

**IMMEDIATE
ATTENTION**

EBAP/11/21

March 22, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Budget Proposal for the Independent Evaluation Office for FY 2012 and Indicative Budgets for FY 2013 and FY 2014**

At the March 10 meeting of the Evaluation Committee (EVC), EVC members agreed to endorse the attached Budget Proposal for the Independent Evaluation Office (IEO) for FY 2012 and Indicative Budgets for FY 2013 and FY 2014, and to recommend that they be submitted for approval by the Executive Board on a lapse of time basis, after the IEO submitted written responses to questions and comments raised during the meeting.

In light of the attached written responses, the EVC recommends approval of the IEO Budget Proposal for FY 2012 and Indicative Budgets for FY 2013 and FY 2014 by the Executive Board on a lapse of time basis. As usual, once the Fund-wide budget is approved by the Board, the IEO's budget would be adjusted to take into account any differences with the assumptions used in devising the IEO budget proposal.

In the absence of a request by the **close of business on Tuesday, March 29, 2011**, that the matter be placed on the agenda of an Executive Board meeting, the IEO Budget Proposal for FY 2012 and Indicative Budgets for FY 2013 and FY 2014 will be deemed approved by the Executive Board, and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. Schwartz (ext. 39980) and Mr. Lamdany (ext. 34156) in the IEO.

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

Att: (2)

Other Distribution:
Department Heads

**Budget Proposal for the Independent Evaluation Office for FY2012
and Indicative Budgets for FY2013 and FY2014**

February 22, 2011

1. This note presents a proposal for the FY2012 budget for the Independent Evaluation Office (IEO) for consideration by the Evaluation Committee. The IEO is proposing a budget of about \$5.5 million, consistent with zero real growth over the FY2011 budget. This note also presents indicative budgets for FY2013 and FY2014 which, with a lag, reflect the three percent structural increase already in place in the Fund-wide budget for FY2012.

Background

2. In accordance with the IEO's terms of reference, the IEO consults with the Evaluation Committee and submits its budget for approval to the Executive Board "*independent of the budgetary process over which management and the Office of Budget and Planning have authority.*"¹ Beginning in FY2009, the IEO's budget proposal has been identified separately in the overall budget decision for the IMF. This separate process for the preparation and approval of the IEO's budget was designed to establish independence from management and staff, and to facilitate consideration of the office's budget on its own merits. Since then, changes in the IEO budget have remained broadly in line with those in the Fund-wide budget.² However, the IEO is now proposing a three percent increase in structural resources starting in FY2013 and not in FY2012 as is the case with the Fund-wide budget.

3. In FY2011, following the appointment of a new director, the IEO gradually filled most of its vacancies. Still, it carried vacancies for the equivalent of more than two staff years—including two B-level positions for a total of 9 months, a senior economist position for 6 months, and a research officer position for 10 months.³ As a consequence, the IEO

¹ See *The Fund's Independent Evaluation Office (IEO) Terms of Reference* (EB/EVC/04/10, Attachment).

² One exception is that, unlike the case of the Fund-wide budget, thus far the IEO has not requested temporary additional resources.

³ These vacancies generated an under-run of about half a million dollars that was partially off-set by short-term contractual employees and other consultants, but still led to implementation delays in the IEO work program.

estimates that it will end FY2011 with a budget under-run of about \$250,000 or about 4.6 percent of its approved budget.⁴

Budget proposal for FY2012 and beyond

4. The IEO's FY2012 budget proposal is for \$5,508,844. This figure is consistent with zero real growth over the FY2011 budget.⁵ This budget (together with the proposed carry-over) would allow the IEO to implement its planned work program for FY2012, namely to complete its work on "IMF Research: Relevance and Utilization" (which is expected to be issued to the Executive Board in early FY2012), and to launch two new evaluations on "The Role of the IMF as a Trusted Advisor" and "Large International Reserves: IMF Advice and Country Perspectives."⁶ The IEO expects to circulate draft Issues Papers for these evaluations to the Evaluation Committee by June 2011, and would plan to complete them by early FY2013.⁷

5. The current budget proposal and the corresponding work plans are predicated on the assumption that the IEO would be able to carry over the unspent funds from the FY2011 budget for spending in FY2012 up to the 5 percent of the approved budget as envisioned in the carry-forward policy adopted in 2009 during the discussion of the FY2010 IEO budget.⁸

6. For FY2013 and FY2014, the IEO is proposing a three percent increase in structural resources. As mentioned above, the Fund-wide budget already includes such an increase in FY2012 to meet enhanced demands on the Fund. The IEO proposal is based on the expectation that this will lead to additional costs and evaluation needs with a lag. The proposed medium-term budget would enable the IEO to continue actively working on two evaluations per year, which leads to an average of less than two completed evaluations per year.⁹

⁴ In FY2012 and beyond, the IEO expects to be fully staffed. This would require a base budget about 3 percent higher than in FY2011.

⁵ The parameters used to calculate this proposal are based on current OBP estimates, i.e., nominal increases of 1.5 percent and 1.1 percent for staffing costs and non-staff expenditures, respectively. IEO's budget will ultimately be based on the deflators actually used for the Fund-wide budget.

⁶ During FY2011, the IEO issued the evaluation on "IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07."

⁷ The IEO will also strive to launch a third evaluation during FY2012, perhaps issuing a draft Issues Paper by April 2012.

⁸ See EBAP/09/45.

⁹ It is estimated that the IEO would need an additional evaluator on a full-time basis (at a cost of about 6 percent of its current budget) to ensure that it is able to deliver two evaluations per year.

The overall budget proposal

7. In sum, the IEO is seeking approval by the Executive Board of an FY2012 budget of \$5,508,844 and a carry-over for spending in FY2012 of unspent funds from the FY2011 budget up to 5 percent of the FY2011 budget. Finally, the IEO is seeking the Evaluation Committee's tentative endorsement of its medium-term budget.

IEO Administrative FY2012 Budget: Preliminary
(in U.S. Dollars, except where noted)

	Budget 2008	Budget 2009	Budget 2010	Budget 2011 ¹	Projected 2012	Projected 2013	Projected 2014
Total budget	4,621,403	4,750,509	4,787,941	5,432,785	5,508,844	5,756,742	5,843,093
Regular staff ²	3,182,800	3,243,450	3,220,600	3,795,749	4,271,290	4,335,359	4,400,390
Discretionary Budget ³	1,438,603	1,507,059	1,567,341	1,637,036	1,237,554	1,421,383	1,442,703
Total budget ⁴							
Nominal percent change	2.0%	2.8%	0.8%	13.5%	1.4%	4.5%	1.5%
Real percent change	-0.7%	-1.2%	-3.1%	9.5%	0.0%	3.0%	0.0%
Memo item:							
External deflator (provided by OBP)	2.7%	4.0%	4.0%	4.0%	1.4%	1.5%	1.5%

¹ The FY2011 budget was flat in real terms from FY2010. The nominal increase of 13.5 percent reflects the Fund-wide shift to standard costs by grade.

² FY2012 figure includes the conversion of three Research Officer contractual positions to three limited-term staff positions in accordance with EBAP/10/39.

³ Includes contractual and other staff, discretionary budgets (including business travel), and centrally-managed budgets (including printing publications).

⁴ Figures for FY2011 for nominal and real changes (13.5 percent and 9.5 percent, respectively) reflect the Fund-wide change to standard cost by grade.

**Responses from the IEO to Questions from Evaluation Committee Members and
other Executive Directors on the Proposed Budget for FY 2012 and Indicative Budgets
for FY 2013 and 2014 (Evaluation Committee Meeting, March 10, 2011)**

Personnel Issues

1. Why were vacancies not filled for the equivalent of two staff years?

The IEO did not recruit B-level staff from the time when Mr. Bernes announced his departure until Mr. Schwartz joined the IEO, almost one year. During most of this period, the IEO had two vacancies out of its three B-level positions (excluding the Director position). Also at the economist level, it was decided to recruit only very slowly. Once Mr. Schwartz took over the IEO, recruitment proceeded gradually—both because of the inherent difficulties in recruiting to the IEO, as well as to ensure that new recruits were absorbed in an organized manner.

2. Will the 0.5 percent salary merit allocation for skills upgrading for the Fund as a whole apply to the IEO?

So far, salary increases to IEO employees have been structured in line with those for the Fund as a whole. Therefore, the IEO's understanding is that this increase will apply to its employees, both those recruited from within and those recruited from outside the IMF staff.

Resources for Two Evaluations Per Year

3. Why is the IEO not completing two evaluations per year, when recent budgets called for slightly more than two per year? Is this because of staffing levels or the budget? Is the Board being asked to approve a 6 percent budget increase to ensure delivery of two evaluations per year?

IEO budget documents since the downsizing exercise in 2009 have stated that its resources were consistent with less than two evaluations per year (about three studies every two years). For most of the past two years, the IEO has regularly had vacancies which led to lower expenditures and lower output. Having largely overcome this situation, the IEO now expects to deliver three evaluations over the period FY2011-12.

The IEO is not requesting any additional resources for FY2012. However, it is estimated that a budget increase would be needed if the Board were to decide that the IEO should target two evaluations per year on a consistent basis. In that case, it is estimated that a six percent increase would be needed to support an additional IEO employee at level A15.

4. If completing two evaluations per year requires 6 percent in additional resources (as mentioned in footnote 9) and the expected carryover is 5 percent, is an increase in output expected next year? If not, how is the carryover to be absorbed?

As explained above, the expected FY2011 under-run is the consequence of vacancies, which also led to lower output. With a lower vacancy ratio (currently only one A14 position), the IEO expects to increase its output to the target level of about three evaluations every two years.

5. Would there not be greater merit in deciding first on the appropriate number of evaluations per year and then base the budget on that?

The Board may want to decide on the appropriate number of evaluations per year, and adjust the IEO budget and staff complement accordingly. In addition to budgetary considerations, a decision on the number of IEO evaluations per year should take into account the IMF capacity to absorb evaluation results and implement the necessary changes. The IMF absorption capacity depends not only on the number of evaluations, but also on their scope and breadth (which also affect costs).

6. It would be useful to have a more detailed production schedule for the preparation and issuance of each report, so that the Board can understand each stage of production.

IEO could provide this information in the corresponding Issues Papers. Updates and changes, when needed, could be reported in the context of the annual budget document.

Applicability of IMF Structural Increase to IEO

7. It is unclear how the 3 percent structural increase in the Fund-wide budget is expected to affect the IEO's workload. Is it justified to increase the IEO's resources for FY 2013 and FY 2014 in line with the Fund-wide structural increase?

The indicative numbers for FY2013 and beyond assumed that there will be an increased need for evaluation, as the IMF increases its work load. In fact, this will only be known next year once it will be clear how the additional resources were used by the staff.

8. Recognizing the Fund-wide move to standard costing by grade, explain specifically the reasoning behind the proposed increase in the FY 2011 budget of 13.5 percent in nominal terms and 9.5 percent in real terms.

This question relates to the budget approved last year, when the IMF changed the practices used to account for staff costs across the institution in a move towards dollar-budgeting. The

FY2011 figures for the IEO were calculated by OBP using the same templates it used for the IMF as a whole. The figures in the table are somewhat misleading—the 13.5 percent nominal increase was off-set by a similar increase in the staff costs charged to IEO for accounting purposes, leading to a flat budget in real terms.

Value for Money

9. The IEO seems to be an expensive operation. To what extent does the IEO deliver value for money? Specifically, what is the staff mix, what is the cost per evaluation, and how does this compare to other reports produced in the IMF? Rather than preparing a few very long reports, perhaps it may make more sense to prepare more, shorter, and more focused reports. The IEO should prepare a short note for the Board assessing the costs of producing each report, and how that compares to the preparation of staff reports.

These are issues that could be best addressed by the forthcoming external evaluation. In any case, IEO reports are very different from staff reports, in their scope and breadth, as well as in their production function.

10. What is the ratio of the IEO budget to the non-IEO Fund budget?

The IEO budget is less than 0.5 percent of the administrative budget of the IMF. This compares with 1.5 percent of the World Bank budget for its independent evaluation unit, and even higher proportions for some other international organizations.

11. It is time for another external evaluation of the IEO to assess its performance and costs.

An external evaluation of the IEO is supposed to take place every five years. The first one took place in 2006.