6	6	..	14
Reimbursement of investment office costs	..	4	4	4	..	12
Parking	..	3	3	3	..	9
	..				..	
Total	**..**	**122**	**149-169**	**163-183**	**..**	**454**
C. FY 12-14 MTB						
Externally-financed capacity building	**..**	**..**	**115**	**125-145**	**125-145**	**385**
Technical assistance 2/	..	..	111	121-141	121-141	373
Scholarships (including administrative fees)	..	..	3	4	4	11
General receipts	..	..	**24**	**24**	**27**	**75**
Of which:	..	..				
Fund-sponsored sharing agreements 3/	..	..	5	5	5	16
Publications income	..	..	4	4	4	12
Concordia apartment	..	..	1	1	3	5
HQ2 leasing	..	..	3	3	3	10
Reimbursement of investment office costs	..	..	4	4	4	13
Parking	..	..	3	3	3	9
	..	..				
Total	**..**	**..**	**138**	**149-169**	**152-172**	**459**

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. Expected receipts for CARTAC are included with the new funding cycle starting January 1, 2011. Until then CARTAC is managed as a UNDP project outside the Fund's budget.

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.