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February 15, 2007

To: Members of the Committee on the Budget
(Managing Director, Chairman; Mr. Fried, Mr. Ge, Mr. Kashiwagi, Mr. Murray, Ms. Phang, Mr. Rutayisire, Mr. Saarenheimo, Mr. Sadun, Mr. Scholar, Mr. Shaalan, Mr. Silva-Ruete, Mr. Stein)

From: Bernd Esdar, Committee Secretary

Subject: **The FY2008–FY2010 Medium-Term Administrative and Capital Budgets**

The attached paper on the proposed FY2008–FY2010 medium-term administrative and capital budgets is for discussion at a meeting of the Committee on the Budget on **Thursday, February 22, 2007.**

Questions may be referred to Mr. Cangiano (ext. 37330) and Mr. Brumby (ext. 36683) in OBP.

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INTERNATIONAL MONETARY FUND

The FY2008–FY2010 Medium-Term Administrative and Capital Budgets

Prepared by the Office of Budget and Planning

Approved by Barry H. Potter

February 15, 2007

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I. Introduction

1. **This paper sets out provisional proposals for the FY2008–FY2010 medium-term administrative and capital budgets**.

- Section II provides a projected outturn for the FY2007 net administrative expenditures and reviews the implementation of the Medium-Term Strategy (MTS) to date within the FY2007 budget.

- Section III puts forward proposals for the FY2008–FY2010 net administrative budget, that is the Medium-Term Budget (MTB). This section describes the proposed budgetary policy stance; indicates the resultant nominal aggregates, on the basis of the projected external deflator; identifies specific measures envisaged to deliver the MTS within a shrinking real budget; and outlines the planned level and pattern of outputs, consistent with the MTS, over the next three years.

- Section IV describes the medium-term FY2008-FY2010 capital plan and the associated capital budget for FY2008.

- Finally, Section V draws together the proposals on administrative expenditures (the MTB) and the capital budget, and identifies their implications for administrative expenses—the measure of administrative and capital expenditures (including depreciation) that is used in the Fund's financial statements.

2. **Regarding the Fund's income outlook**, the paper provides an updated medium-term projection for net income based on the provisional FY2008-FY2010 medium-term administrative and capital budget proposals and the midyear income projections.[1] This outlook is therefore based on last November's central projections for credit levels and global interest rates. Those projections will be updated for the annual review of the Fund's income position in April.

3. **The income outlook also assumes an unchanged stance on existing policy decisions for setting the rate of charge and other income-related decisions**. Specifically, the income outlook does not incorporate any of the proposals made in the report of the Committee of Eminent Persons (CEP). Board discussions on the CEP proposals are at an early stage. Following an initial exchange of views on January 31 at the time of the release of the CEP report, the Executive Board is scheduled to hold an informal seminar on February 21, 2007.

4. **Building a consensus around a new income model will take some time and it is too early to make specific proposals**. In this vein, FY2008 would seem best treated as a

[1] See "The Fund's Income Position for FY 2007—Midyear Review" (EBS/06/163, 12/7/06).

transitional year, although a decision to this effect would only need to be taken by end-April. Staff will return to this issue in the context of the staff papers for the income review.

5. **In addition, and in response to earlier discussions at meetings of the Committee on the Budget (COB), two appendices are provided.** The first gives an overview of administrative expenditures incurred (and their financing) and the number of staff positions in offices outside Washington, D.C.—the resident representative offices and the regional training centers; the two regional offices in Europe and Asia; and the regional technical assistance centers. The second provides more information about the changing pattern and level of outputs planned under the MTS and associated MTB, and identifies the impact on individual outputs of allocating fewer (or more) resources at the margin than envisaged under the proposed MTB.

II. The Delivery Of The FY2007 Budget

6. **Staff are projecting a small underspend on the net administrative budget for FY2007,** after taking into account the need for a one-off payment towards meeting a revised estimate of liabilities under the SRP Service Credit Program, as explained below. On this basis, the final underrun on the FY2007 net administrative budget is likely to be less than $10 million (Table 1).

Table 1. Administrative Budget by Major Expenditure Category, FY2006-FY2007
(In millions of U.S. dollars)

	FY2006	FY2007		
	Outturn	Budget	Est. Outturn Current Policies	Est. Outturn Including Additional Contribution to SRP Service Credit Program
I. Personnel	666.6	700.2	693.3	708.3
Salary	392.6	407.5	405.0	405.0
Benefits and other personnel expenditures	273.9	292.7	288.3	303.3
II. Travel	94.2	97.0	92.2	92.2
III. Building and other expenditures	169.6	174.9	165.3	165.3
IV. Contingency/Planning Reserve	n.a.	3.0	0.0	0.0
V. Annual Meetings	0.0	5.0	5.4	5.4
Gross Expenditures	930.3	980.2	956.2	971.2
Receipts	-56.0	-68.3	-65.6	-65.6
Net Administrative Budget	874.4	911.9	890.6	905.6

Source: Office of Budget and Planning.

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

7. **On the basis of information available up to the end of January, staff project that gross administrative expenditures will be around $956 million, against the central estimate of $980.2 million on which the net administrative budget was predicated (**Table 1). (These figures do not take into account the proposed payment towards the higher estimated SRP Service Credit Program liability.) With receipts expected to come in almost $3 million below the central estimate, this will lead to a projected outturn on net administrative expenditures of $890.6 million, as against the net budget of $911.9 million. The gap of just over $20 million on the net administrative budget is equivalent to some 2 percent of administrative expenditures.

8. **Staff have reviewed the reasons for the projected gap between the FY2007 outturn and budget, and in particular the extent to which they are temporary in nature.** It should be emphasized that the projections are still subject to risks in both directions: and that the last quarter of the year is always particularly active, especially in years when the Annual Meetings are held overseas. The main reasons for the projected gap include the following.

- This is the first full year the Medium-Term Strategy has been in operation, and is thus something of a transitional period. Whereas some of the consequent reductions in departmental budget provisions were made at the start of the year, the resources for new initiatives were held at the center by OBP as a special MTS-related reserve. Some were released as particular projects—outreach events etc—came to fruition. But the reserves will not be fully released and expended this year, as the transformation to the new pattern of activity is not expected to be complete until FY2008.

- Staff in functional departments delivering both capacity building work and FSAPs/ROSCs make best efforts to program their work carefully over the course of the year to make the most effective use of the resources available to them. But even well laid plans are vulnerable to unanticipated requests from member country authorities to delay FSAP, ROSC or TA missions. Unlike delays in staff visits under surveillance or program activities (which have an impact only of postponing travel expenditures) delays in capacity building missions and field work on standards and codes hold back expenditures on travel and salaries of experts. Both STA and MCM, and to a lesser extent FAD, report an unusually large number of delays in such projects, which has temporarily held down spending this year.

- Finally, and as explained below, departments are having to manage their tighter FY2007 budgets more cautiously than in past years. But not only are departments managing this year's budget with caution, they are conscious that, over the medium term, their budgets will be shrinking further in real terms. This is causing a number of departments to hesitate in filling staff positions, leading to vacancy rates that are higher than departments initially set in drawing up their business plans—with a downward impact on salary and benefit expenditures this year.

Accordingly, staff's view is that these largely transitional and temporary factors are holding actual expenditures this year below their underlying level. At the same time, however, there is scope for some departmental budgets and line item provisions to be tightened further, as well as a need to examine whether some departments need more resources to deliver the MTS in full.

9. **In terms of input costs, OBP is projecting a small overall underspend on the total budgeted salary bill in FY2007; excluding the proposed payment to meet reassessed SRP Service Credit Program liabilities, expenditures on benefits are also projected to be a little below the budget estimates.**

- Average staff salaries are running about 3.5 percent higher than last year's average, well above the 2.1 percent assumed in formulating the FY2007 budget. The usual pattern over the course of the year—whereby staff leaving the institution are typically replaced by staff joining at lower grades and salaries with a consequent reduction in average salaries—has not been observed in FY2007. This is the result of lower staff turnover and a (small) net decline in the number of staff on board. A slight fall in the average salary toward the end of the financial year is expected, as the planned separations of (typically senior) staff under the Staff Restructuring Initiative and the Separation Benefits Fund take effect.

- The cumulative staff vacancy rate has continued to increase, and is now projected to reach 6 percent by the end of the financial year (as compared to around 5.3 percent at the start of the year). Departments are managing their staffing not only in the light of this year's budget constraint but also in anticipation of tighter budgets to come. Departmental personnel and budget managers are well aware that the decision to fill a vacated staff position has medium-term budget implications.

- Expenditures on staff benefits and allowances, including the main programs—budgetary contributions to the Staff Retirement Plan (SRP) and the Medical Benefit Plan (MBP), expatriate benefits (home leave and children's education allowances) and tax allowances—are expected to end the year within budget. There is a small risk of expenditures on tax allowances exceeding the budget estimate because of higher than expected average salaries and the impact of the Alternative Minimum Tax. But any such excess will likely be more than offset by lower than budgeted outturns for other benefits—a reflection of fewer staff on board than anticipated when the budget estimates were prepared.

- As noted, however, it is proposed to make an additional payment towards meeting the revised estimate of the costs of the SRP Service Credit Program. As explained in Box 1, staff propose a Fund payment of at least \$15 million from the current budget toward outstanding liability of \$21.1 million under this program. Proposals will be brought forward to the Pension Committee in due course for meeting the extant liabilities under this program in future years.

Box 1. The Staff Retirement Plan (SRP) Service Credit Program

- The SRP Service Credit Program was approved by the Executive Board in December 2002. It grew out of the policy on Categories of Employment, adopted by the Executive Board in January 1999, to address situations where employees performing similar functions were subject to different employment terms. Once approved, the policy permitted staff with prior contractual service to purchase such service for credit under the SRP.[2]

- From the time applicants were first accepted in June 2003 through December 2005, a total of 977 SRP participants were eligible for the service credit program, and 651 elected to participate.

- Under the service credit program, staff who elected to participate were required to pay their share of the pension costs for the periods of prior service at the customary rate of 7 percent of their estimated pensionable gross salaries, with the Fund required to contribute the remaining actuarially determined cost. Those participating in the program were permitted to pay in installments over a period of up to two years. The Pension Committee and the Executive Board decided that the Fund's contributions would not be made until the participant completed his/her payments. This approach deferred recognition of the costs of the program, reflecting the Fund's liabilities only after participants completed their payments.

- The Fund's liability (or share of the net present value of benefits for the program) was first estimated to be $26.5 million in 2002, based on a lump sum payment, if made in 2002.[3] Subsequently, the Pension Committee and the Executive Board decided that the Fund would amortize the cost of the program over a nine-year period, beginning in FY2005, resulting in increased costs because of the interest accrued, new participants, and salary increases that had taken place since 2002.

- While the estimated $26.5 million cost was to be amortized over a period of 7-10 years, the Pension Committee agreed to an $8 million prepayment in FY2005 in light of the projected budget underspend for that year. The Executive Board then approved a nine-year amortization schedule. That $8 million prepayment reduced the original required annual payments from $2.8 million to $2.0 million.[4]

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[2] "Staff Retirement Plan—Purchase of Service Credits for Periods of Contractual and Other Employment" (RP/CP/02/13, 10/29/02); "Categories of Employment—Facts, Issues, and Proposed New Framework" (EBAP/98/137, 12/4/98; EBM/99/7, 1/14/99); and "Categories of Employment—Proposed Reclassification of Positions" (EBAP/00/82, 7/7/00).

[3] "Staff Retirement Plan—Purchase of Service Credits for Periods of Contractual and Other Employment; and Amendments to the Supplemental Retirement Benefits Plan"(EBAP/02/146, 12/13/2002); and "Staff Retirement Plan—Purchase of Service Credits for Periods of Contractual and Other Employment; and Amendments to the Supplemental Retirement Benefits Plan" (EBAP/02/146 Revision 1, 12/18/2002).

[4] "The Fund's FY2006 Contribution to the Staff Retirement Plan" (RP/CP/05/3, 3/24/05).

Box 1. The Staff Retirement Plan (SRP) Service Credit Program (concluded)

- Last year a review of the program was conducted by the Office of Internal Audit and Inspection.[5] This indicated that, as of April 30, 2005, the Fund's liability for vested and nonvested benefits was $36.7 million ($26.3 million for vested benefits and $10.4 million for nonvested benefits).

- Based on the Actuary's most recent projections for all participants who have elected to participate in the program, the Fund's share of the program's liability as of April 30, 2007 is estimated at $42.7 million, about $6 million over the total Fund liability assessed as of April 30, 2005.

- The Fund's cash payments to date total $19.5 million, including $1.5 million paid during FY2007.[6] With interest earnings projected through April 30, 2007, the Fund's cash payments total $21.6 million, leaving an unfunded liability balance of $21.1 million, as of April 30, 2007. The corresponding annual payment over the remaining seven-year amortization period, is about $4 million per year, for a total additional cost of $27.9 million.

- Recognizing that the program will close within the next year, that the Fund's obligation is reasonably well-defined, and in light of the projected underspend of the FY2007 net administrative budget, Pension Committee and Executive Board approval will be sought for an additional budgetary contribution of at least $15 million this year.[7] Proposals for payment of the remaining liability will be brought forward to the Pension Committee at the same time.

10. **Travel expenditures in FY2007 are projected to be a little lower than last year in nominal terms, and below the budget provision for this year.** While the number of missions so far is about the same as in FY2006, mission nights—the more comprehensive measure of travel volumes—have declined, as a result of further reductions in the average size and length of missions. Unit travel costs have remained unexpectedly flat, although there have been regional variations, with increased costs for travel to Asian destinations offset by declines in airfares in the Western hemisphere. There has been very little use of charter flights in FY2007—much lower expenditure is anticipated than last year.

11. **A relatively large underspend—about $9.5 million—on the FY2007 budget provision for the building and other expenditures category is projected. Much of this gap is driven by the general contingency reserves which are held within this category and are not expected to be used.** Ancillary factors include fewer repairs than expected to

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[5] "Staff Retirement Plan Contributions for FY2006 and FY2007" (RP/CP/06/2, 4/11/06).

[6] Earlier cash payments were $8 million in FY2005; $2 million in early FY2006; and $8 million at the end of FY2006. See "The FY2007–FY2009 Medium-Term Administrative and Capital Budgets," (EBAP/06/39, 3/31/06, Box 3, page 14).

[7] The exact amount will be determined toward the end of the financial year.

the HQ-based buildings; utilities prices not rising as fast as anticipated when the budget was prepared; a small underspend in IT; and fewer-than-envisaged one-off studies, and hence a reduced need for payments to consultants and contractuals.

12. **Finally, the projected outturn on receipts is almost $3 million below the central estimates for the FY2007 budget**. The main reason for the shortfall is lower-than-expected drawdowns of donor funding for certain technical assistance projects, including activities carried out by the Middle East Technical Assistance Center; a slower-than-anticipated pace of activity in the third AFRITAC and the India Training Center; and delays in TA projects in Macedonia and Mozambique.

13. **It is too soon to draw more than very preliminary conclusions about how the pattern of outputs delivered is changing under the MTS in FY2007.** Moreover, staff have recognized the need to improve information available on outputs delivered under the MTS: the introduction of the new performance indicators is expected to make a material difference to the quality of output information next year. Table 2 juxtaposes the existing activity indicators used for each of the Fund's 12 outputs drawn from the set recommended by the Second Task Force on Performance Indicators, with the emerging preliminary list (still subject to further discussions with departments) of high level output indicators envisaged under the new system.

Table 2. Proposed TFPI Corporate Indicators Compared with Existing Activity Indicators

Output	Existing Activity Indicators	Corporate Indicators (drawn from TFPI)
Oversight of the International Monetary System	• Relevant Board policy papers	• Number of papers issued to: Board of Governors, IMFC, G-7, G-8, G-10, G-11, G-20, G-24, FSF, APEC, Development Committee and ECOSOC
Multilateral surveillance		• Number of multilateral consultations reports completed
Cross-Country Statistical Information and Methodologies	• Methodology manuals and compilation guides under implementation • GDDS participants (end of period) • SDDS participants (end of period)	• Statistical databases (BOP, COFER, CPIS, DOT, FSI, GFS, IFS and WEO): o Number of time series published o Number of countries with country pages
General research	• Total number of research papers (across all outputs)	• Total number of (general) research papers published
General outreach		• Number of press conferences and speeches by management and head of EXR • Number of meetings and seminars (with civil society organizations, legislators, other bodies, including think tanks and academia)
Bilateral surveillance	• Surveillance status (countries) o Intensive o Standard • Board policy papers	• Number of Article IV consultations concluded: o Streamlined o Non-streamlined • Number of chapters in SI papers
Regional surveillance	• Regional outlooks published	• Number of regional surveillance reports completed (CEMAC, ECCU, EU and WAEMU) • Number of regional papers discussed at Board
Standards and codes and financial sector assessments	• ROSCs completed • FSAPs initiated • FSAPs completed	• Number of assessments completed, of which: o ROSCs o FSAPs • Number of updates completed, of which: o ROSCs o FSAPs
Generally available facilities	• Program status (countries) o Financial facilities o New programs o Board meetings o Board policy papers	• Number of upper tranche facilities, of which: o SBA o SRF o EFF o CFF • Number of emergency assistance facilities, of which: o ENDA o EPCA • Number of non-financial monitoring programs, of which: o PPM o SMP o Other non-program • Disbursements during a certain period (including

Output	Existing Activity Indicators	Corporate Indicators (drawn from TFPI)
		potential disbursements under precautionary arrangements)
Facilities specific to LICs		• Number of programs, of which: o PRGF o PRGF Exogenous Shocks Facility • Disbursements during a certain period
Technical assistance	• Total TA delivery (person years) o TA reports	• Number of Tier 1 (i.e., multi-event, multi-topic) projects • Number of Tier 2 (i.e., multi-event, single-topic) projects • Number of Tier 3 (i.e., single–event, single-topic) projects
External training	• Courses, seminars and workshops conducted	• Participant training weeks • Number of participants trained

Source: Office of Budget and Planning.

14. **Despite the weaknesses in the data, there are a number of figures available which are at least indicative of the changes in the pattern of outputs being delivered in FY2007.** Thus:

- More staff resources are being devoted to work on multilateral surveillance, in particular on global imbalances, on the expanded CGER work, and on quotas and voice reform within the first Key Output Area.

- The resources devoted to bilateral and regional surveillance are higher than last year and higher than anticipated in aggregate departmental business plans. First more regional outlooks were delivered in the first half of this year than in the whole of FY2006. Second work on financial sector surveillance has also been considerably stepped up: in the first eight months of this year, 76 MCM staff participated in area department missions to work in this area, as against 54 in the whole of FY2006. Third, and to help finance the additional work above, seven streamlined Article IV exercises have been undertaken to date.

- The number of FSAPs and ROSCs completed was expected to slow as part of the MTS, and the information available indicates this is likely to occur. As noted above, however, this is in part also the result of unexpected delays in starting work on a number of such exercises.

- Finally although the projection is still sketchy at this stage, total capacity building output is likely to be a little lower than planned. Some small reduction was anticipated in such work under the MTS—unless more external finance could be secured to sustain a higher volume. However, the utilization of external finance to support the Fund's capacity-building work is likely to be a little lower than under the central budget projections.

III. THE PROPOSED FY2008–FY2010 MTB

15. **It is proposed that, in rolling forward the medium-term budget consistent with delivery of the MTS, the net administrative budget should be reduced by 1 percent in real terms (measured against the external deflator) in each of the next three years.** As noted in the paper discussed at the COB meeting on December 14, 2006, since the external deflator tends to rise by about 1 percent less than the increase in the Fund's own costs each year, this amounts to an effective 6 percent squeeze of the real administrative resources (staff numbers, travel volumes and level of support services) available to the Fund by FY2010.

16. **The external deflator is estimated at 3 percent for FY2008 using the methodology agreed by the Executive Board in FY2006.** The deflator, which will apply for all three years of the MTB, will be updated before the final budget proposals are presented to the Executive Board in April. However, on the basis of an external deflator of 3 percent, and consistent with the above budget policy stance (and after making adjustments for the additional cost of holding the Annual Meetings overseas in FY2007 and FY2010), the proposed nominal net administrative budgets are estimated at $925.0 million for FY2008; $943.5 million for FY2009; and $967.9 million for FY2010 respectively[8].

17. **Table 3 shows the adjustments made in rolling forward the existing FY2007–FY2009 MTB to form the proposed FY2008–FY2010 MTB.** The main adjustments are as follows:

- For FY2008, the 0.5 percentage point reduction in the external deflator—relative to that used for the FY2007–FY2009 MTB—reduces the nominal net budget envelope by $4.6 million; in FY2009 this impact is compounded, resulting in a $9.3 million reduction in the nominal net budget figure for FY2009.

- For FY2010, an addition of $5.5 million is made to provide for the increased expenditures associated with holding the Annual Meetings abroad in that year.

- Incorporating the revised central estimate of receipts for the new MTB period yields the gross expenditures estimates for FY2008–FY2010.

[8] See Box 2 of EB/CB/06/8 and Appendix I of "The FY2007-FY2009 Medium-Term Administrative and Capital Budgets," March 31, 2006, (EBAP/06/39). The calculation of the deflator to be used in the FY2008-FY2010 MTB can be finalized only at end-February, once all the constituent source data have been released. This calculation will be described in greater detail in the paper presented to the COB in April.

- Section C of Table 3 also illustrates the size of the proposed contingency reserve for FY2008 and the planning reserves for FY2009 and FY2010, as described in Box 5 of EB/CB/06/8.

Table 3. Rolling Forward the Medium-Term Budget
FY2008-FY2010

(In millions of U.S. dollars)

	FY2007	FY2008	FY2009	FY2010
A. Approved FY2007-FY2009 MTB				
Net expenditures	911.9	929.6	952.8	
Central receipts estimate	68.3	70.7	73.2	
Gross expenditures	980.2	1,000.3	1,026.0	
Gross expenditures allocated to outputs	977.2	994.3	1,014.0	
Contingency reserve	3.0	n.a.	n.a.	
Planning reserve	n.a.	6.0	12.0	
B. Rolling forward the MTB on May 1, 2007				
Starting point top-down constraint on net expenditures 1/		929.6	952.8	976.6
Revised central receipts estimate 2/		70.3	72.5	74.6
Starting point gross expenditures		999.9	1,025.3	1,051.3
Policy changes		0.0	0.0	0.0
Additions		0.0	0.0	0.0
Subtractions		0.0	0.0	0.0
Changes in assumptions		-4.6	-9.3	-8.7
Inflation 2/		-4.6	-9.3	-14.2
Other changes		0.0	0.0	5.5
overseas Annual Meetings		0.0	0.0	5.5
C. FY2008-FY2010 MTB				
Gross expenditures		995.4	1,016.0	1,042.5
Gross expenditures allocated to outputs		990.4	1,005.8	1,026.9
Contingency reserve		5.0	n.a.	n.a.
Planning reserve		n.a.	10.2	15.6
Central receipts estimate		70.3	72.5	74.6
Net expenditures		925.0	943.5	967.9
percent increase on previous financial year		*1.4*	*2.0*	*2.6*

Source: Office of Budget and Planning.

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

1/ The starting point for the first two years of the new MTB is the last two years of the old MTB, as the new MTB is based on the assumption that the external deflator increases by 3 percent and that the real resource envelope contracts by 1 percent.

2/ Provisional; these figures are likely to be revised.

18. **The estimated net administrative expenditures of delivering the MTS at the planned level of output and administrative policies underpinning the FY2007 budget (or put differently the cost of maintaining the real administrative resource base provided for in the FY2007 budget) would be $943 million in FY2008.** This is based on a projected 4 percent increase in Fund standard costs (average staff salary plus benefits) and a 3 percent increase for travel costs and the buildings and other expenses category. This also assumes OED expenditures rise broadly in line with the Fund budget as a whole.

19. **Under the proposed MTB, the nominal net budget for FY2008 is set at $925 million: the gap between the proposed budget and the cost of existing policies is thus $18 million, that is just under 2 percent of net administrative expenditures.** One of the two percentage points is driven by the budgetary policy of 1 percent real reductions measured against the external deflator; the other reflects the tendency on current policies for the external deflator to rise by about 1 percent less each year than the Fund's own costs—Box 3 in EB/CB/06/8 described the main factors which give rise to this differential increase in the Fund's costs.

20. **Given the gap between the proposed budget and the estimated costs of delivering current policies, measures must be taken to bring planned expenditures into line with the overall budget constraint for FY2008.** The medium-term strategy envisages delivering the current broad level, but a changing pattern, of outputs within the proposed MTB. Thus action to stay within the budget has to come from reducing costs, not outputs—in short, measures are needed that raise efficiency.

21. **As indicated at the last COB meeting, a number of administrative policies are presently under review, with an expectation that costs can be reduced and efficiency improved. Measures to outsource and offshore certain support services are also underway or planned, with a view to reducing costs directly.** Some of these reviews will be completed and their recommendations implemented in full in FY2008; however, in the majority of cases, the resultant savings will not be fully secured next year, but rather will have a growing impact over the medium term. Some assumptions were necessary about the impact of changes in administrative policies or practices starting in FY2008, as outlined below.

22. **The principal measures envisaged to close the gap between the overarching budget constraint and the estimated cost of existing policies for FY2008 are as follows.**

- Direct cost reduction measures will be found in the bilateral negotiations between individual departments and OBP, and through OBP's scrutiny of budget line items, that are consistent with delivery of the MTS. The budget guidelines have already been circulated to departments and bilateral negotiations are underway. The aim will be to identify some $3 million in net reductions: but this exercise will give more resources to some departments and MTS priorities, and fewer resources to others in lower priority areas. The resultant allocations will be clarified in the final budget paper.

- The Managing Director's statement to the last Executive Board discussion on the FY2007 budget[9] indicated that staff would pursue a number of initiatives to seek greater efficiency and lower costs, including on support services. The ongoing work on support services is expected to identify some $3 million in savings that can be secured in FY2008. Many of these are in non-staff costs—contractual employment, procurement practices, etc. Further savings will arise in later years.

- The first round of savings from the offshoring of certain IT services that are already outsourced within the United States will generate savings of some $2 million next year. There will be further savings on top of this figure in later years.

- The combined effect of the OIA zero-based reviews of INV and PDR, plus the further MTS-related staff savings planned in MCM and PDR, will generate some $2 million in cost reductions next year. These changes will involve closing some staff positions in PDR and in MCM; both departments have largely anticipated the changes by holding vacant a number of staff positions in FY2007.[10]

- Savings will arise—requiring staff separations in a number of cases—from past and ongoing investments in IT projects. This is the expected return on past capital budget expenditures, and most of the savings arise from the lower numbers of clerical/administrative staff needed. Some $2 million in such savings will be realized in FY2008; over half of these will come from TGS, with the rest coming from EXR, FIN, OBP, SEC, and STA.

- The Travel Policy Working Group is finalizing recommendations for changes to policies and practices on official travel—airline ticketing, hotel booking, per diem allowances, and other elements of official travel. The recommendations would bring the Fund's policies in line with standard business practices in other comparable institutions and start generating budgetary savings (about $1 million) in FY2008. Wider changes in the way in which the Fund purchases tickets and arranges business travel will require completion of the review; discussion with management; specific budget proposals for the consideration of the COB; and then negotiation with the airlines. The impact of any such changes will likely come mainly in FY2009 and beyond.

- The expiration of the Staff Restructuring Initiative (SRI), which was introduced in FY2007 to cover staff separation costs arising from the MTS and the creation of MCM, will reduce the FY2008 baseline figure by $5 million.

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[9] "Statement by the Managing Director on the FY2007–FY2009 Medium-Term Administrative and Capital Budgets" (BUFF/06/81, 4/25/06).

[10] No savings arise from just keeping positions open: departmental budget baselines are not reduced unless positions are formally closed.

23. **While it is possible to identify the broad size of expected savings from existing reviews in the outer years of the MTB, the potential savings arising from those still to be completed—let alone such other reviews as may yet be undertaken (for example further zero-based reviews of departments)—cannot be easily assessed.** At this stage, it is nevertheless reasonable to assume that, for a given external deflator (presently assumed to be 3 percent per annum throughout the three year period), the results of ongoing reviews, further outsourcing and offshoring will bring about some mitigation in the Fund's cost trends. The provisional assessment is that the rate of increase in standard costs will moderate from 4 percent in FY2008, to 3.8 percent in FY2009 and 3.5 percent in FY2010, while the rise in travel costs will moderate from 3 percent in FY2008 to 2.5 percent in both FY2009 and FY2010.

24. **On this basis, Table 4 provides an illustrative breakdown of the FY2008 net budget, and the indicative budgets for FY2009 and FY2010 respectively, by category of input.** It must be emphasized that this table is purely illustrative. The figures for FY2008 are derived from a top down perspective, starting from the emerging pattern of inputs for the FY2007 estimated outturn on administrative expenditures, and then applying the impact of the changes identified above in cost reduction measures. Thus, at this stage, they cannot take into account departmental budgets (still under negotiation) nor their business plans (still to be drawn up), which may make changes at the margin in the allocation of resources across inputs.[11] For FY2009 and FY2010, figures are provided essentially only for completeness: the projected pattern for FY2008 is replicated, but with an additional adjustments for holding the Annual Meetings overseas in FY2010. In the full budget papers to be presented in April, this breakdown by input will be revised in the light of departmental plans for the delivery of the MTS over the next three years.

[11] For example, some departments may opt to cut back on travel in order to employ additional contractual research resources.

Table 4. Administrative Budget by Major Expenditure Category, FY2007-FY2010
(In millions of U.S. dollars)

	FY2007 Budget	FY2008 Est.	FY2009 Est.	FY2010 Est.
I. Personnel	700.2	718.4	736.0	752.0
II. Travel	97.0	98.4	99.3	99.8
III. Building and other expenditures	174.9	173.6	170.5	169.5
IV. Contingency/Planning Reserve	3.0	5.0	10.2	15.6
V. Annual Meetings	5.0	0.0	0.0	5.5
Gross Expenditures	980.2	995.4	1,016.0	1,042.5
Receipts	-68.3	-70.3	-72.5	-74.6
Net Administrative Budget	911.9	925.0	943.5	967.9

Source: Office of Budget and Planning.

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

1/ Includes $15 million additional contribution for the SRP Service Credit Program.

25. **Table 5 provides an illustrative breakdown of the FY2008 gross expenditures (based on the central assessment of receipts) by Key Output Area (KOA) and by the 12 output categories.** This illustration is based on the emerging pattern of outputs for FY2007 (on the basis of the first eight months figures) under the MTS, which essentially drives the allocation of inputs to the delivery of the individual outputs. The planned further shifts in the resources devoted to individual outputs envisaged under the MTS is then overlaid on these figures. It is very much a provisional assessment, however, and like the input breakdown will be revised once information is available on the final outturn for FY2007 and departmental budgets and business plans for FY2008–FY2010. The figures provided for FY2009 and FY2010 (for completeness) at this stage simply replicate the pattern projected for FY2008. Attention is drawn to Appendix II of this paper which provides further information on the cost of producing a single “unit” of various outputs and sub-activities of the Fund.

Table 5. Estimated Gross Administrative Expenditures by Key Output Area and Constituent Output, FY2006-FY2010 1/

(In percent share of total gross expenditures, excluding governance and contingency reserve)

	FY2006 Outturn	FY2007 (8 month Outturn)	FY2008 Budget	FY2009 Budget	FY2010 Budget
Global Monitoring	15.2	14.1	14.1	14.1	14.1
Oversight of the international monetary system	3.7	3.6	3.6		
Multilateral surveillance	3.2	3.7	3.7		
Cross-country statistical information and methodologies	3.6	3.4	3.4		
General research 2/	1.6	0.1	0.1		
General outreach	3.1	3.3	3.3		
Country specific and regional monitoring	33.3	36.8	37.0	37.0	37.0
Bilateral surveillance	26.3	31.2	31.4		
Regional surveillance	2.2	2.6	2.6		
Standards and codes and financial sector assessments	4.9	3.0	3.0		
Country programs and financial support	26.1	25.8	25.7	25.7	25.7
Generally available facilities	15.5	14.8	14.6		
Facilities specific to low-income countries	10.7	11.0	11.0		
Capacity Building	25.3	23.3	23.3	23.3	23.3
Technical assistance	20.8	18.9	18.9		
External training	4.5	4.4	4.4		
Total, excluding governance and contingency reserve	100.0	100.0	100.0	100.0	100.0
Governance 2/	9.2	10.7	n.a.	n.a.	n.a.
Contingency Reserve 2/	n.a	n.a.	5.0	10.2	15.6
Total gross expenditures (millions of U.S. dollars)	930.3	579.4	995.4	1,016.0	1,042.5

Source: Office of Budget and Planning.

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

1/ From FY2007, the Executive Board approves the net administrative budget, based on a central estimate of receipts, and an upper limit on gross expenditures, based on a higher estimate of receipts. Accordingly, there is no gross expenditure budget but rather a gross expenditure estimate.

2/ The marked decline of the resource shares devoted to "general research" between FY2006 and FY2007 reflects the new classification of the Fund's outputs adopted in November last year. Under the new classification, research is attributed to the output to which it pertains, leaving "general research" as effectively a residual.

3/ Contingency reserve and governance shares are calculated as a percent of total gross administrative expenditures.

IV. THE PROPOSED FY2008–FY2010 CAPITAL BUDGET

26. **The capital budget comprises planned expenditures under three project categories: major building works, building facilities, and information technology (IT).** Box 2 summarizes the main features of the capital budget.

27. **The only major building project, the construction of HQ2, has now been completed and, subject to the successful resolution of some minor outstanding claims, remains within budget**. The minor claims outstanding are expected to be settled within the overall budget allocation of $149.3 million; but some risk remains (due to the increase in costs during construction necessitated by new security and business continuity requirements). A close out report will be submitted to the Executive Board before the end of the financial year.

28. **Expenditures on all other capital projects, both building facilities and IT-related, approved in FY2007 and earlier years are expected to remain within budget.** Strict budgetary controls are in place to ensure that no project can go over budget, but a few projects approved in earlier years have been completed under budget. Of the $31.8 million capital budget approved in FY2005 ($8.1 million for facilities projects and $23.7 million for IT projects), an underrun of $2.9 million is projected. A portion of these funds (estimated at $2.0 million), which would otherwise lapse at the end of FY2007, will be redeployed to other projects, within the same category of capital expenditures, to accelerate overall progress. Since all of these projects are expected to be completed within their original budgets, this reallocation affects the timing of project completion, not the expenditures incurred.

29. **Table 6 shows outturn capital expenditures (including projected outturn for FY2007) over the FY2000–FY2007 period.** The building of HQ2 is, as noted above, now complete. In FY2005, capital expenditures—both on building facilities and on IT projects—peaked, with four projects accounting for over 50 percent of the total expenditures: Security Improvements to HQ1, Furniture Replacement, Upgraded Telephone/Network Systems, and Microcomputer Replacement; all were planned expenditures approved under earlier capital plans. From FY2006 (and as shown in Table 7 over the medium term), total capital spending on building facilities and IT will remain broadly stable in nominal terms.

Box 2. The Fund's Capital Budget: An Overview

The capital budget comprises projects under three categories: building facilities, information technology, and major building works.

- Building facilities comprise regulatory, replacement, and new facility projects. *Regulatory project*s are mandated by changes to building codes or industry regulations (e.g., changes in the fire code for office buildings), or are considered to be essential for the protection of Fund staff and property. *Replacement projects* provide for the replacement of building structures or equipment that is at the end of its useful life. *New facility projects* providing new functions or capacity within the existing headquarters building (such as the FY2002 reconfiguration of office and cafeteria space to accommodate the child care center) also fall under this category, but are less frequent.

- The purchase of IT microcomputers, servers and other infrastructure equipment, and similar IT projects have been a part of the capital budget since FY1988. Since FY2000, the Executive Board approved the inclusion of major software development projects in the capital budget, in line with standard public and private sector practices.

- The construction of HQ2 was the only major building works project in recent years; none is planned looking forward.

The IT capital program in the Fund is overseen by the Chief Information Officer (CIO). He is supported directly in this capacity by the Committee on Business and Information Technology (CBIT), a group of senior staff from various departments that is chaired by management, which assists in the review and prioritization of projects. The IT capital budget comprises four categories of project.

- Projects in the *Enterprise Information Program* are dedicated to the core work of the Fund, such as economic data management, document management and production, publications and information services (including communications), and economic and other data transfer with member countries.

- The *Administrative and Financial Information Program* comprises projects that enhance the Fund's administrative, financial and human resource application systems.

- Underpinning both of the above programs is the *Infrastructure and Connectivity Program.* Projects in this category are designed to sustain and improve the Fund's network, remote access capabilities, and overseas IT connectivity. This program also covers the purchase of new and replacement desktop and network computing equipment and communications links.

- *Strategic projects* are included in the IT Planning and Management Program. These are projects that affect the entire IT function, or that fundamentally shift the way in which IT is delivered.

The capital budget procedures in place have remained unchanged since the major reforms in FY2003. Project duration and funds are limited to three years, and funds lapse that are not spent within this time frame. For projects that extend longer than three years, it is necessary to make separate appropriations.

Cost benefit analysis (CBA) and other related requirements are applied to both major building works and major IT system development projects (with a value in excess of $500,000). Even if projects qualify as eligible capital expenditures and have been satisfactorily appraised under a CBA and other tests, they are only included in the capital plan to the extent that the resource envelope allows.

Table 6. Actual and Estimated Capital Expenditures, FY2000-FY2007
(In millions of U.S. dollars)

	Actual							Est.
	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Capital Program								
Major Buildings 1/	8.5	3.0	7.9	13.5	52.4	61.2	7.0	4.9
Building Facilities	12.4	15.9	22.9	14.0	14.3	30.6	21.0	21.5
Information Technology (IT)	18.6	15.8	30.7	24.8	21.5	34.2	26.9	26.1
Total Capital Expenditures	**39.5**	**34.7**	**61.5**	**52.3**	**88.2**	**126.0**	**54.9**	**52.5**

Source: Office of Budget and Planning.

1/ Includes HQ Phase III and HQ2.

30. **Each year Executive Directors are asked to approve capital appropriations (which are open to be drawn upon for three years) for a list of projects starting in the forthcoming budget year (FY2008).** They are also asked to take note of the capital budget envelope proposed for the two following years (FY2009 and FY2010): these latter figures should be considered provisional, pending the outcome of reviews of the appropriate resource envelope for such expenditures described below. The three years figures are referred to as the medium-term capital plan.

31. **In recent years, the overall size of the capital budget has been guided by reference to two benchmarks.**

- For the building facilities category, overall capital spending for the required upkeep of HQ1 has been contained to less than 3 percent (on a three-year moving average basis) of the estimated replacement value of the building. A facilities assessment study was conducted in 2002 on selected mechanical, electrical and plumbing systems in the older phases of the building, to ensure that the level of capital upkeep planned over the medium-term for HQ1 was adequate for a building of its age, size, and function.

- For IT, total spending has been contained to approximately 10 percent of the net administrative and capital budgets (excluding the HQ2 project). This investment level was considered appropriate based on comparisons with other IFIs, and with private U.S. financial institutions.

32. **These benchmarks now need to be reviewed—although, for this year's capital budget and medium-term capital plan, they will continue to cap total capital appropriations**. The aggregate 3 percent benchmark that has been used in recent years to guide capital facilities spending on HQ1 should now be reviewed in light of the addition of HQ2 to the Fund's physical assets base, although significant capital upkeep on HQ2 is not expected to begin until FY2018. In addition, the 2002 facilities study now needs to be

updated. This year's capital budget provided for two major studies: the first, to review the architectural components of the HQ1 building itself and to develop an overall plan to guide upcoming architectural upgrades and renovations; the second, to assess the HQ1 building systems condition and develop a long-term plan for the upgrade or replacement of aging building components. The architectural study is underway, and the systems condition assessment will commence at the beginning of the financial year: both are expected to be completed in FY2008.

33. **The benchmark adopted in considering IT spending also needs to be re-examined in light of changes in the industry.** The move toward offshoring certain IT functions is expected to lower significantly future IT costs. The trend toward subscribing to IT services, rather than owning and operating the underlying software, also calls for the benchmark to be revisited. A review of the most appropriate way of establishing the resource envelope for IT capital expenditures will be led by the Fund's Chief Information Officer.

34. **In light of the planned review of these benchmarks, the proposed capital envelope for FY2008 and FY2009 is held broadly unchanged from that approved by the Executive Board in April 2006**. Thus the medium-term capital plans for building facilities and IT projects proposes total appropriations of $138.7 million over the next three years (Table 7): $54.7 million for building facilities projects, and $84.0 million on IT projects. This proposed appropriation continues the broad stability in nominal capital spending that began in FY2006. The preliminary FY2008 capital budget appropriation is slightly lower than the FY2007 appropriation: and the capital plan for FY2008–FY2010 reflects a nominal reduction of 1.6 percent, or $2.3 million, relative to the medium-term capital plan for FY2007–FY2009.[12]

[12]The lower planned level of capital expenditures reflects the near completion of security-related capital projects authorized by the Executive Board after 2001**:** (i) investments in physical building security and (ii) investments in an IT High Availability program to secure the Fund's overall business continuity provisions. Work on some of these projects is expected to continue into FY2008 and be completed: no further budget appropriations are sought for such projects.

Table 7. Medium-Term Capital Plans, FY2007–FY2010
(In millions of U.S. dollars)

	FY2007	FY2008	FY2009	FY2010	Total
	FY2007 Current Plan				
Building Facilities	19.8	20.6	14.3		54.7
Information Technology	28.3	26.0	32.0		86.3
Total	**48.1**	**46.6**	**46.3**		**141.0**
		FY2008 Proposed Plan			
Building Facilities		20.6	14.3	19.8	54.7
Information Technology		26.0	32.0	26.0	84.0
Total Requested		**46.6**	**46.3**	**45.8**	**138.7**

Source: Office of Budget and Planning.

35. **At this stage, staff have not yet agreed on a final list of the capital projects to be put forward in the FY2008 capital budget.** However, Table 8 identifies the main projects that are likely to be included in the proposed list for next year's capital budget.

Table 8. Capital Budget Projects: FY2008

Building Facilities

Regulatory Projects
Health, safety & environmental projects
HQ1 Visitor Entrance

Replacement Projects
Furniture Replacement
Office and Building Renovations (including Concordia)
Business Continuity Improvements
HQ1 Building Maintenance
HQ2 Building Maintenance

New Facilities Projects
Child Care Center Playground 1/

Information Technology

Enterprise Information Program
Information Management Systems
Enterprise Content Management Systems
WEO Production System
Economic Systems

Administrative and Financial Program
Budgeting and Business Intelligence Systems
Core Financial Systems Improvements

Infrastructure and Connectivity Program
Desktop, network and telecommunications equipment
IT High Availability Program
Storage and Server Consolidation

IT Planning and Management
Global Sourcing Implementation

Source: Office of Budget and Planning.

1/ It is proposed that the capital cost for construction will be recovered from users of the facility, over a 15-year period, by the assessment of a supplemental, monthly fee to parents whose children use the center.

V. ADMINISTRATIVE EXPENSES: FY2007–FY2010

36. **Table 9 brings together the proposals on the medium-term administrative and capital budgets and translates them into the concept of administrative expenses as used in the Fund's financial statements**. Table 10 shows the impact of projected administrative expenses on the Fund's net income, as set out in "The Fund's Income Position for FY2007—Midyear Review and Options."[13] The data in the Fund's financial statements are expressed in SDRs; to facilitate comparison with the information in this paper, these data are converted to U.S. dollars. An updated assessment of the Fund's income position will be presented in April in the Executive Board paper that will be discussed at the same time as the formal budget proposal.

Table 9. Administrative Expenses, FY2007–FY2010
(In millions of U.S. dollars, except where indicated otherwise)

	Est. Outturn	Proposed Budget		
	FY2007	FY2008	FY2009	FY2010
Net administrative budget	905.6	925.0	943.5	967.9
Add: 1/ Capital budget items not capitalized	44.4	25.5	22.5	22.5
Depreciation expense	31.1	34.5	36.0	39.0
Administrative expenses including capital-related adjustments	981.1	985.0	1,002.0	1,029.4
Percent growth over previous year 2/	*5.0*	*0.4*	*1.7*	*2.7*
Memorandum items:				
Capital expenditures (budget definition)	52.5	52.1	56.8	45.9
Capital-related expenses (accounting definition)	75.5	60.0	58.5	61.5
Assumed US dollar/SDR exchange rate	1.48	1.50	1.50	1.50

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

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

1/ FY2007 includes full-year effect of HQ2 depreciation. These figures are being reviewed in the context of the specific capital expenditures made in FY2007, and will be updated.
2/ FY2008 growth rate is relative to FY2007 estimated outturn; FY2009 and FY2010 growth rates are relative to the previous year's budget.

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[13] EBS/06/163, 12/7/06.

Table 10. Projected Net Income and Administrative Expenses, FY2007–FY2010
(In millions of U.S. dollars, except where indicated otherwise)

	Est. Outturn	Projected		
	FY2007	FY2008	FY2009	FY2010
A. Administrative expenses after capital-related adjustments 1/	981	985	1,002	1,029
B. Income sources 2/	873	803	765	677
Margin for the rate of charge (108 basis points)	203	140	123	90
Surcharges	145	96	84	41
Service charge (50 basis points on purchases) 3/	31	15	--	--
Investment income 4/	379	434	444	452
SCA-1 and other 5/	115	119	114	95
C. Income surplus/shortfall (B-A)	-108	-183	-237	-353
Memorandum item:				
Assumed U.S. dollar/SDR exchange rate	1.48	1.50	1.50	1.50

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

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

1/ See Table 9.
2/ As per EBS/06/163, December 7, 2006, Table 2.
3/ Includes commitment fees, which are refundable if purchases are made, such that income is generated only if phased purchases are not made.
4/ Investment income for FY2007 is imputed from May 1, 2006.
5/ Comprises the implicit return on the Fund's interest free resources (primarily the SCA-1).

37. **Outturn expenditures incurred under the Fund's administrative budget differ from administrative expenses as recorded in the Fund's financial statements**. Many institutions and governments use different concepts for budgeting and financial reporting, reflecting their different purposes. In line with best practice, however, the application of the two concepts will be fully reconciled in the April paper.

38. **The definition of administrative expenses used by the Fund in its financial statements accords with International Financial Reporting Standards (IFRS)**. Two adjustments are required on capital items to translate the figures in the administrative and capital budgets into administrative expenses.

(i) Certain "capital" budget items, which are not capitalized under the Fund's accounting treatment, are expensed directly in administrative expenses in the year that the disbursements are made.[14]

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

(ii) Depreciation expenses for capitalized assets; capital assets are depreciated over periods reflecting their useful lives: major buildings, such as HQ2, are depreciated over 30 years; IT equipment is depreciated over 3-5 years.

39. **The FY2007 estimated outturn for capital budget expenditures is $52.5 million.** Of this amount, over $40 million is expected to be expensed directly, representing work such as renovations and repairs, security enhancements, and most IT development. The balance will be capitalized on the Fund's balance sheet.[15] The FY2007 depreciation charge for capitalized assets is estimated at some $30 million. Thus, the impact of capital expenditures on overall administrative expenses for FY2007 is estimated at over $70 million.

40. **With an estimated outturn for the net administrative budget in FY2007 of $905.6 million, administrative expenses, including capital-related adjustments, are estimated to be $981 million**. With income sources projected at $873 million—as per "The Fund's Income Position for FY2007—Midyear Review" (EBS/06/163, 12/7/06), there would be a projected net income shortfall of $108 million for FY2007.

41. **Over the three years of the medium-term budget, administrative expenses are projected to increase at an average annual rate of 1.6 percent**. On this basis, the net income shortfall is projected to increase to $183 million in FY2008, $237 million in FY2009, and $353 million in FY2010. This takes into account only existing policy decisions.

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[15] The amount capitalized is finalized in conjunction with preparation of the IMF financial statements and the annual external audit.

APPENDIX I
ADMINISTRATIVE EXPENDITURES ON IMF OFFICES OUTSIDE WASHINGTON, D.C.

42. **This appendix presents information on the administrative expenditures incurred in operating the various offices outside the Fund's headquarters in Washington, D.C.** There are four types of such office: resident representatives (Res Rep) offices (currently active in 90 member countries); six regional technical assistance centers (RTACs); three training institutes; and the two regional offices, in Europe and in Asia.[16] The appendix summarizes the administrative expenditures on these offices for selected years over the last decade; their financing over the period from FY2003 to FY2006; and the total number of staff positions over each of the last three years.

43. **Total administrative expenditures on running these offices amounted to just over $79 million in FY2006—some 8.5 percent of total gross administrative expenditures**.[17]

- Expenditures have risen by just under 90 percent since FY1997, mostly driven by the expansion in the number of Res Rep posts in the late 1990s and the opening of new RTACs in the Middle East and Africa in the last three years. Administrative expenditures incurred on the Fund's regional offices and on the overseas training institutes remained relatively stable in real terms over this period.

- While gross administrative expenditures on overseas offices have been rising, the Fund has been successful in securing considerable external financing of staffing and overhead costs (e.g., offices)—not just for the RTACs, but also for overseas training activities and one Res Rep office. External finance in the last four years has more than tripled: as a result, the cost of these overseas offices falling on the Fund's General Resources Account has been mitigated. Staff estimate that in recent years the net cost of overseas offices has remained broadly constant at around 7.5 percent of the overall net administrative budget (Table 11).

- A total of 114 staff positions are currently allocated to these offices—less than 5 percent of the total number of staff positions—although there are also a considerable number of local contractual employees, particularly in Res Rep offices.

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[16] Excluded are MCM staff located in London and the small office of the Fund's Special representative in New York.

[17] The expenditure data cover the staff, contractual employment, related travel and office costs of the offices concerned. Related backstopping, coordination and general overhead costs (recruitment, etc.) incurred in Washington, D.C. are excluded.

Table 11. Administrative Expenditures and Staff Positions in Offices Outside Washington, D.C.: FY1997-FY2006
(In thousands of U.S. dollars)

	FY1997	FY2003	FY2004	FY2005	FY2006
A) Administrative Expenditures					
Resident Representative Offices 1/	28,937	50,293	48,306	49,102	54,498
RTACs 1/	n.a.	2,020	9,877	14,419	15,986
Regional Offices	5,085	4,636	6,288	6,561	5,809
EUO - Offices in Europe	4,784	1,645	2,531	2,888	2,597
OAP - Regional Office for Asia and the Pacific	301	2,990	3,757	3,673	3,212
Training Institutes	2,273	2,033	2,206	2,626	2,722
Total Gross Expenditures	**36,295**	**58,982**	**66,677**	**72,709**	**79,015**
			-		
Receipts	...	691	8,745	12,413	13,761
Total Net Expenditures	36,295	58,290	57,932	60,295	65,255
Percent of Net Administrative Budget Outturn	...	...	7.75	7.30	7.46
B) Number of Fund staff	...	...	117	115	114
RR offices	...	...	87	85	84
RTACs	...	...	4	4	5
Regional offices	...	...	19	19	19
Regional training institutes	...	...	7	7	6

Sources: Office of Budget and Planning; "The FY2007-FY2009 Medium-Term Administrative and Capital Budgets--Selected Topics and Statistical Appendix" (EBAP/06/39, 4/21/07, Supplement 1, Table 7, page 46); "FY1998 Administrative and Capital Budgets--Report on Actual Expenses" (EBAP/98/69, 7/2/98).

1/ Amount includes all direct expenses associated with the operation of the office.

Resident Representative (Res Rep) Offices

44. **The Res Rep program expanded from 29 Res Rep positions in FY1989 to a peak of 95 positions in FY2003, before falling back to 83 in FY2007** (Table 12).[18] The expansion in the 1990s initially reflected the opening of Res Rep offices in the countries of the former Soviet Union and the Baltics, and in Eastern Europe, although there was also an increase later in the 1990s, particularly in countries in Asia experiencing financial difficulties after 1998. In the early 2000s, the need to provide stronger links with heavily indebted poor countries (HIPCs) and low-income countries (LICs), primarily in Africa, added further to the number of Res Rep positions (Table 13).

[18] Includes the Annual Meetings Coordinator.

Table 12. Resident Representative Program, FY2003-FY2007
(Offices and Staff)

	FY2003	FY2004	FY2005	FY2006	FY2007
Total number of Resident Representatives (RR)	95	87	85	84	83
Total number of offices	91	89	88	92	90
Number of offices with RR	84	78	78	78	78
Local employees only	4	9	6	6	4
Shared offices	3	2	4	8	8

Source: Office of Budget and Planning.

Table 13. Resident Representative Offices, FY2003-FY2006
(In thousands of U.S. dollars)

	FY2003	FY2004	FY2005	FY2006
Total Gross Expenditures	50,293	48,306	49,102	54,498
Receipts	...	...	462	285
Total Net Expenditures	50,293	48,306	48,640	54,213
Number of Fund staff	95	87	85	84
Number of offices	91	89	88	92

Source: Office of Budget and Planning.

45. **After FY2003, the number of Res Reps (both offices and staff positions) began to fall.** In part, there was a lower perceived need for Res Reps in countries that no longer had financial programs with the Fund. Moreover, the FY2005 Strategic Review of the Resident Representative Program[19] recommended the devolution of budget management responsibilities for the Res Rep program from the Human Resources (HRD) and Technology and General Services (TGS) departments to area departments: the aim was to enhance area department oversight of the Res Rep program and improve the allocation of resources to country work.

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[19] See "Strategic Review of the Resident Representative Program" (EB/CB/05/2, 2/18/05).

46. **As explained in Box 3, the related changes to the budget systems were designed to integrate the resident representative program with the rest of the area departments' budget.** For a given overall budget constraint, the Res Rep program had previously been managed centrally—such that opening up an extra position in one part of the world meant closing a position elsewhere, but not necessarily in the same geographical region. Under the revised arrangement, area departments could exercise choice in the allocation of their budgetary and staff resources, as between headquarters and member countries, in the way best suited to deliver their business plans. This greater budgetary transparency is leading some departments to close Res Rep offices and or reduce the staff numbers —while others have made room, within their overall budgets, to open new offices in priority countries.

Box 3. Budgeting for Res Rep Positions

A working group defined a Fund-wide standard cost for Res Rep posts to facilitate the devolution of most non-personnel expenditures to area departments.

This approach was intended to ensure equal access to Res Rep services in high- and low-cost countries alike, and thus maintain consistency with the Fund's principle of equal treatment of member countries.

Thus :

- A standard cost methodology for setting Res Rep program budgets and for financing the opening and closing of posts was established and applied in formulating the FY2007 budget.
- Administrative practices and regulations were streamlined, and a mechanism for monitoring and managing exchange rate exposure for Res Rep posts introduced.
- Where positions in Res Rep offices are closed, area departments retain the staff position within their complement but an amount equal to the additional costs of post overseas relative to that in Washington (allowances etc,) is returned to the central budgetary reserves held by OBP.
- The compensation and benefits for locally-hired contractual employees at Res Rep offices is being reviewed by a working group as part of the follow up work to the Employment, Compensation and Benefits Review (ECBR).

47. **In FY2007, the Res Rep program covered 90 countries: eight offices covered more than one country; five offices had more than one Res Rep; and four were managed by locally hired staff.** While administrative expenditures on the Res Rep program had been declining in recent years, there was an increase in such expenditures in FY2006, with the opening of some nine new (net four) offices, mainly in Africa. However, in FY2007, two offices were closed (Sri Lanka and Venezuela). Looking forward, a number of further

closures of offices and/or staff positions are expected over the MTB period—Table 12 summarizes the recent closings and openings of positions.

Regional Technical Assistance Centers

48. **Regional technical assistance centers have become an increasingly important mode of delivery for Fund technical assistance (TA): some 20 percent of total TA was provided through these centers in FY2006** (Table 14). There are now six centers: (i) Africa Technical Assistance Center East (East AFRITAC); (ii) Africa Technical Assistance Center Central (Central AFRITAC); (iii) Africa Technical Assistance Center West (West AFRITAC); (iv) Caribbean Technical Assistance Center (CARTAC); (v) Middle East Technical Assistance Center (METAC); and (vi) Pacific Technical Assistance Center (PFTAC). A recent evaluation of RTACs concluded that they had been particularly effective in helping countries to define TA priorities and in providing TA on a flexible basis and with rapid follow-up.[20]

49. **The RTACs receive a considerable amount of their financing from external donors.** For example, during the period FY2006–FY2008, just over 80 percent of PFTAC's expenses are expected to be financed by external funding. For the recently launched Central AFRITAC, the Fund has established a mechanism for donor funding to cover not just the employment costs of experts and their related travel costs, as in other RTACs, but also some of the costs incurred by Fund staff and other employees in Washington on backstopping experts and project management (not included in Table 14). Thus, the financial gearing of this new model for the provision of TA is particularly attractive from a budgetary arrangement perspective.

[20] "Review of the Fund's Regional Technical Assistance Centers" (SM/05/239, 6/30/05).

Table 14. Regional Technical Assistance Centers, FY2003-FY2006
(In thousands of U.S. dollars)

	FY2003	FY2004	FY2005	FY2006
Total Gross Operating Expenditures	2,020	9,877	14,419	15,986
Receipts	n.a.	7,724	10,943	12,463
Total Net Expenditures	2,020	2,153	3,476	3,523
Number of Fund staff	3	4	4	5
Number of centers	3	4	5	5

Source: Office of Budget and Planning.

Regional Offices

50. **The two regional offices located in Paris (European Office (EUO)) and Tokyo (Asian and Pacific Office (OAP)) contribute to the work of the Fund in several key areas.** These include liaising with the regional and international bodies located in Europe and Asia that provide policy advice about, and set rules on, the international economic and financial system; and providing outreach, both to explain Fund activities to various audiences, and to keep the Fund informed about the views of others regarding Fund policies. Both offices are small; following a review in FY2003, the then two separate European offices (Paris and Geneva) were consolidated into a single office, but with three locations in Paris, Geneva and Brussels (Table 15). These offices benefit from a number of services provided in kind; for example, the OAP benefits from rent-free office space, and some employees are financed directly by the Japanese authorities.

Table 15. Regional Offices, FY2003-FY2006
(In thousands of U.S. dollars)

	FY2003	FY2004	FY2005	FY2006
Total Gross Expenditures 1/	4,636	6,288	6,561	5,809
Receipts	691	1,020	1,008	1,013
Total Net Expenditures 1/	3,944	5,267	5,553	4,797
Number of Fund staff	18	19	19	19
Number of offices	2	2	2	2

Source: Office of Budget and Planning.

1/ Includes all benefits and allowances paid directly to staff.

Regional Training Institutes and Programs

51. **In addition to providing training for officials in Washington, D.C., the Fund conducts courses and seminars through several overseas regional institutes and operates joint training programs in cooperation with partner institutions**. The three overseas institutes are located in Austria—the Joint Vienna Institute; Singapore—the IMF Singapore Regional Training Institute; and Tunisia—the Joint African Institute, and have one or more Fund staff on site (Table 16). The costs associated with these offices are borne jointly by the various co-sponsors involved in each institute. In general, the Fund covers the personnel costs of IMF staff based at each Institute and the cost of IMF staff and expert visits to deliver training, while the local training partner provides the training facilities and covers a substantial part of the administration and participant costs.

52. **There are also four training program centers located in Brazil, China, United Arab Emirates, and India (where training commenced in 2006)**. The facilities and all local administration are provided by the local training partner, with no Fund staff on site. The Fund shares participant costs with the local partner and is also responsible for mounting the staff or expert visits to provide training courses.

Table 16. Regional Training Institutes, FY2003-FY2006
(In thousands of U.S. dollars)

	FY2003	FY2004	FY2005	FY2006
Total Gross Expenditures 1/	2,179	2,357	2,796	2,898
Receipts	...	...	...	...
Total Net Expenditures 1/	2,179	2,357	2,796	2,898
Number of Fund staff	8	7	7	6
Number of training institutes	3	3	3	3

Source: Office of Budget and Planning.

1/ Includes all benefits and allowances paid directly to staff.

53. **Finally, members of the Committee on the Budget have asked whether there is a duplication of offices in some member countries.** There are four countries where the Fund has more than one office. In Gabon, Mali and Tanzania, there are both Res Rep offices and an RTAC. With the exception of Tanzania, the premises for these offices are provided as in-kind contributions by the local authorities. In Singapore, there is both a regional technical institute (STI) and a newly opened Res Rep office: again the office accommodation is provided rent free by the Monetary Authority of Singapore.

APPENDIX II
ADMINISTRATIVE EXPENDITURES BY OUTPUT

54. This appendix provides a breakdown of the Fund's gross administrative expenditures by the four Key Output Areas (KOAs) and, within these, the 12 constituent outputs. It also presents an assessment of the average direct (labor plus travel) costs of providing certain "units" of the Fund's main services to member countries and the global community (for example an FSAP, a TA mission, a WEO special subject chapter); and it illustrates both the estimated scale and direct cost of providing such services under the MTS.

55. Table 17 provides information on gross administrative expenditures by KOA and by the 12 outputs for the first eight months of FY2007 (both in dollar and percentage share terms) and for comparison purposes the FY2006 outturn. As noted in the main paper, some of the shifts in resource use planned under the MTS are already becoming evident: more resources are going into financial sector and regional surveillance (partly offset by the streamlining of some Article IV consultations); fewer resources are being devoted to program work; and the allocation of staff and travel monies to work on multilateral surveillance, notably the new multilateral consultations has increased.

Table 17. Estimated Gross Administrative Expenditures by Key Output Area
and Constituent Output, FY2006-FY2007 (8 month outturn)
(In millions of U.S. dollars, unless otherwise specified)

	FY2006 Outturn		FY2007 (8 month outturn)	
	(In dollars)	(In percent)	(In dollars)	(In percent)
Global Monitoring	128.5	15.2	72.8	14.1
Oversight of the international monetary system	31.4	3.7	18.6	3.6
Multilateral surveillance	27.2	3.2	19.2	3.7
Cross-country statistical information and methodologies	30.0	3.6	17.6	3.4
General research	13.8	1.6	0.3	0.1
General outreach	26.1	3.1	17.1	3.3
Country specific and regional monitoring	281.6	33.3	190.6	36.8
Bilateral surveillance	221.7	26.3	161.6	31.2
Regional surveillance	18.5	2.2	13.2	2.6
Standards and codes and financial sector assessments	41.4	4.9	15.7	3.0
Country programs and financial support	220.7	26.1	133.6	25.8
Generally available facilities	130.7	15.5	76.6	14.8
Facilities specific to low-income countries	90.0	10.7	57.0	11.0
Capacity Building	213.7	25.3	120.7	23.3
Technical assistance	175.8	20.8	97.8	18.9
External training	37.9	4.5	22.9	4.4
Total 1/	844.5	100.0	517.7	100.0

Source: Office of Budget and Planning.

1/ Excluding governance.

56. A range of measures to lower costs and raise efficiency are already embodied in the FY2008–FY2010 medium term budget proposals. Any action to reduce the administrative budget further than proposed in the main paper is likely to require cuts in outputs. In that context, staff have estimated the average direct cost for FY2008 of providing one “unit” of each of 10 selected outputs, and constituent activities, rounded to the nearest $50,000, as shown in Figure 1.

- The figures identify the direct costs, that is labor and travel costs, as recorded by the Fund’s cost-tracking systems, in producing one unit of output. They exclude both overhead costs—such as buildings, computers, etc.—and governance costs. They are thus reasonably close to the marginal cost involved—although, as discussed below, the staff component can to some extent be considered, in the short term, as a fixed rather than variable cost.

- The notion of a "unit" is specific to each output: for instance, it refers to a specialist chapter of the WEO, an FSAP, 10 outreach events, a TA report and an external training course (Figure 1 provides a full list).

- The data provided are for averages: but there is considerable variance associated with these figures. For example, the cost of ROSCs varies significantly depending on the stage of development of the country concerned (i.e., advanced, less developed, and emerging economies), as well as the subject matter (e.g., multi-topic ROSCs delivered by STA tend to be more resource-intensive than those delivered by FAD—Figure 2).

57. While the cost estimation methodology used in this exercise is better than has hitherto been possible, there are still some weaknesses, and the findings are subject to certain caveats.

- The further the disaggregation, the greater the risk of error—and the risks stem primarily from the accuracy in staff reporting on the application of their time in the Time Reporting System (TRS). The existing information technology and data reporting infrastructure are currently being upgraded to more closely align the TRS classification to the new structure of the Fund's outputs recommended by the Second Task Force on Performance Indicators (TFPI2).[21]

- The Fund's current business model is assumed to remain broadly constant. The exercise is based on adjustments at the margin—not the cessation of a particular service to member countries, or a radically different method of delivering that output.

- The estimated average direct cost indicates the net change to the administrative budget resulting from adding or subtracting[22] one unit of the outputs identified in this exercise. Where external financing has played a role in the production of the identified products, the methodology has netted external resources out of the calculations.[23]

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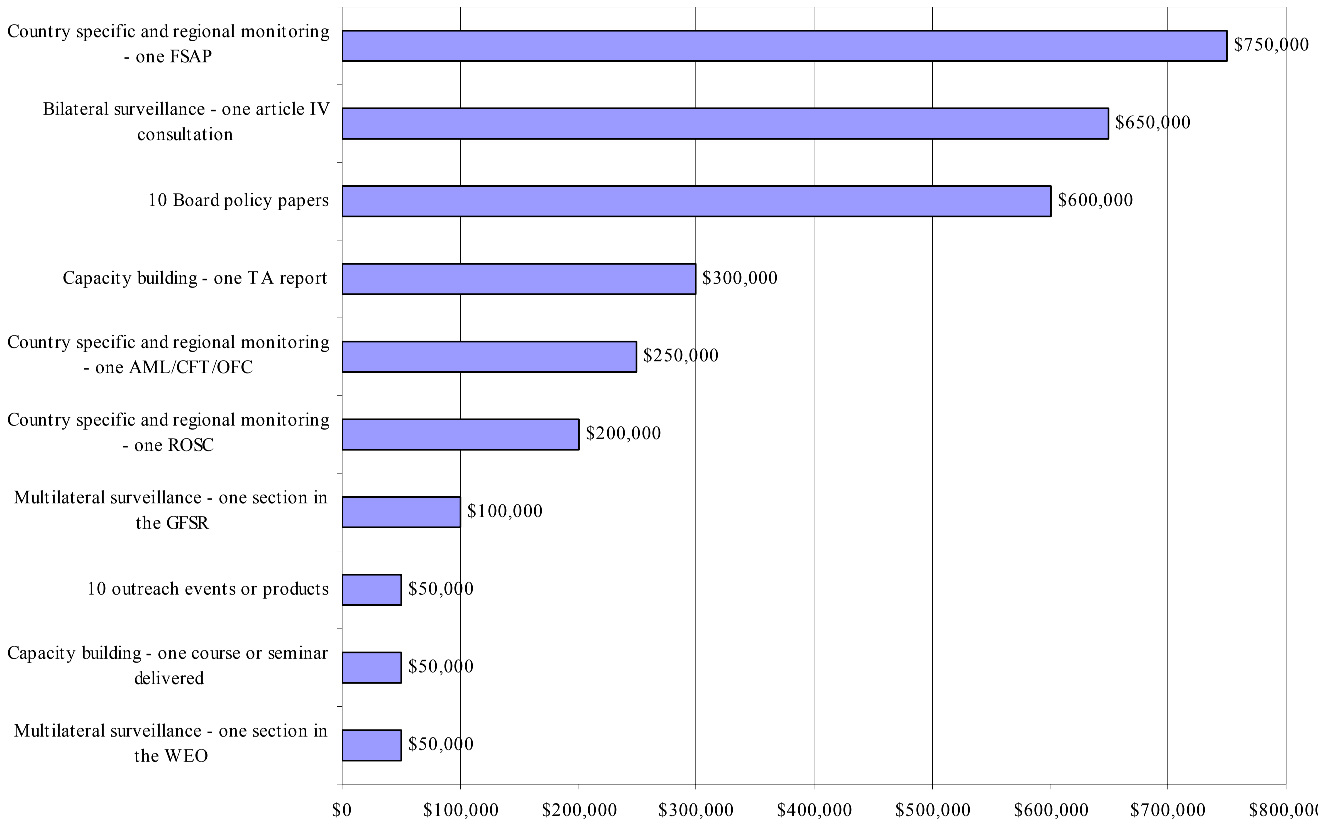
[21] EB/CB/06/7 (final report) and EB/CB/06/7, Supplement 1 (technical companion paper), 11/17/2006.

[22] In the case of Article IV consultations, this means that one additional Article IV consultation would be moved from a 12-month cycle to a 24-month cycle.

[23] The illustrative net savings calculated here are expressed in terms of the Fund-financed costs of delivering certain outputs. The external (donors)-financed component has been excluded from the estimates of the average unit costs, as well as the estimates of outputs to be produced, as appropriate.

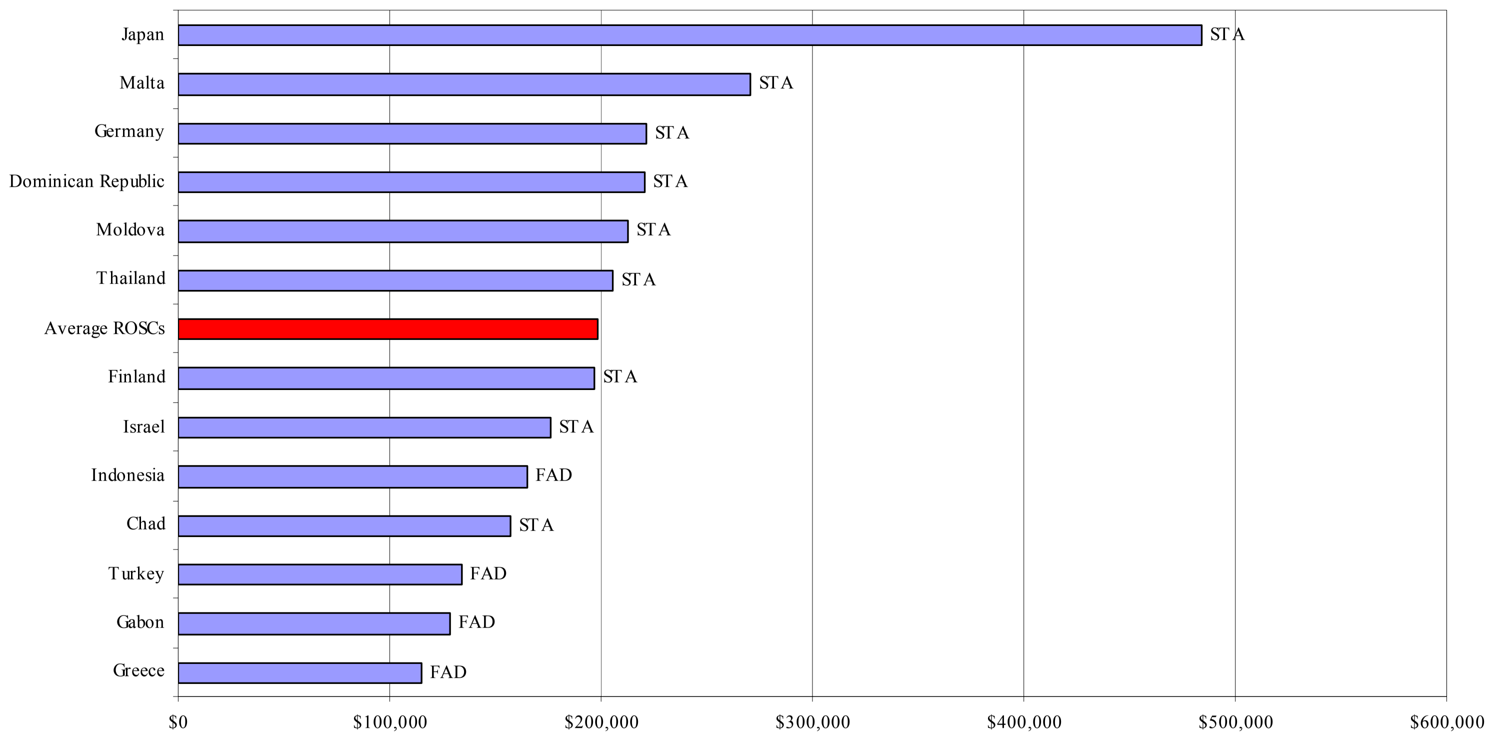
Figure 1. Estimated Average Unit Cost of Selected Fund Outputs/Activities 1/
(at FY2008 costs)



Source: Office of Budget and Planning.

1/ Estimates were rounded to the nearest $50,000.

Figure 2. Estimated Cost of Selected ROSCs, FY2006 1/
(at FY2008 costs)



Source: Office of Budget and Planning.

1/ Figure 2 provides the costs of selected ROSCs by type of country and by providing department based on FY2006 data. The inherent greater span and complexity of FSAPs, mean they take more than one financial year from start to finish, making it difficult to provide similar information for them. However, the Independent Evaluation Office's "Evaluation of the Financial Sector Assessment Program" (SM/06/7, 01/06/06) gave an indication of the range of costs incurred in undertaking FSAPs for different types of countries.

58. Figure 3 provides a scaling comparison based on the estimated delivery of "units" in FY2008. For each output or activity, the vertical axis shows the estimated number of units to be provided; the horizontal axis identifies the estimated net administrative expenditures envisaged in FY2008 under the MTS and proposed MTB. The further a particular output is to the right on the horizontal axis, the greater the amount of administrative expenditures involved.

59. Table 18 provides a further breakdown of the total service delivery administrative expenditures devoted to each KOA and constituent output by four main categories of cost component: (i) staff costs; (ii) other employee (experts and contractuals) costs; (iii) travel and "other" costs.[24] As Table 18 shows, the relative weights of the four cost components—expressed in terms of the percentages of total administrative expenditures devoted to each output—vary considerably across KOAs and outputs. To deliver the different outputs requires different combinations of what, in the short term, might be regarded as fixed and variable production costs.

60. However, any categorization of costs as either fixed or variable in the short-term risks oversimplifying a dimension that is a matter of degree rather than absolute. Some costs like travel are clearly variable within the year; expert and contractual costs (most such employment contracts are one-year or less) are also variable. By contrast, the "other" costs category (the majority of which are overhead costs related to building occupancy and related support services) may be viewed as fixed costs in the short term. Staff costs are problematic: clearly at the margin if one less staff position is required, this can be accommodated through the normal turnover of staff. However, there may be limits on how far some reductions in outputs can be achieved—without incurring the additional costs involved in higher-than-planned staff separations.

61. In the short term, there may well thus be more scope to change at the margin the volume of those outputs whose production is characterized by a relatively higher degree of variable costs. Such greater flexibility is of course simply inherent in the different production mix required for some outputs vis-à-vis others: it says nothing about the relative value or merit of changing one output versus another. Indeed, the options for action to cut administrative expenditures by reducing outputs are constrained by a number of other factors:

- Attention must inevitably focus on those Fund activities that are discretionary rather than mandatory. There is little, if any, scope to vary the quantity of program work: and for country surveillance the practical scope is limited to the number of streamlined exercises and the number of countries that could be moved to a 24-month cycle. Nonetheless, surveillance is included in the exercise.

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[24] The "other costs" category mostly comprises expenditures that cannot be allocated directly to any outputs (overhead), for example, building occupancy.

- It would be very difficult to “reduce” some outputs, particularly flagship products like the World Economic Outlook and the Global Financial Stability Report, without accompanying policy changes that affect their content, quality and/or timeliness. That would require policy decisions by the Executive Board.

- Just because particular outputs lend themselves more easily to changes at the margin as a higher proportion of the inputs are variable costs, it may not be appropriate to cut them back. Rather, the guidance on priorities is set by the Fund’s Medium-Term Strategy—not by the ease with which a particular output may or may not be reduced in the short term.

- Finally, some cognizance has to be taken of the purely administrative hurdles to short-term action—commitments to multi-year programs, contractual commitments to staff, understandings on capacity building assistance reached in the context of program work, planned FSAPs and ROSCs, and the like.

Figure 3. Estimated Total Net Cost of Selected Fund Outputs/Activities
(at FY2008 costs)

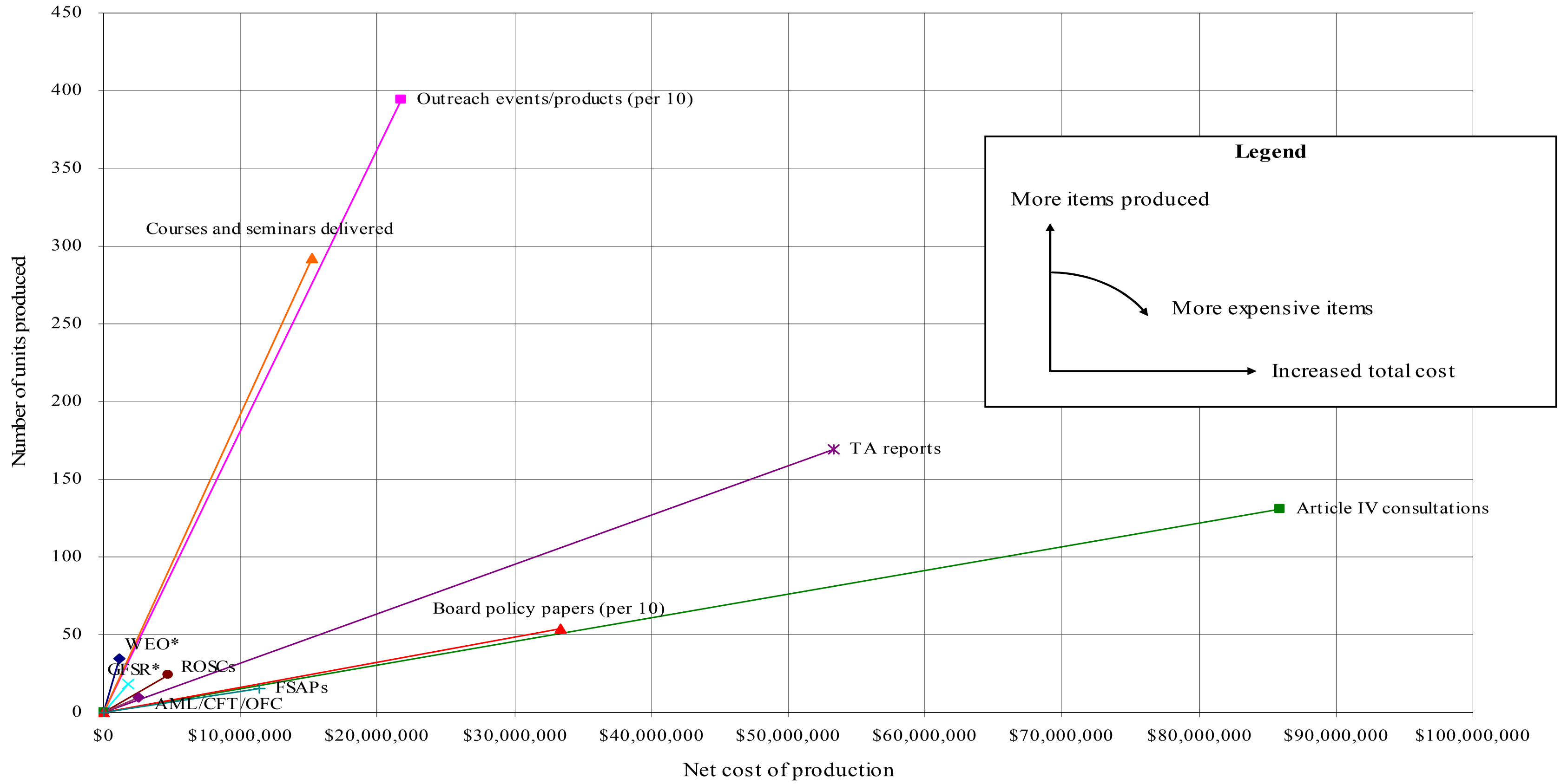

Table 18. Estimated Gross Administrative Expenditures by Key Output Area and Constituent Output, FY2007 (8 month outturn)

	FY2007 Gross Administrative Expenditures (8 month outturn)									
	Staff Costs	Other Employee Costs	Travel Costs	Other Costs	Total	Staff Costs	Other Employee Costs	Travel Costs	Other Costs	Total
	(in millions of U.S. dollars)					(in percent of total)				
Global Monitoring	41.5	2.1	1.9	30.1	75.5	55.0	2.7	2.5	39.8	100.0
Oversight of the international monetary system	10.7	1.0	1.2	7.0	19.9	53.8	5.1	5.9	35.2	100.0
Multilateral surveillance	12.1	0.5	0.3	7.6	20.5	59.3	2.3	1.5	36.9	100.0
Cross-country statistical information and methodologies	10.4	0.2	0.3	7.5	18.4	56.5	1.2	1.7	40.6	100.0
General research	0.2	0.0	0.0	0.1	0.3	54.9	7.7	0.0	37.4	100.0
General outreach	8.1	0.3	0.1	7.9	16.4	49.4	2.0	0.4	48.1	100.0
Country specific and regional monitoring	100.7	3.7	6.7	82.0	193.1	52.1	1.9	3.5	42.5	100.0
Bilateral surveillance	84.6	2.6	5.5	70.1	162.9	51.9	1.6	3.4	43.0	100.0
Regional surveillance	7.2	0.3	0.3	5.7	13.4	53.7	2.0	2.0	42.2	100.0
Standards and codes and financial sector assessments	8.9	0.8	0.9	6.3	16.8	52.7	4.7	5.1	37.5	100.0
Country programs and financial support	63.5	1.2	4.8	61.0	130.6	48.7	0.9	3.7	46.7	100.0
Generally available facilities	35.6	0.8	2.9	34.1	73.4	48.5	1.1	4.0	46.4	100.0
Facilities specific to low-income countries	27.9	0.4	1.9	26.9	57.2	48.8	0.7	3.3	47.1	100.0
Capacity Building	36.7	25.6	11.9	44.3	118.5	31.0	21.6	10.1	37.4	100.0
Technical assistance	29.3	24.2	8.2	34.5	96.2	30.5	25.2	8.5	35.8	100.0
External training	7.4	1.3	3.7	9.8	22.3	33.2	5.9	16.8	44.1	100.0
Total 1/	242.4	32.5	25.3	217.5	517.7	46.8	6.3	4.9	42.0	100.0

Source: Office of Budget and Planning

1/ Excluding governance.