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March 16, 2009

To: Members of the Committee on Executive Board Administrative Matters (Mr. Mojarrad, Chair; Mr. Bakker, Mr. Itam, Mr. Lee, Ms. Lundsager, Mr. Mozhin, Mr. Rutayisire, Mr. Stein)

From: G. Russell Kincaid, Committee Secretary

Subject: **Offices of Executive Directors (OED) Formulation of the FY10–12 Medium Term Budget**

The attached corrected paper presents issues for discussion on the formulation of the FY10–12 Medium Term Budget for Offices of Executive Directors. It is circulated to members of the Committee at the request of the Chairman, and will be considered by the Committee at the meeting on **Thursday, March 19, 2009, at 3:00 p.m.** in Room HQ1 12-120B.

Questions may be referred to Mr. Bonzi (ext. 38304) and Mr. Errico (ext. 34788) in OBP.

This paper will shortly be posted on the extranet, a secure website for the Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Members of Executive Board

OFFICES OF THE EXECUTIVE DIRECTORS (OED)
FORMULATION OF THE FY 10–12 MEDIUM TERM BUDGET

March 19, 2009

A. Overview

1. **In the context of the institutional restructuring and refocusing exercise carried out last year, the Fund is committed to a FY 09–11 medium-term budget (MTB) entailing the reduction of 380 full-time equivalents (FTEs) and structural annual savings of $100 million in real terms by FY 11, relative to the FY 08 budget.** To facilitate an orderly and transparent adjustment process, the Executive Board approved separate administrative and restructuring budget appropriations for staff, as well as the OED and the Independent Evaluation Office (IEO), for each of the three years of the FY 09–11 MTB; established a restructuring budget; and provided a framework for voluntary and mandatory separations for staff, as well as OED and IEO personnel. The Board-approved budget envelopes, in FTEs and dollar terms, are binding constraints to deliver the targeted structural savings.

2. **As the Committee on the Budget (COB) has not yet agreed on a methodology for deriving the deflator to be used, the FY 10–12 MTB dollar figures mentioned in this paper are based on the same assumptions that staff has set out in the COB paper (EB/CB/09/2) to be discussed on March 19.** As such, they may be subject to changes, depending on the outcome of the COB discussion.

B. The Proposed FY 10–12 Medium-Tem Budget

3. **The real budget envelopes would be identical to those approved by the Board last year**. The real figures would be translated into nominal (current dollars) terms using the proposed FY 10–12 global external deflator.

4. **The main assumptions for individual groups are:**

- **Personnel**:

  (i) Derived by multiplying the new OED staffing norms (in FTEs) approved by the Executive Board by the relevant standard costs. The standard cost figures already reflect the approved move of OED Assistants in grade A9–A10 to REG3 from REG2.[1]

[1] The Board approved the proposal in EBAM/08/122 (12/5/2008) to the effect that the REG 3 "administrative" standard cost for OED be revised from FY 10 onwards to include A9–A10 assistants, in order to ensure that all positions of an administrative nature are costed on a consistent basis.

(ii) Budgeted standard costs are estimated to rise by 4.8 percent each year, reflecting an assumed external salary index of 5.0 percent.

(iii) Continuation of the voluntary contributions from 12 ED offices (totaling 4.8 FTEs) during the duration of the FY 10–12 MTB and going forward.

- **Travel budgets** would be based on the FY 09–11 MTB. However, to provide the OED with additional flexibility, the proposed FY 10 OED travel budget would not be reduced by the amounts of the travel rebates minus agency fees (about $0.3 million). (For staff, department travel budgets have been reduced by the net rebates to keep travel volume unchanged).
- **External Receipts** (e.g., from constituency countries) to finance specific OEDs spending are assumed to be $1.2 million.

5. **The issue of receipts and reimbursements for individual offices (France and the US) was discussed extensively last year**. In keeping with the general principle that under a system of dollar budgeting individual office savings and reimbursements belong to the office, the voluntary forfeiture of salaries in the US office and the reimbursement of shared costs in the French office belong to the respective offices.

6. **Within this framework, the OED FY 10 administrative budget as set out above implies a financing gap of $1.3 million relative to the FY 10–12 MTB envelope** (Table 1). Factors contributing to the financing gap are: (i) the inclusion in the base of communication that had been financed previously through the contingency reserve; (ii) personnel-related issues associated with the constituency switch of the Philippines; (iii) loss of receipts related to the fact that, during FY 09, two Executive Directors (for Venezuela and the UK) ceased to represent their constituencies at the World Bank's Executive Board and thus a decline in reimbursement from the World Bank;[2] and (iv) fully financing a central contingency provision of 1 percent of the net budget in each of the three years.

7. **To close the financing gap, there is a menu of possibilities** (Table 1). In FY 10, the financing gap will be partially offset by the OED carry forward from FY 09.[3]

[2] These receipts (approximately $0.3 million) were included in the FY 09–11 MTB and contributed to lowering the OED net budgets.

[3] Staff is calculating the carry forward from FY 09 to FY 10, but final numbers will depend on CAM's decisions on the various requests to access the FY 09 OED contingency reserves.

Table 1. Offices of Executive Directors. FY 08–12 MTB
(In millions of U.S. dollars, unless otherwise indicated)

			FY 08	FY 09 1/	FY 09 rebased 2/	FY 10	FY 11	FY 12
	Real	IMF Total	922.3	834.8	n.a.	813.3	795.6	795.6
	FY 08	Staff	858.1	774.5	n.a.	753.5	735.8	735.8
	Dollars	OED	59.6	55.7	n.a.	55.4	55.3	55.3
		IEO	4.6	4.6	n.a.	4.5	4.5	4.5
	Nominal 3/	IMF Total	922.3	868.2	n.a.	879.7	894.9	931.6
	FY 10–12	Staff	858.1	805.5	n.a.	814.9	827.7	861.6
[A]		OED	59.6	57.9	n.a.	60.0	62.2	64.7
		IEO	4.6	4.8	n.a.	4.8	5.0	5.3
	Total - FTE		264.0	225.6	226.1	226.6	226.6	226.6
	Group I-Regular Staff		57.8	51.4	51.5	54.1	56.6	59.3
	Group III-Other Personnel		0.7	0.7	0.7	0.7	0.7	0.8
	Group IV-Discretionary		5.6	5.6	5.8	5.8	5.7	5.9
	Of which: Net Business Travel		5.1	5.0	5.0	4.9	4.9	5.0
	Use of Receipts			0.0	0.0	1.2	1.2	1.2
	Contingency			0.6	0.2	0.6	0.6	0.7
	Total - Gross Budget			58.3	58.3	62.5	65.0	67.9
	Receipts			-0.5	-0.5	-1.2	-1.2	-1.2
[B]	**Total - Net Budget**			**57.9**	**57.9**	**61.3**	**63.8**	**66.7**
	Balance [A-B] Deficit (-), Surplus (+)					**-1.3**	**-1.7**	**-2.0**
	Estimated Carry Forward					0.7	0.2	0.0
	Balance, including Carry Forward					**-0.6**	**-1.5**	**-2.0**
	Financing Possibilities:					**1.4**	**1.9**	**2.4**
	Vacancy rate (1 percent)					0.5	0.6	0.6
	Net travel rebates (rebates minus agency fees)					0.3	0.3	0.3
	Compensation assumptions					0.5	1.0	1.5
	Memorandum items:							
	Deflator assumptions (in percent)							
	FY 09–11 MTB			4.0	4.0	4.0	4.0	
	FY 10–12 MTB (Global External Deflator)					4.0	4.0	4.1
	Gross travel				**5.3**	**5.3**	**5.2**	**5.3**
	Rebates				-0.5	-0.6	-0.6	-0.6
	Agency fees				0.2	0.2	0.2	0.3
	Net travel				**5.0**	**4.9**	**4.9**	**5.0**

Source: Office of Budget and Planning.

1/ Board approved envelope.

2/ Rebased on CAM recommendations and Board decisions during FY 09. Total envelope was maintained.

3/ Using the preliminary deflator assumption for FY 10–12 Medium-term budget.

C. Issues and Considerations

8. **Do Directors agree with the overall framework and main assumptions?**

9. **As Directors are aware, travel rebates net of agency fees (amounting to about $0.3 million annually) are additional to the travel budget agreed last year.** Two options are proposed for the CAM consideration. The first option would allocate net rebates to individual offices in accordance with their travel pattern; the second, would hold them at the center in addition to the OED travel contingency. The second option, by pooling travel rebates at the center, may help finance the gap, although it may lessen incentives to use the designated carriers.

10. **A review of the current methodology for allocating the travel budget to individual ED offices was to be undertaken by the time of the FY 10 budget in light of experience over the course of FY 09**.[4] Executive Directors' views are sought in this regard, also to ascertain the feasibility of a possible new methodology that might be supported by a majority of Directors following Board approval of the FY 10–12 budget envelopes.

11. **No assumptions have been made about the two additional Alternate EDs that most likely will be agreed upon by the Board of Governors.** If this came to pass, it would represent an additional demand for structural resources (both personnel and travel). Directors views are sought on how this should be treated in the medium-term budget.

12. **A menu of possibilities is proposed to close the financing gap**. However, other pressures might emerge, especially if the two additional FTEs above are brought into the equation. Do Directors have other suggestions?

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[4] See "*Proposals for the Allocation of FY 09 Individual OED Travel Budgets*" (EB/CAM/08/7, 7/18/2008).