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April 5, 2008

**Statement by Mr. Rutayisire on Developing a New Income Model for the Fund--Proposed
Decisions; The FY 2009-FY2011 Medium-Term Administrative, Restructuring, and
Capital Budgets
(Preliminary)
Executive Board Meeting 08/32
April 7, 2008**

We welcome today's discussion on the proposed decisions on the new income model, and the proposals for the FY 09-11 medium-term administrative, restructuring and capital budgets.

I. On the new income model's proposed decisions

During our February 20, 2008 Board meeting, Directors expressed support for most of the elements of the new model, including the amendment of the Articles of Agreement to expand the Fund's investment authority, the selling of part of the Fund's gold and investing the profits in an endowment, and the resumption of the reimbursement of the GRA for administrative expenses of the PRGF-ESF Trust. The proposal to invest quota resources, however, did not garner enough support from Board members.

While we support many of the key elements of the new income model, including amending the Articles of Agreement to expand the Fund's investment authority (Decision A), we continue to oppose the reimbursement of the GRA for the administrative expenses of the PRGF-ESF Trust. We have explained our position on this issue on numerous occasions, including during the February 20, 2008 Board meeting, and we would like to reiterate that the Fund has provided its services as its own contribution, along with other donors, to the PRGF-ESF Trust. The Fund continues to recognize the necessity for donors to honor their pledge to increase their funding of the PRGF. All donors have individual budget constraints. The Fund's individual budget constraint consideration risks undermining the credibility of the Fund's debt sustainability presumptions that donors can be mobilized to provide concessional resources to low income countries. It also undermines the solidarity expressed by the international donor community in Monterrey. Therefore, we do not approve Decision B.

**II. Turning to the budget: on the proposals for the FY 09-11 medium-term
administrative, restructuring and capital budgets**

We agree with the proposal to introduce a one-time three-year appropriation to meet the costs of institutional restructuring. Although the three-year period judiciously reflects the implementation challenges involved, notably the need to achieve consensus with all stakeholders, however, we wonder if the estimated cost of institutional restructuring is realistic, given such a need?

In addition, we would like to raise two concerns with regard to the proposed medium-term budget:

- 1) Although we note the difficult challenges that will arise in the period ahead to meet the refocusing needs of the IMF in the context of a shrinking budgetary envelop, we are concerned by indications given in the report that the refocusing would be achieved at the expense of bilateral surveillance and the work on LICs –despite being two of the building blocks of the strategic plan laid out by the Managing Director to meet IMF’s new challenges. The impression from the report is that more weight is given to regional and multilateral surveillance than to bilateral surveillance. This is regrettable, as for many of our constituency members, the policy advice provided by the Fund in the context of bilateral surveillance with the membership has contributed to their recent macroeconomic stabilization achievements.
- 2) We are also concerned by the projected medium-term decline in capacity building expenses, given the importance of T/A for our constituency. We think that a holistic view of the impact of T/A deserves to be maintained. We are convinced that Fund T/A can in the medium-term significantly reduce the cost of surveillance, as increased technical capacity of countries would raise the countries’ compliance with Fund surveillance standards, thereby reducing the Fund’s need for higher frequencies of surveillance and enhancing the Fund’s efficiency of surveillance. We would like to highlight, in this regard, the important role that the Fund Institute is playing for member countries of our constituency, and indeed for other members, and we hope that adequate resources will continue to be provided to the Institute in order to help address the capacity constraints facing low income member countries.

In conclusion, we expect that the concerns we raised above in respect to the income model and the budget will be appropriately reflected in the consensus we are going to reach today.