May 12, 2020
Approval: 5/19/20

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/26-1

9:30 a.m., April 5, 2019

1. FY2020-FY2022 Medium-Term Budget

Documents: EBAP/19/23 and Rev. 1

Staff: Citrin, OBP; Kongsamut, OBP; Christensen, OBP

Length: 1 hour, 17 minutes

Executive Board Attendance

C. Lagarde, Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
	J. Di Tata (AG)
N. Ray (AP)	
	P. Fachada (BR)
	Y. Zhao (CC), Temporary
L. Villar (CE)	
L. Levonian (CO)	
R. Kaya (EC)	
	A. Castets (FF)
	K. Merk (GR)
S. Gokarn (IN)	
D. Fanizza (IT)	
M. Kaizuka (JA)	
J. Mojarrad (MD)	
	M. Choueiri (MI), Temporary
	V. Rashkovan (NE)
	J. Sigurgeirsson (NO)
A. Mozhin (RU)	
M. Mouminah (SA)	
J. Agung (ST)	
	P. Trabinski (SZ)
S. Riach (UK)	
	P. Pollard (US), Temporary

H. Al-Atrash, Acting Secretary
P. Cirillo, Summing Up Officer
D. Jiang / E. Mannefred, Board Operations Officers
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: E. Gelbard. Communications Department: K. Langdon. Corporate Services and Facilities: D. Lemak, J. Lester, H. Yang. European Department: J. De Vrijer. Fiscal Affairs Department: S. Tareq. Finance Department: A. Tweedie. Human Resources Department: M. Henderson, K. Kochhar, K. Letlaka Rennert. Institute for Capacity Development: A. Lemgruber Viol. Information Technology Department: L. Abello,

E. Anderson, P. Hinderdael, J. Leong, T. Rolim. Middle East and Central Asia Department: M. Cerisola. Monetary and Capital Markets Department: M. Erbenova, J. Morsink, N. Rawlings. Office of Budget and Planning: M. Burke-Sanchez, D. Citrin, A. Economopoulos, S. Khazai, A. Kim, P. Kongsamut, A. Richter, J. Tyson, G. Ulmschneider, B. Williams. Office of Internal Audit and Inspection: P. Murugan. Research Department: X. Huo. Strategy, Policy, and Review Department: J. Mathisen. Statistics Department: D. Rwetsiba. Western Hemisphere Department: T. Cutolo Piana. Alternate Executive Director: A. McKiernan (CO), L. Palei (RU), F. Sylla (AF). Senior Advisors to Executive Directors: F. Fuentes (BR), R. Morales (AG), S. Potapov (RU), M. Sidi Bouna (AF), T. Sitima-wina (AE), J.Weil (CO). Advisors to Executive Directors: O. Bayar (EC), B. Jappah (AE), U. Latu (ST), R. Lopes Varela (AF), M. Merhi (MI), P. Mooney (CO), H. Mori (JA), M. Mulas (CE), G. Nadali (MD), I. Skrivere (NO), L. Van Hoek (FF), K. Hennings (BR).

1. FY2020-FY2022 MEDIUM-TERM BUDGET

Mr. Tombini, Mr. Fachada and Mr. Fuentes submitted the following statement:

We thank OBP for the updated version of the paper and the outreach to our office. We broadly support the proposals for the administrative and capital budgets for FY2020, and commend staff and management for the continued formulation of the budget under the Fund's strategic framework derived from the Global Policy Agenda (GPA) and the Board's Work Program, as well as the initiatives to strengthen prioritization and to enable a more efficient resource allocation.

We continue to support maintaining the net administrative budget unchanged in real terms. In parallel, we take note of the large upfront allocation of carry-forward resources and the resulting reduction in buffers to absorb unanticipated budget needs. At the current juncture, budget execution will continue to benefit from better prioritization within departments and closer alignment between transitional needs and institutional priorities. However, in a context where budget utilization remains very high, the Executive Board may soon need to engage in a review of the flat real budget principle to allow the Fund to continue to fulfill its mandate and take on new challenges, unless savings are generated under modernization initiatives.

The ongoing modernization efforts will receive a significant boost with the implementation of the "Big 5" agenda. This is a commendable initiative to increase the Fund's cost efficiency and quality of services provided to the membership over the medium-term. Considering the costs associated with its execution, we look forward to discussing the timing and sequencing of the "Big 5" agenda. Regardless, close monitoring and steadfast institutional ownership will be key to maximize the expected efficiency gains.

We welcome the planned implementation of the CDMAP initiative (part of the "Big 5" agenda) to elevate its effectiveness, transparency and integration with lending and surveillance. Alongside this welcome upgrade, we encourage staff to ensure an evenhanded delivery of capacity development activities to fragile states, LICs and small states. In the same vein, we want to call attention to the financing constraints faced by several Regional Technical Assistance Centers (RTACs), including CARTAC and CAPTAC-DR that include countries in our constituency. Against this background, we wonder whether the Fund should more forcefully contribute resources to RTACs as part of its CD strategy. Staff comments would be welcome.

We take positive note of the boxes on “Financial Surveillance” and “Spending on Fragile and Conflict States”, which partly respond to concerns raised by recent IEO evaluations. These two boxes confirm the importance of the independent evaluation process in helping the Board and management set institutional priorities. We support the proposal to increase spending on fragile states outside of CD by 2 percent in real terms in FY2020. At the same time, we support increasing resources to MCM to enhance its bilateral surveillance capabilities.

Finally, we agree with the proposed capital budget for FY2020 and the increase in investment in IT solutions. Greater use of technology and digital platforms to boost the effectiveness of the “Big 5” initiatives will require more emphasis and resources devoted to enhance IT reliability and security to protect the Fund’s digital infrastructure against external threats. Regarding facilities investment, we note an important increase in the HQ1 renewal project to replace aging building systems. Could staff provide more details which systems have been replaced and which ones are being considered for FY2020-22?

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We support the proposed decisions. We thank staff for their work, presentation, and outreach. We welcome the updates and additional information provided in the budget document, in particular on the capital budget, the Big 5 programs, spending on fragile and conflict states, capacity development, and the status of streamlining and modernization measures. We also appreciate staff efforts to provide a more consolidated income and expenditure outlook for Board consideration. We support Decision 1 on the administrative budget for the Fund for FY 2020 and Decision 2 on the capital budget appropriations for FY 2020.

We commend management for the discipline in maintaining an unchanged net administrative budget for the eighth year in a row, while implementing the Fund’s mandate and strategic priorities. We trust that this discipline will remain over the medium-term, while emerging and unforeseen priorities will continue to be financed with reallocation efforts and cost saving initiatives. At the same time, we urge management to remain vigilant to ensure that emerging issues would not crowd out the priorities of the Fund’s core mandate.

We recognize, however, that the FY 2020 budget is a transitional year as several major policies are under review, including the HR Strategy and the

Comprehensive Compensation and Benefits Review, and may impact the medium-term budget. In this regard, we consider that the current Big 5 Programs will help the Fund adjust to technological changes and modernize its internal processes and capabilities. At the same time, it is legitimate to expect that these programs will contribute to generate budget savings.

Capacity development priorities. We welcome Box 4 on the framework for CD prioritization. We take note of the important role being played by the Committee on Capacity Development (CCD) in setting areas targeted for growth for the next three-year and we look forward to the detail of the FY 20-22 Resource Allocation Plan (RAP) in the summer budget outturn report. In this regard, while welcoming recent increase in outreach to the Board on CD-related issues, we still consider that the Board should be more engaged on CD priority-setting, as agreed at the conclusion of the 2018 Review of the Fund's CD Strategy. Here, we would appreciate if staff could elaborate of any plan toward this end?

Financial surveillance. We welcome the additional details provided in Box 2 and take note of the plan to establish a Monetary Modeling Unit within MCM to advance work on the Integrated Policy Framework (IPF). Could staff clarify why spending on financial sector are not tracked separately in the budget? And are there any plan to track such spending in view of the growing importance of financial sector surveillance in Fund's activities?

The Big 5 programs. We welcome the additional information on the Big 5 programs in Appendix II. We also take note of staff assessment that the modernization projects could be costlier and take longer than expected (Figure 5 on FY 20-22 Budget Risk Matrix). In this connection, could staff clarify when the summaries of business cases and cost-benefit analysis for each program will be finalized and shared with the Board?

Finally, we thank staff for their efforts to advance the budget discussion to before the Spring Meetings and we continue to appreciate the integration of risk management analysis in the budget process and the costing of the work program of the Executive Board.

Mr. Kaya, Mr. Benk, Mr. Just and Mr. Bayar submitted the following statement:

We thank staff for their updated paper as well as their earlier engagement with the Board, which helped gain a better understanding. The paper provides more transparent explanations of and a stronger justification for the components of the proposed budget, particularly the capital budget.

We also take positive note of the fact that this year's budget proposal has already incorporated the outcome of the 2019 Review of Staff Compensation – a clear improvement in the process compared to previous years. We encourage staff to build upon these improvements and further enhance budget transparency. We approve the FY2020 budget proposal and would like to highlight several points for emphasis.

Overall, we find the proposed constant envelope in real terms reasonable, but note the mounting resource tensions in several areas. We, therefore, underscore the importance of securing adequate buffers to address unforeseen developments as well as the need for stronger budget monitoring and controls. We also understand the case for a large upfront allocation of the carry-forward to meet priority needs that are of transitional nature.

The Fund must be able to fulfil its core mandate effectively and the budget structure should duly reflect this. We therefore welcome the ongoing prioritization of country operations, analytical work to support policy advice, and major Fund policy reviews in this budget cycle. We observe that space for a further reallocation of resources away from the core agendas is extremely limited, particularly given the challenges facing financial surveillance as identified by the IEO. The FSAP and Comprehensive Surveillance Reviews are a good opportunity to guide to better prioritization of scarce resources.

We find the additional information on the integration of the pilot studies into surveillance and program contexts very useful. Overall, we understand that the resource demand from these emerging policy areas are very limited and will not expand beyond our existing resource envelope. In principle, we welcome that these works do not crowd out the Fund's core mandate, but we do see a disconnect between the emphasis which our public communication puts on these topics and the rather negligible resources allocated to substantiate their analytical ground. Staff comments are welcome.

With regards to the capital budget, we note that the proposed spike in spending primarily stems from major ongoing projects. We firmly support the modernization of IT systems, in order to benefit from inherent efficiency gains as well as to mitigate cyber-risks in a dynamic threat environment. We welcome the additional information about the Big 5, which provides a clearer perspective about the course of these transformational programs and their resource implications. We still wonder whether the practice of informing the Board largely ex-post about such projects as well as asking the Board to approve a capital budget where the total cost of projects and their timeframe are not well defined, constitutes international best practice for public investment management. Against the background of the Fund's track record on project delivery, we would see a clear need to improve the Fund's Internal Capital Investment Framework in view of plans to significantly increase capital expenditure Such a framework covering the business case, project planning, selection and assessment as well as budgetary implications would also help with accountability and risk mitigation. In addition, we look forward to receiving the detailed business cases and cost-benefit analyses for the Big 5 before the recess and in particular, sufficiently in advance of a potential Board discussion on a supplemental capital budget appropriation.

On Capacity Development, as during the recently completed CD Review, we would like to reiterate our concern about the continuing growth of externally funded capacity development and the extension to private sector entities. The Fund should focus exclusively on areas within its particular expertise and where its involvement adds most value. We therefore appreciate that the proposal allocates resources to capacity development to those areas which are within the Fund's core mandate. The same approach should apply to surveillance, with macro-criticality serving as a precondition for the expansion of coverage to new topics.

Finally; we note that the proposed resource envelope for the workstreams pertaining to the IMF Governance was not updated since the earlier Board engagement in February. In view of the latest developments vis-à-vis the 15th General Review of Quotas and subject to the guidance to be provided by the IMFC, we wonder whether a revision to this section is warranted.

Mr. Trabinski and Mr. Djokovic submitted the following statement:

We thank staff for the informative document. We support the proposed decisions and highlight the following points:

We welcome that the FY 20 net administrative budget remains unchanged in real terms. The flat real budget has served the Fund well and helped foster prioritization and reallocation. This said, the constraints of a real flat budget envelope are not overly restrictive, given the use of the Global External Deflator. As illustrated by the steady increase in the wage bill and the staff headcount over the years.

We welcome that the same level of real resources is assumed over the medium term. This is appropriate, also given the need to continue building up precautionary balances. In this context, it is important to emphasize that the improved outlook for the income position over the medium term primarily reflects higher Fund lending and outstanding credit, which entails higher risks to the Fund. Moreover, the income projections are subject to considerable uncertainty, including from potential pension-related adjustments under IAS 19. Continued prudence is thus warranted.

Keeping the budgetary resources in line with the Fund's mandate is key. We welcome that resources are redirected to bilateral financial surveillance in FY 20. Going forward we call for additional reallocations toward financial surveillance, in line with the IEO recommendations. We also welcome the establishment of a Monetary Modeling Unit in MCM. As to emerging issues, we reiterate our position that the Fund should focus on its core mandate and avoid duplication of work with other institutions. In this sense, we welcome that the coverage of emerging issues, such as gender, climate, and inequality, is based on macrocriticality.

We support the proposed upfront allocation of transitional funds. An increase in upfront allocation is critical to meeting temporary modernization needs. We note that this increase will reduce buffers for unexpected events, thus requiring intensified budget execution monitoring and contingency planning. Meanwhile, we are reassured by staff's assessment that the budgetary impact of unanticipated shocks would be "manageable in the near term". More generally, we note that transitional resources are widely used for financing various areas including the activities of functional departments and we emphasize that such resources should not be used to cover structural needs.

The expansion of capacity development (CD) activities seems to have reached its limits. We agree that it is essential to exploit synergies and deliver CD only in areas of the Fund's core mandate, while ensuring high quality. We see merit in broadly containing the CD outlays at current levels. At the same time, we concur with the recently reviewed framework for monitoring and prioritizing of CD, with the aim of targeting high-impact activities. In this regard, we particularly welcome the inclusion of debt sustainability and public investment management in the list of priority topics. Also, we very much welcome the inclusion of Central Asia and the Caucasus in the list of priority country-types.

The modernization efforts are crucial for improving Fund's efficiency, yet resource implications need to be monitored closely. Ensuring that capabilities and processes in areas such as HR, IT and data management, remain up to date is indispensable and should enable gains in efficiency and effectiveness over the medium term. Given that modernization, particularly the “Big 5” programs, will require notable investments over several years, we welcome that robust cost-benefit analyses on these efforts and projects are undertaken. We also welcome the establishment of appropriate governance structures and the engagement of the Board as work progresses.

In a similar vein, we note that capital budget needs for FY 20 are significantly higher than previously assumed. More generally, capital budget appropriations have increased substantially over the years, doubling since FY 14. Furthermore, staff holds that capital resource needs for FY 20 could still increase. Against that background, it will be critical to keep the Board informed on potential cost increases and needs for supplemental budget appropriations.

Mr. de Villeroché, Mr. Castets and Ms. Van Hoek submitted the following statement:

We thank staff for their comprehensive paper on the Fund’s medium-term budget for FY2020-2022 as well as for engaging with our office ahead of this Board meeting. We support the two proposed decisions 1) on net administrative expenditures for FY20 and additional carry-forward flexibility as well as 2) on the capital budget.

We welcome the prudent budget management and the anticipation that it should remain so in the medium term. This chair still believes that reallocations and streamlining should enable the Fund to effectively fulfil its mandate and take on new challenges for the benefit of its whole membership. However, a truly flat budget in real terms would only grow by the level of the US CPI, while the Fund budget applies its own deflator named “Global external deflator (GED)”. If the US CPI composes 30 percent of the GED, the other 70 percent consist of the structural salary increase, that corresponds to an endogenous decision taken by the Board. This results in a positive increase of the administrative budget, above the level of inflation. This implies in our view, to present a more accurate picture, that the external communication is changed to be more in line with what the common understanding of a real flat budget is. Additionally, the automatic recycling of the resources made available through the erosion of salaries due to the older and better paid staff members into the merit increase should be thought through. These resources could also find another us, especially given the higher rates of budget utilization and lower budgetary buffers.

We welcome the focus on country work reflected in the FY20 budget through an increase in resources of 13 million dollars. We were very happy to see that structural resources are provided to support program work, mainly for the African department including work on fragile states, in line with recommendations by the IEO. We particularly appreciate the details provided in Box 3 on spending on fragile and conflict states and strongly support the proposed increase in spending on fragile states by 10 percent over FY19 and FY20, as well as for shifting six fiscal economists from FAD towards LICs and fragile states. We hope the teams will rapidly gain momentum on these very important issues and would appreciate if staff could indicate whether those proposals are the result of a thorough analysis of the needs by the interdepartmental committee which creation was foreseen in the Management Implementation Plan on IEO's recommendations on fragile states. We would also appreciate if staff could indicate whether this increase of resources takes place in a pluriannual effort and whether departments other than FAD (notably SPR and MCM) are also planning to dedicate more resourced to LICs and fragile states.

We call staff's attention on the need to make sure the Fund's budget is aligned with our cross-cutting priorities. In this regard, we appreciate the mention that under bilateral surveillance, structural resources are provided to support implementation of the enhanced governance framework and international taxation, although there is no detail of the level of these additional resources. Can staff please elaborate on this point? On the other hand, the document also mentions that no new resources were requested for work on gender, climate or inequality issues in FY20. This is somewhat surprising given that coverage of these topics in article IV consultations and surveillance work should be mainstreamed now that pilot phases are over. The growing importance of these issues in the Fund's priorities should call for a more systemic approach and the allocation of supplemental resources. Staff comments are welcome, notably on the underlying assumptions of departments on the number of countries for which climate and inequality would be covered in bilateral surveillance.

We highly support modernization and streamlining initiatives, including the Big 5 projects, but call for a prudent and close monitoring of their implementation. We appreciate all the work that has already been put by staff into preparing each of these programs. However, it is problematic for directors that no cost benefit analysis (CBA) or business case has yet been presented as the Board is asked to support the capital budget for FY20 which entails high levels of spending over the medium to long term. We understand from the paper that such CBAs and business cases will indeed be presented to the Board as they are ready, and we can, with such an engagement, support the capital budget for FY20. We look forward to a more detailed analysis of how these projects will revolutionize the Fund's work.

Finally, on capacity development, we broadly agree with the proposed approach to contain further increase of CD volumes after a phase of rapid expansion. In this context and with the demand persistently exceeding supply, prioritization will be key. In this regard, we broadly share the priorities mentioned in Box 4, but since the number of topics is quite elevated would strongly insist on the need to concentrate the limited resources on fragile and low income countries where a Fund-supported program is under implementation. In this regard, we would put a strong emphasis on the need for further enhancing the technical assistance provided to Sub-Saharan economies on Domestic Resource Mobilization and debt management. Could staff indicate whether the priorities mentioned in Box 4 are translated in a document that has been approved by management and whether those priorities will translate into an increase of the CD resources for the items and geographies listed in the upcoming fiscal year?

Mr. Merk and Mr. Fragin submitted the following statement:

We thank staff for an insightful report. We can go along with the proposed decisions concerning the budget for FY 2020. We appreciate that the IMF deems the existing budget envelope sufficient in FY 20 as well as for the medium-term. It is commendable that the net budget envelope has been kept flat since FY 12 in real terms (although the use of the Global External Deflator de facto expands the resources available to the Fund). The flat-real concept has proven to be a valuable benchmark for the yearly budget discussions and provides reasonable incentives to organize the Fund's operations more efficiently.

Effective prioritization of activities and generation of efficiency gains remains essential, going forward. We support the ongoing efforts to streamline the Fund's work agenda, to reallocate resources within and between departments where necessary and to realise efficiency gains through modernization. In this context, sufficient resources for the Fund's core activities need to be ensured.

In addition, we would like to offer the following comments:

Against the backdrop of an estimated budget utilisation rate of over 99 percent in FY 19 we underline that any further broadening of the Fund's policy initiatives will require an even more effective prioritization in order to avoid strain on the administrative budget over the medium-term. New spending pressure must be offset by saving resources in lower priority fields either by reducing their budgets or ultimately cancellation. The quality of policy advice, its traction and the reputation of the Fund are of utmost priority and should not suffer because of budget restrictions for core work streams.

In this context, we also take note that the pilots on gender, inequality, fiscal space and macro-structural issues seem to have reached their steady-state resource level and appreciate that no additional resources were requested for FY 20. However, we wonder whether staff could provide cost estimates for further emerging issues, such as climate change related work, for example.

We note the heavier upfront use of the carry forward in FY 20 vis-à-vis FY 19 to finance transitional demands. Considering the near full budget utilization, how likely is an actual reduction of the carry forward in FY 20 and the medium term? Transitional costs need to remain closely scrutinized to avoid excessive pressures on permanent resources.

We are concerned about the persistent underperformance of budgeted receipts, especially due to income shortfalls from the Concordia. Going forward, what additional measures is staff considering to minimize these shortfalls?

We acknowledge that buffers for the FY 20 administrative budget should proof sufficient to cover a higher number of program countries in response to an economic downturn. However, there seems to be very little room to meet further major unforeseen expenses in FY 20-22. We therefore appreciate that departments identified postponements and scaling back of their activities, which would be able to free up about 2 percent of resources, as a prudent risk management measure.

As the Capacity Development envelope is foreseen to stabilize after a period of prolonged high growth, an adequate prioritization of CD activities will become especially important. We highlight the central role of the Executive Board in guiding prioritization of CD activities not just via the budget process but also via the regular CD Strategy Reviews.

While we appreciate that staff deems a real flat budget envelope as sufficient in the medium-term, we somewhat regret that the MTB paper does not indicate any estimates for structural savings and structural/transitional demands within the administrative budget for FY 21 and FY22. We understand that such estimates would be subject to high uncertainty about global economic developments as well as streamlining and saving initiatives within the Fund, but nevertheless consider them valuable for the budget process.

With regard to the capital budget, we recognize that the Fund's information technology should be up to date to avoid cyber-attacks and increase productivity while the building's facilities should be well maintained and enhanced. We therefore take positive note of the various modernization initiatives and the update of the long-term capital investment plan to make budget implications more transparent.

At the same time, we note that several planned and progressing modernization efforts will continue to require significant capital investments in FY 20, the medium term and even long-term. We are aware that estimated amounts for the outer years are only indicative at this point, but stress that estimates are now considerably higher than specified last year. Therefore, a prudent and transparent approach to the modernization projects' governance (with clearly defined accountability and processes), sequencing and costing is of the essence.

We further thank staff for the more detailed information provided of the Big 5 projects in the MTB. In this context, we expect that the Board will be briefed as soon as the cost benefit analyses for individual projects become available or if there is a considerable change in overall budget implications. How does staff assess the risk of overshooting the proposed budget envelope for FY 20?

We are looking forward to the completion of the HQ1 Renewal in FY 20. Due to delayed security-related facilities projects, the corresponding appropriated resources within the facilities capital budget expired. Could staff please clarify how those freed resources were used – if at all – and how the security projects will be financed going forward?

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for the informative paper, and support the two proposed decisions on the administrative budget and the capital budget for FY 2020.

We support a real flat administrative budget for FY 2020, but at the same time see limited scope for further savings. The Fund has been operating under a flat resource envelope for the past eight years, which demonstrates its strong fiscal discipline and reprioritization efforts to meet new demands amidst rapidly evolving global economic conditions. However, as the resources utilization rate again reaches a very high level and budget execution relies heavily on upfront allocation of carry-forward funds, we caution against the tight margin and suggest timely consideration of evaluating the rational for a flat resource envelope.

We see potential efficiency and effectiveness gains from the “Big 5” capital projects and welcome the additional information after the informal Board meeting in February. We understand that plans for the Big 5 program implementation are being developed and uncertainties still remain. In this regard, we welcome the proposal of the establishment of appropriate governance structures and the engagement of the Board as work progresses. We also encourage staff to continue to take concrete measures to ensure the planned benefits from the implementation of these modernization efforts.

We take note from the report that capacity development (CD) has continuously been financed by external financing to a large extent. While the financing risks for CD activities are considered low by staff, we are concerned that the overreliance on external financing may create unnecessary uncertainties and complexities. This also implies that the current flat budget policy cannot fully satisfy all the legitimate needs of the Fund. Could the future budget be increased to eliminate the deficit in CD activities so that internal and external financing can be more balanced? Staff’s comments are welcome.

Mr. Agung, Mr. Tan, Mr. Abenoja and Ms. Latu submitted the following statement:

We thank staff for the comprehensive medium-term budget document and the more granular updates in response to the Board’s feedback. We broadly support the proposed decisions on the administrative and capital budgets and would like to offer the following remarks.

We take positive note of the critical role of the FY 2020 administrative and capital budget envelopes in operationalizing the Global Policy Agenda (GPA) and the Board Work Program (BWP). We also appreciate the inclusion of helpful features such as the budget presentation by thematic categories, which responds to the Board’s call for clearer links between the budget and risk management processes. In the same vein, we encourage continuing efforts by staff to better reflect the budgetary linkages to the Fund’s work on emerging issues and enhance the transparency of the medium-term budget in supporting the Fund’s priorities.

We generally support the continuation of a flat real budget on the presumption that it should not undermine the Fund's capacity to fulfill its mandate and address emerging priorities that could have macro-critical implications. In managing ever-increasing budgetary pressures, critical success factors include getting the strategic planning, resource prioritization and reallocations right. In the near term, the proposed increase in upfront allocation of the carry forwards warrants prudent management of finite budgetary resources, as higher rates of budget utilization reduce the Fund's capacity to meet any unanticipated member needs. Hence, we underscore the importance of judicious use and agile reprioritization of available resources to ensure quality delivery of Fund priorities and timely response to emerging macro-critical issues.

We agree that the proposed reallocations within the budget for FY 2020 are in line with the key priorities of the Fund. In light of the moderating global outlook and downside risks in the WEO, the increased allocation for country engagement is appropriate in facilitating more intensive surveillance, program support and capacity development (CD) for the membership. To this end, the effective use of additional allocations would be of utmost importance, including in implementing the enhanced governance framework, supporting adequate staffing and strengthening core areas of expertise to underpin high quality analyses. At the same time, we support the increased allocation to the review of Fund policies to ensure that they remain relevant in meeting the Fund's mandate and members' evolving needs, as well as responsive to topical policy areas and emerging issues as outlined in the GPA and BWP.

We support the allocation of additional resources for surveillance, especially in the area of financial surveillance. In this regard, we welcome the detailed update on the allocations for Financial Surveillance (Box 2) to address the recommendations from the IEO Review of Financial Surveillance, including the establishment of a Monetary Modelling Unit as a center of excellence on macro-financial issues. This is a step in the right direction and further work should continue to provide the Board with a better understanding of the trade-offs between surveillance and other competing priorities given budget constraints. On this note, we look forward to the incorporation of the budgetary implications from the ongoing CSR and FSAP reviews into the medium-term budget proposals in the future.

Against an unchanged level of CD resource allocation, the effective prioritization of CD activities will be crucial to foster high quality delivery to the membership in accordance with the Fund's CD strategy. We welcome the more detailed discussion in Box 4 on the ongoing efforts to strengthen the framework for CD prioritization. This is critical in providing a more systematic approach to CD prioritization and fostering timely responses to the evolving needs of the membership. We acknowledge the ongoing reforms to the CD process and the planned strengthening of systems and processes under the CD Management and Administration Program project. In the longer term, we expect these initiatives to enhance the effectiveness of the monitoring and reporting process, improve resource allocation and facilitate a more nimble alignment of CD activities with country demand and Fund strategic priorities. The expected resource savings from these modernization efforts would also provide some space to expand the CD resource envelope over time.

Notwithstanding the high degree of uncertainty in the current estimates and the need for further improvement in the capital budgeting process, we can agree to the capital budget including the funding for the modernization of the Fund's processes and systems. The modernization efforts are key to safeguarding and improving the Fund's service delivery and capacity to respond to the ever-rising demand and expectations on its core functions. Whilst we acknowledge that the Big 5 projects are at different stages of maturity and welcome staff's best-effort estimation of the overall IT capital budget needs, we underscore the importance of a well-structured capital budget process to ensure the Board is given a more holistic picture of all projects prior to their approval and implementation. However, given the projects have commenced implementation we call on staff to refine their reporting and updates to the Board as the projects progress over time. In terms of governance, we appreciate the established Big 5 Governance structure to promote stronger ownership and accountability as well as ensure adherence to the budget schedule and the Fund's risk management strategy. These would be critical steps in the right direction toward enhancing the capital budgeting process.

Mr. Kaizuka, Mr. Ozaki and Ms. Mori submitted the following statement:

We thank staff for the informative and well-organized paper, which incorporate the board's comments during the informal discussion in February. We also appreciate that in this year's budget paper, the budget output is organized in line with the Thematic Categories used in Work Program in order to more clearly show linkage between the budget and Fund's priorities identified in Global Policy Agenda and Work Program. As we had a constructive discussion at the timing of the informal board meeting, we will limit our comments to the following points:

We support the proposal in the administrative and capital budgets for FY 20 (Decision No. 1 and 2). We commend staff for their effort to maintain a flat real budget for eight consecutive years through reallocation of the resource and effective budget execution. We encourage staff to continue their reprioritization effort to reflect priories and evolving needs. Noting the increasing frontloaded allocation of carry-forward resources and reducing ability to absorb unanticipated shocks, we also encourage staff to scrutiny the transitional cost to ensure that the cost is truly transitional one.

For the Capital budget, we put emphasis on the importance of governance and discipline as capital budget is outside the framework of real flat budget and capital project continues multiple years once it starts. We appreciate that the updated paper explains the governance structure, progress and schedule of capital projects including Big 5 upon request from the board during the February informal meeting. We call for staff timely update including quantitative analysis of cost savings from the project going forward and identify how it could save the future administrative expenses. In the meantime, given the significant resource needed for the capital project, we encourage not only OBP but also program managers to be fully mindful of cost and benefit of the project.

As for Capacity Development (CD), we thank staff for the outreach to our office. We recognize that the proposed $200 million limit of external financing is to ensure the quality and consistency of Fund’s CD and to address the concern of weakening synergies stemming from excessive CD volume growth by striking a good balance between CD and programs or surveillances. We urge staff to carefully monitor and analyze the impact of this limit on Fund’s CD prioritization, ownership of the recipient countries, effectiveness of the CD activities, and future donor financing. We also encourage staff to timely share the result of Committee on Capacity Building where such an impact will be discussed. Given that CD activities significantly rely on donor financing and that CD activities including externally financed ones are one of Fund’s core activities, obtaining understanding from donor authorities is so important that we encourage staff to have close communication with donor authorities either directly or through ED offices especially in case of any changes in setting external financing limit and introducing IT cost recovery.

Finally, we appreciate the updated information of Advisory Group (AG) in appendix VII. AG is a very important initiative as it related to review of Fund’s future work. Going forward, we expect AG to continue to follow-up this initiative, have appropriate communication with relevant stakeholders, and provide update to the board in a timely manner.

Mr. Mahlinza and Mr. Sitima-wina submitted the following statement:

We thank staff for a well written paper and comprehensive analysis on the FY 2020- 2022 Medium-Term Budget. We are encouraged that the budget continues to be based on a solid income position and preserves the long-standing objective of financial sustainability while enabling the Fund to respond swiftly to the evolving needs of the membership.

We underscore the importance of allocating adequate resources to ensure that the Fund deliver on its core mandate consistent with the Managing Director's Global Policy Agenda (GPA). In this regard, we continue to stress that the flat real budget, which has been in use for the eighth year in a row, should not unduly constrain the capacity of the Fund to deliver on its core mandate. We note that room for maneuver through flexible utilization of the carry forward funds and continued reallocation of resources within and across departments, has now considerably narrowed. As staff notes, this obviates the need for stronger budget monitoring and controls. Should the near terms risks materialize, this Chair would support a review of the flat real budget principle to increase the budget envelope.

That said, we find the link between the Executive Board work program (BWP) and the budget along the main output areas presented in the paper useful and hope these linkages can be enhanced in future budget reports. We note the increase in resources allocated to country work in FY20 on the backdrop of the overall shift in the output structure between FY 12 and FY19. We see merit in the increase as adequate bilateral surveillance is critical to ensuring that membership needs in terms of lending, capacity development or financial sector assessment program (FSAPs) are identified and addressed in a timely manner.

On the decisions, we support the proposed net administrative budget allocation for FY2020 in the total amount of $1,157.2 million. We concur with the upfront allocation of the central carry forward at $25 million to meet transitional needs especially in view of the major projects underway, while noting that this lowers resources to meet unexpected demands.

We also support the proposed capital budget allocation at $85.7 million to cater for building facilities and information technology. We believe the implementation of the HQ1 renewal program is on course. For the medium term, we welcome the additional details provided on the Big 5 programs and the establishment of a governance structure to provide oversight and accountability. Nonetheless, we look forward to further details in respect of timing, sequencing and the related cost benefit analysis of each program.

Finally, we welcome having this Board discussion on the budget ahead of the Spring Meetings and on the same day that the Review of the Fund's Income Position for FY 2019 and FY 2020 is being discussed.

Mr. Villar, Mr. Guerra and Ms. Arevalo Arroyo submitted the following statement:

FY2020-FY2022 Medium-Term Budget

We thank staff for presenting the documents to the Board early on, and for the opportunity to engage and provide detailed information on the FY2020-FY2022 Medium-Term Budget. We also appreciate the effort to present the budget expenditure items linked to the thematic categories and to the work program, as previously requested by the Board.

From the outset, we endorse the budget proposal. This chair believes that the budget should follow a two-pronged approach: assuring financial sustainability and addressing the growing and evolving needs of our membership. We will provide some comments for emphasis.

On the short-term budget allocation, we welcome that reallocation efforts are close to 3 percent of total spending, which is higher than last year, and that 30 percent represents operational efficiencies, streamlining and modernizations. We fully support that reallocation provides increased resources for country work, as we will face a significant challenge with nearly 52 countries engaged in program—almost 30 percent of our membership.

Big 5 Projects

We support the goal of modernizing the IMF core processes through the so-called Big Five Projects. We acknowledge that a major effort is being carried out in terms of implementation and recognize that it will be challenging. While we appreciate the new information provided by staff in Appendix IX which delineates a range of the total budgetary implications of the projects as well as the allocation and spending to date, we continue to believe that there is still uncertainty regarding both the possible deliverables in terms of cost savings and the necessary final capital investment.

We look forward to the cost-benefit analysis results since we are devoting substantial resources to the implementation of the Big Five Projects and there can be operational delays and disappointing outcomes; we should be mindful that outturns may not yield the expected cost savings benefits. On this aspect, it will be important to have clear and frequent reporting of the cost-benefit analysis estimation in detail.

Macrofinancial Surveillance

Regarding macrofinancial surveillance, the overarching principle should be that IMF must have the necessary resources to continue to meet its core mandate in financial supervision activities. We welcome the updated information in this regard and support the allocation of additional resources to financial surveillance coming from savings from modernization measures. However, the current reallocation of resources comes in part from one-time savings for this fiscal year. In this regard, we believe there is scope to increase the amount of additional resources devoted to financial surveillance and concur with staff that this should be discussed in the context of and linked to the results of the FSAP and CSR reviews. Moreover, added resources will require either additional savings and streamlining in the coming years or new resources.

Capacity Development

On Capacity Development, we understand that we have reached a landmark as the budget presents the proposal to limit the external financing for CD to $200 million in FY20. In this regard, we would like to note that although we support this proposal, this should not be viewed as a restriction to devote additional internal resources to CD in the future. We welcome the Box on Capacity Development Prioritization and agree with the three-step process. The reform of the prioritization process should deliver important cost savings which should leave room for future increases in the CD budgetary envelope and, in particular, it should help ensure further funding to our regional technical assistance centers.

We acknowledge the commitment of donors to the provision of capacity development and that their efforts have been reflected in a more effective engagement of the Fund with the membership. However, we must be mindful that external funding entails risks related to both availability and unpredictability of resources as well as donors’ shifting interest in certain topics. For instance, a shift in interest from core IMF functions to other topics may not be consistent with our CD priorities and may generate an oversupply of funds to certain topics and/or geographical areas, whereas others of equal priority to the Fund may be left unattended. Therefore, going forward we must find an adequate balance between external and internal resources.

Finally, a Reflection on the Medium-Term Budget

In the past 8 years, the IMF has made a tremendous cost cutting effort to become more efficient and able to maintain a flat budget in real terms. For instance, from FY2012 to FY2016 more than 100 additional staff positions were financed by cost reductions. Moreover, efforts to deliver more budgetary space continue, such as the modernization of our backbone processes. Nevertheless, there are signs that we are approaching certain limits in terms of spending efficiency: zero vacancies rates and full budget utilization are projected for the first time. Therefore, as we acknowledge that the flat budget during the past years has served this institution well, looking forward we should reflect on the goal of addressing our membership needs in a timely and effective fashion.

Since FY2012, both the world economy and financial markets, measured by the size of our financial systems, have expanded. Our budget, however, has remained flat in real terms. In this context, we consider helpful to undergo an assessment that determines whether a flat budget policy continues to be appropriate for the IMF in order to keep pace with the increasing demands from the membership. This will be a strategic decision that we will have to make in due time.

Mr. Gokarn and Ms. Dhillon submitted the following statement:

We thank staff for the paper on FY2020-FY2022 Medium-Term Budget, the early engagement of the Executive Board in this year's budget process and the useful bilateral. The budget comes amidst the backdrop of a weakened global outlook and presents a strategic agenda in line with the Fund's mandate and priorities laid out in the GPA, including on enhancing Fund advice and the support for multilateralism. Internally, the budget supports the significant Big 5 modernization projects covering human resources, capacity development, and data and knowledge management. We find the strategic backdrop very useful in setting the immediate and medium-term context for the budget discussions. Based on the context provided and the links between it and the budget estimates, we broadly support the proposed decisions concerning the budget for the Financial Year 2020. We would like to make a few points for emphasis.

This will be the eighth year of the flat real budget constraint. The paper does bring to fore the increased efficiency in spending, which is commendable. That said, keeping real spending constant does involve significant internal reallocations. So, while the fund has managed year after year to generate structural savings, we note that the current projections do not prejudge the outcome of the Comprehensive Compensation and Benefits Review, the modernization initiatives, or new workstreams in the medium term. While the desirability of a flat real budget has been emphasized so far, does the staff now foresee a change in this stance materializing in the medium term? Staff comments are welcome.

Significantly, capacity development, a key pillar of the Funds mandate has reached the limits to its expansion. Greater reliance on external funding has not been without its challenges and we note that it is proposed to limit external financing for CD to $200 million in FY 20. Further, with a flat resource envelope, staff has underscored the prioritization of CD activities. In this context, we would also like to stress much greater integration of Surveillance, TA, training and ownership of CD activities to ensure that technical assistance is sustainable and serves a greater benefit where recipients of CD are equipped to make best use of it.

Overall, we support the use of carry forward to meet transitional needs. For FY 20, a higher upfront allocation of transitional resources has been made and staff has cautioned on the risk of this lowering the centrally held resources to meet unexpected demands and departments to activate contingency measures if the need arises. Given that the carry forward has been generated from partially unspent allocations, this higher allocation could impact the carry forward amount generated in the next financial year as well. Could staff comment?

Finally, the capital budget envelope for FY 20 supports modernization with investments that impact the Fund’s fundamental systems in infrastructure and information technology. We recognize that all this has a bearing on the future of systems and on how work is delivered and streamlined. We consider the details offered by the staff very pertinent and note that the plans for Big 5 program implementation are still under development, with uncertainty on the eventual scope, phasing and costs. In this context, we would call for a close monitoring and phasing to minimize uncertainties and delays and, consequently, strains on the Fund’s budget. Greater Board engagement, with updates on progress, compliance with targets and the need for mid-course corrections would be welcome.

Mr. Raghani, Mr. Sidi Bouna and Mr. Lopes Varela submitted the following statement:

We thank staff for a comprehensive report on the proposed FY 2020 budget and medium-term spending envelopes, as well as for their outreach to OEDs prior to the Board meeting. We also thank Management for scheduling the discussion on the budget ahead of the spring meetings.

The Fund's FY 2020 budget proposal reflects a solid income position as well as the Fund's multi-year strategic agenda under the GPA and the Board Work Program. Overall, we support this proposal. We welcome the efforts to better align the budget process with the Fund's strategic agenda, as well as the opportunity to discuss the issues related to the Fund's financial structure in a more holistic manner, including by reviewing the medium-term budget and the income position simultaneously. While the FY 2020 budget is discussed at a time of slowing global economic expansion and elevated risks to global growth, we share the view that, broadly, it responds to the needs of the institution to serve its membership.

We stress that, going forward, the Fund should continue to be adequately resourced to deliver on its mandate, including in situations of unexpected significant demands from members. We appreciate ongoing efforts to streamline the budgetary process as well as measures to better prioritize and reallocate available resources We agree that the FY 2020 net administrative budget should remain at the same level in real terms., Nonetheless, noting that the institution operates on flat real budget for eight consecutive years, we stress the need to remain flexible to ensure that adequate resources are available for the Fund to serve its members in an effective manner. We highlight in particular the importance of meeting the emerging needs of the membership without compromising the Fund's work in core areas, notably multiform assistance to low-income countries (LICs) and fragile states. In this respect, the budget proposal for FY 2020 shows evidence of reduced buffers to address potential unscheduled needs, as reflected in a faster pace of the budget implementation and the rise in the carry-forward resources assigned to the FY 2020 budget. Furthermore, the Big 5 initiatives underway to modernize the Fund and the Comprehensive Compensation and Benefits Review, could put additional pressure on the Fund's budget over the medium-term.

We see merit in the increase of resources allocated to fragile states under the proposed FY 2020 budget. We appreciate the staff's clear and detailed section on the use of budget resources across the Fund's main output areas, showing for each output, the net structural shifts in resources, the demand, the savings, and the transitional needs. We note from the output on "Country Engagement/Country Work" that the resources devoted to fragile states have remained relatively stable over the past five years, at approximately USD 96 million. However, these countries are encountering exceptional challenges attributable to both domestic vulnerabilities and external shock exposure. We are, therefore, encouraged by the proposal in the FY 2020 budget to increase the resources allocated to this group of countries both through internal reallocation of existing resources and from net new resources. Could staff provide an estimate of resources projected to be allocated to fragile states in FY 2021 and 2022, and the share of TA assistance in the total?

We take note that externally-financed capacity development (CD) has significantly increased in recent years and is projected to reach USD 200 million in FY 2020, raising concerns over risks to the Fund. While strong donor financing has played a valuable role in the delivery of CD to many member countries, we agree that its level represents mounting risks to the institution's budget. We note the staff's intention to limit externally-financed CD going forward, as pointed out on page 17 of the report. Could staff elaborate on the activities and departments that will be affected by the proposal to contain externally-financed CD? Will CD delivered to LICs be affected?

We welcome the additional details in the report on the capital budget and we approve its appropriations for FY 2020, including the requests for the Big 5 modernization projects. While significant resources will be invested in the Big 5, we are encouraged by the efficiencies expected from these modernization efforts. We look forward to the cost-benefit analysis prepared for each of the 5 programs to better assess the overall budget implications. We would like to ask staff for an approximate timeline for a briefing to the Board on the projected savings expected from the programs.

Mr. Geadah and Ms. Choueiri submitted the following statement:

We thank staff for the comprehensive paper, which builds on the preliminary proposals discussed in the informal session last February, and support the proposed decisions. The focus on implementing the Fund's priorities identified under the Managing Director's Global Policy Agenda and the Board Work Program is appropriate. We also agree with the focus in the FY20 budget on increasing resources for country work and for internal support. We welcome the new section discussing risks to the budget. Should risks materialize and persist over the medium term, we would support an increase in the budget envelope.

We are not fully comfortable with the proposal to keep the net administrative budget for FY20 constant in real terms for an eighth consecutive year. We note staff's assessment that increased demands on Fund work can be achieved with flexibility of carry-forward and further prioritization. Similar to previous years, the budget is being fully utilized. Moreover, 80 percent of carry-forward resources, equivalent to 3 percent of the net budget, will be allocated up-front in the FY20 budget, given immediate needs. The upfront distribution of carry-forward resources will leave little buffers to handle unexpected resource needs. Continued close monitoring of budget implementation and emerging needs is needed.

We welcome the discussion of capacity development (CD) activities and note that the share of CD spending has steadily increased in past years to reach 31 percent of total gross administrative expenditures, supported by greater external financing. We share staff's view that CD should be maintained at its current level. We look forward to the completion of the CDMAP project and other initiatives aimed at improving the efficiency of CD-related resource management.

We take note of the modifications to the policy of charging for technical assistance (TA), building on the recommendations of the Working Group on Cost-Recovery for Externally Financed Activities. This includes the move from the current WEO classification of Advanced Economies to the top two deciles of countries ranked by GNI per capita to measure the capacity to pay for TA. We request that Bahrain, which is included in the new list of countries, not to be subject to this policy given its fiscal deficit of 12 percent of GDP, public debt of 93 percent of GDP, and low reserves of about one month of prospective non-oil imports. Given the pressure on resources and need for prioritization, we would be grateful if the Working Group on Cost-Recovery for Externally Financed Activities could assess the rationale and the resources used for Fund support to the G-20, which are essentially technical services but considered multilateral surveillance for budgetary purposes, including whether this support should continue to be financed by internal resources. Staff's comments would be appreciated.

The capital budget appropriation is about $15 million higher than assumed in the FY19-21 MTB. The newly established Big 5 governance structure should provide strong ownership and accountability. We look forward to continued Board engagement on Big 5 projects, including their business cases and cost-benefit analyses, as well as progress in their implementation.

Mr. Mojarrad and Mr. Nadali submitted the following statement:

We thank staff for an informative report and welcome the discussion on the FY 2020-FY 2022 medium-term budget. We are pleased to note that the Fund's income position remains healthy over the medium term and endorse budget formulation long-standing twin objectives of safeguarding financial stability and meeting the membership's evolving needs. We are in broad agreement with staff analysis, support the proposed decisions, and offer the following remarks:

Despite continued efforts to optimize the use of available resources, the expected full utilization of the FY 2019 budget and the increased upfront distribution of carry-forward resources to the so-called Big 5 modernization projects in FY 2020, in the context of the 8th consecutive real flat annual budget, erode remaining budgetary buffers to handle unanticipated resource needs and may hinder delivery of quality core services to the membership. We are, therefore, of the view that if the near-term risks, including the potential increase in demand for Fund programs materialize, the flat real budget constraint should be revisited to allow for an increase in the budget envelope to help deliver the Managing Director's global policy agenda (GPA) and the Board's work program (BWP).

We note the slight shift in Fund-financed structural resources in FY 2020 from internal support to country work, and welcome priority accorded to strengthening support for low-income countries (LICs) and fragile states, including by plans to shift six fiscal economists to LICs and fragile states from other countries. This priority should also be appropriately reflected in the expected increase in Fund engagement with members from 38 programs in December 2018 to 52 programs in FY 2020. We welcome limiting the use of Fund-financed capacity development (CD) to advanced economies to avoid crowding out CD to countries that could not otherwise afford it. As a complement to FSAP, the donor-funded FSSR technical assistance (TA) of $30 million for 2017-22 helps low and lower-middle income countries diagnose financial sector vulnerabilities and prioritize financial sector reforms. Could staff indicate if demand for FSSR exceeds its annual supply of around 5 FSSRs? What is the expected average waiting period for the interested countries to benefit from such TA? Do the donors influence the choice of countries that receive resources from the relevant trust fund? Is

FSSR to be extended beyond 2022 or replaced by increased fund-financed FSAP?

We take positive note of continuous reallocation of resources within and across departments to meet changing needs of the membership and output shifts. A mix of structural and transitional resources is supporting the work of the functional CD departments. Could staff elaborate on the increased trust fund management fees that help offset additional resources provided to the Institute for Capacity Development (ICD) in support of its operations?

The proposed capital budget of $86 million for building facilities and information technology (IT) for FY 2020 is about $15 million higher than that assumed in the FY 2019-21 medium-term budget. Should capital resource needs for FY 2020 further increase, we favor a supplemental capital budget appropriation later this year over delaying project implementation. We, however, welcome the establishment of a governance structure to prepare for the implementation of the Big 5 modernization projects and ensure accountability, adherence to budget and schedule, and proper management of risks.

We note that the same level of real administrative resources is assumed over the medium-term. While the potential budgetary impact of the identified risks is said to be manageable in the near term, including through reprioritization and the use of contingencies, the picture could be quite different in the medium term. The modernization initiatives could take longer, prove costlier, and fail to yield the expected efficiency gains, and there could be additional new workstreams for the Fund to take on. We, therefore, expect an increase in real resource needs beyond FY 2020.

Mr. Mozhin and Mr. Potapov submitted the following statement:

We thank the Office of Budget and Planning (OBP) for its work to formulate the FY 2020-FY 2022 medium-term budget proposal, as well as for its comprehensive engagement with the Board in the process of budget preparation. We appreciate staff’s efforts to address the Board members’ comments expressed in the preliminary budget discussions. We can support the proposed decisions, although we remain concerned about the real flat budget strategy against the backdrop of elevating global risks and the Fund’s workload increase.

We have a lot of respect for the Fund’s ability to operate under a hard budget constraint over the past eight years. However, with the estimated full budget execution in FY 2019 and increased use of carry forward, room for further reallocations and streamlining is limited. According to Table 3 (page 27), almost all Fund's area and functional departments need to increase their structural resources. In total, there is a need for a net structural increase for all departments/offices in the amount of 2.7 million US dollars, which is expected to be funded with central savings. Staff's additional elaborations on the reliability of these savings would be appreciated.

More importantly, the poorly justified mechanical approach to keep the budget flat in real terms leads to lower quality of the Fund's work in its core areas of expertise, as recently confirmed by the IEO's report on financial surveillance. Budget pressures are likely to intensify going forward. Program requests are expected to increase. Knowledge management remains underdeveloped, although its essential role at the Fund has been recognized in many Board's discussions and Fund's official statements. The Fund needs to deepen its analysis of many emerging issues, including social spending and protection, the digital economy, international taxation, trade, and climate change. In this context, we find it necessary to evaluate and mitigate any possible adverse implications from the real flat budget strategy for the Fund's work, its reputation and traction of its advice.

We broadly agree with the proposed approach to reallocating budget resources across the Fund's main output areas in FY 2020. The structural reallocation of resources from internal support to country work together with substantial transitional resources will support the engagement with the Fund's membership in the weakening global environment. We welcome staff's initial efforts to redirect resources to bilateral financial surveillance in line with the IEO's recommendations. Further actions and resources, however, may be needed to strengthen macrofinancial analysis and maintain the value added of the Fund's financial surveillance. Relative priorities should be better defined in the upcoming Comprehensive Surveillance Review.

At the same time, we understand that the Big 5 project and other modernization initiatives at the Fund, while costly in the short run, could potentially free up resources in support departments, as well as other departments through automatization and lower administrative tasks. Do staff have any estimates on how these initiatives could impact output and input shifts, as well as the FTEs' needs in the Fund's departments?

Over the recent years, there has been a rapid expansion of the scale of the Fund's CD. The share of CD spending has reached 31 percent of total gross administrative expenditures (including indirect costs). The expansion has been largely driven by a sharp increase in the share of external financing. It was difficult to sustain such a high rate of growth without some loss in efficiency. In this context, we support the proposal to limit external financing for CD to 200 million US dollars in FY 2020.

We can support the increase in the capital budget envelope that reflects the need for improvements in HQ buildings, security enhancements, and investments in the Big 5. The prolonged period of underfinancing of the IT has led to heightened vulnerabilities, inefficiencies, and control weaknesses at the Fund, as well as significant exposures to cyber risks. The HR systems and processes are particularly outdated. In this context, we welcome the establishment of the Big 5 governance structure and highlight the importance of the Board's engagement in the implementation process of the Big 5 programs. While Appendix IX provides a good basis for identifying potential costs and timeliness for the Big 5 programs, many key milestones remain to be determined. We highlight that robust cost-benefit analyses and efficient business cases should be a crucial input into the final investment decisions. Could staff elaborate on an envisioned format of the Board's engagement in this area?

We welcome the OBP's efforts to incorporate risk considerations into budget planning, including through the risk preparedness matrix (page 38). We believe that more granularity in this matrix would benefit the budget process. In its recent report, the ORM has highlighted the risks related to mainstreaming of the pilot initiatives and the cost of incorporating emerging topics into the regular work. We note that, according to the OBP, these risks seem to be manageable, since the resource cost of mainstreaming is assessed to be about 1-1.5 percent of resources dedicated to bilateral surveillance.

Finally, we would highlight that the current methodology for the global external deflator has served the institution well, allowing it to broadly maintain sufficient resources for ensuring the high quality of work and to meet the membership's evolving needs.

Mr. De Lannoy, Mr. Fanizza, Ms. Levonian, Mr. Ray, Ms. Riach, Ms. McKiernan, Mr. Sigurgeirsson and Ms. Pollard submitted the following joint statement:

Preserving budgetary prudence and ensuring the efficient and effective use of Fund resources remain important objectives in the Budget context. The discussion and approval of the Fund's budget is critical to the Executive Board's ability to discharge its responsibilities and provide for effective oversight and governance of the institution. We thank staff for the informative paper outlining the proposed FY2020 budget and medium-term spending envelopes.

We can support the Fund's proposed Administrative Budget for 2020. We expect the Fund to continue to operate under a 'flat real budget' in the medium term, while recalling that the use of the Global External Deflator de facto expands the resources available to the Fund. Reprioritization of activities and generation of efficiencies must be the first form of financing in the event of unexpected demands. In supporting the concept of a 'flat real budget', we note that under successive years of the "flat real budget constraint" that commenced in FY12, the increase in both staff salaries and levels suggests that the constraint is reasonably soft. We remain reassured that the carry forward funds, that have never been drawn and remain intact to carry forward from the current year, can provide a cushion should unexpected needs arise in the course of FY2020.

Re-Prioritization efforts must continue to ensure resources are allocated in line with the Fund's priorities and those activities that are most highly valued by the membership. Reallocations of resources to higher priority activities amount to 3 percent of total spending (1 percent abstracting from terminating measures). A level of reallocation that leaves 97 percent (or 99 percent) of resourcing unchanged appears to us to be somewhat low. Can staff please comment on the two percent annual minimum reallocation requirement for departments and whether there is merit to increase it? The current process, by design, does not fully expose the Executive Board to decisions about relative work priorities and therefore necessary reallocation of resources. As the Budget process further matures and resourcing constraints become more binding, we expect the Board to have discussions about relative priorities and trade-offs.

In this respect, we regret that staff and management chose not to bring forward options to re-allocate more resources to IMF Financial Surveillance, despite the IEO's recent report that highlighted the need for "significant additional" resources and the request from a number of Directors at our informal session in February. The IEO Report calls for a further strengthening of the Fund's financial surveillance capability and the Board agreed on the need for additional resources for this work. We note that funding redirected towards financial surveillance in Money and Capital Markets Division has increased by a seemingly modest 4 FTE. We note Staff's choice to defer further consideration of resources for financial surveillance until the FSAP review scheduled for 2020. We remain concerned that further delaying or deferral of resourcing decisions may leave financial surveillance activities under resourced in the intervening period and could result in a two-year delay between the Board requesting additional funds and their allocation.

We support ensuring that Capacity Development (CD) activities are delivered while being aware of operational and reputational risk. We strongly welcome the significant increased attention to capacity development work at the Fund in recent years but support staff's assessment that CD activities must remain within the areas of the Fund's core mandate, where it has a comparative advantage and can ensure consistency and quality of advice. We agree that, given the scale of the recent increase, now is a time to consolidate this work and focus on its quality. We hope this pause will give staff an opportunity to seek efficiencies, not least through the CDMAP project, and to reorient capacity development toward an outcomes focus.

We can go along with the proposed Capital Budget Appropriations for Financial Year 2020, but request that Management return to the Board as soon as business cases and cost-benefit analyses are finalized, and prior to new capital funding flowing to the projects being allocated for post-design work. We also ask that staff work to revamp the Fund's Internal Capital Investment Framework to strengthen project planning, selection, assessment and implementation process and clearly set out the link between these processes and project funding approval by the Executive Board. Governance, accountability and reporting requirements (both internally and to the Executive Board) should also be clearly and transparently set-out. We ask that staff return to the Executive Board to present a revamped Internal Capital Investment Framework no later than the 2019 Annual Meetings. In addition, we request Management to provide the Board with a clear timeline when business cases and cost-benefit analysis are expected to be finalized for the Big 5. We also ask staff for a special Big 5 informal Board this spring or summer, either by project or as a whole, to discuss business cases, CBAs, timeframes in more detail.

We strongly support the Fund's modernization initiatives including in-principle the 'BIG 5' projects. We look forward to seeing the value generated from these initiatives. Business process improvement initiatives and streamlining activities are critical to increasing efficiency, improving quality of service delivery, improving staff's operating experience and reducing risk. Our expectation is that the investment in these initiatives will have a pay-off and result in efficiency gains, thus generating savings in both time and resources that can be redirected to higher-value add activities.

That said, improvements to the Fund's Internal Capital Investment Framework are necessary particularly given the plan to significantly ramp up capital expenditure against the track record of project delivery. The FY 2020–FY2022 Budget paper asks for Board approval of funding allocations for projects where the total cost and timeframe of the project is not well defined; where there are limited details on the nature of the project given the scale of the proposed investment; where a full business case and costs and benefit analysis of the project is yet to be completed; and where there is already a partial investment. We note that risks are likely to increase as several large projects are being implemented at the same time.

It also leaves the Board in the rather awkward position as demonstrated in Figure 4, page 34, of being asked to approve proposed capital expenditure for project (1HR) totaling around $40 million, where system implementation has commenced without a full business case or cost benefit analysis being finalized. Ordinarily these tools are used to inform project selection not to support ex-post implementation.

Mr. Di Tata and Mr. Morales submitted the following statement:

We thank OBP for the comprehensive budget paper and their bilateral outreach efforts before this meeting.

Within the constraints imposed by an unchanged net administrative budget in real terms for the eighth year in a row, we are in broad agreement with the preliminary proposals for the FY 2020-FY 2022 medium-term budget. As a general point, we can see that the budget situation continues to get tighter, and that an upfront allocation of carry-forward resources is necessary to cover priority needs of a transitional nature. We are pleased to learn that spending on outputs under the FY 2019 budget was broadly in line with plans, and that carry-forward funds remain available to meet transitional needs in FY 2020. At the same time, we notice that the projected path for operational income over the medium term is now significantly higher than previously envisaged, which allows for an adequate buildup of precautionary balances to manage financial risks. We welcome the Risk Preparedness Matrix, which helps identify the main risks to the budget and possible mitigation measures, as well as the FY 2020-2022 Budget Risk Matrix that provides a useful ranking of risks in terms of likelihood and medium-term budgetary impact.

The section describing planned spending by outputs across thematic categories allows for a better alignment of the budget with the strategic plan in the Global Policy Agenda and Board Work Program. Regarding the overall output structure for FY 2020, we welcome the modest shifting of net structural resources toward country work and away from internal support to cover the expected increase in program work, the implementation of the enhanced governance framework, and macro financial surveillance. However, we notice that the additional resources for macro financial surveillance are modest relative to the recommendations made by the IEO, and that the IEO's call for further increases will need to wait for the completion of the CSR and FSAP reviews.

An increased and sustained demand for Fund programs constitutes the most critical risk for the institution. We note that Fund engagement with members with arrangements is expected to be more intensive in FY 2020. Could staff elaborate further on how the higher staffing requirements for program cases will be met? Moreover, to what extent is it realistic to assume a constant travel budget in nominal terms for FY 2020 given the projected increase in program work? We welcome the information provided by staff on emerging issues, including the steady-state resource cost of work on four emerging topics presented in footnote 16.

We agree that the prioritization of Capacity Development (CD) activities is becoming increasingly important, given that the share of CD in total spending is programmed to stabilize. In this regard, the recent review of the framework for monitoring and prioritization of CD conducted by the Committee on Capacity Building constitutes a positive step. We agree with the identified initial list of growth areas and the need to focus on fragile states and highly vulnerable countries. Although shortfalls in donor funding for CD rank low in terms of risks in Figure 5, we notice that externally-financed CD turned out slightly lower than envisaged in FY 2019. Could staff elaborate on the efforts to further mitigate external funding risks that are part of ICD's work program?

We can go along with the capital budget proposed for FY 2020, but we expect the business cases and cost benefit analyses for the "Big 5" projects to be presented to the Board as soon as possible. The paper indicates that the capital needs would be about $15 million higher than originally assumed in the FY 2019-2021 medium-term budget owing to needed improvements and security enhancements and investments in the Big 5 and that changes in the timing and budget envelope are a possibility. We notice that the Big 5 initiatives will require substantial investments for several years, which in the near term are expected to be supported through temporary resources. We welcome these initiatives in view of the operational savings they could deliver in the medium term. However, we understand that the business cases and cost-benefit analyses to justify the approval of these projects are still being developed. In this regard, it is unfortunate that system implementation for the 1HR project has already commenced without a full business case or cost-benefit analysis having been finalized. Looking forward, we would emphasize the need for the Board to be closely engaged on the Big 5 programs and urge staff to present the business cases and CBAs to the Board as soon as they become available. We support the call made by other Directors for the Board to be provided with a clear timetable when business cases and cost-benefit analyses have been finalized, as well as for a special Big 5 informal Board meeting to discuss these issues in more detail.

The paper provides more information about the medium-term capital budget needs and the long-term plans for both facilities and IT infrastructure. In this regard, we welcome Appendix VIII on the Long-Term Capital Investment Plan. We note that the outer years of the medium-term budget incorporate the replacement of aging HQ1 building systems that had not been considered in the context of the HQ1 Renewal project and that the long-term facilities capital budget has been updated to include additional resources for HQ1 and HQ2 system replacement needs, with spikes expected in FY 2025-2026. We also note that the IT capital budget needs would remain elevated in the medium term because of continued funding needs for the Big 5 and other critical legacy systems.

The Chairman made the following statement:

Before opening the discussion, I would like to thank Directors for their gray statements and for the focus that they have applied to the thorough review of the work that has been done by the team. I would like to address a few points, some of which have been raised by Directors.

It is a good coincidence that the discussion of the budget is taking place just after the discussion that we had yesterday on my Global Policy Agenda (GPA). From the discussion we had yesterday, it is obvious that there is much more work to be done, and there are many expectations from the membership. Many Directors have conveyed that. It is a strong, supportive message and yet a challenging one, because we have to respond to those expectations.

Despite that, we are committed to maintaining a prudent budgetary stance with the real level of resources unchanged for the eighth year in a row. Some Directors have concerns about this issue of the flat real budget because there is this deflator that applies. As a result, that does not exactly produce an absolutely flat budget. But I would still argue that we are maintaining a flat real budget. I believe that it is helpful, as it encourages the department heads and the department teams—where the work is being done and where the planning is taking place—to do some strategic prioritization and reallocation within departments and between departments, as it happens annually. It keeps us focused on being as effective and as efficient as possible. But it should not be an end unto itself. If there are significant expectations and if additional work is required, it is obvious to anybody that "additional budget" is not a bad word, but that has to be consistent with the output that is expected. We need to make sure that the tradeoffs that we make are appropriate, acceptable, and do not prevent us from meeting the high expectations of the membership.

It is often the case that when the Independent Evaluation Office (IEO) starts looking deeply into a particular sector of our activity, they will make recommendations. That was clearly the case in relation to financial surveillance. Many Directors expressed the desire to reallocate more resources to financial surveillance.

When we discussed the IEO evaluation, I acknowledged that strengthening financial surveillance requires adequate resources. However, it is important that we do not front-run the discussions that we will have as part of the Comprehensive Surveillance Review (CSR) and Financial Sector Assessment Program (FSAP) review. Future budgets need to be agile and flexible enough to incorporate the outcomes of the reviews.

Additionally, it is not as if we could do the acquisition of a team of financial surveillance experts. It is a process that needs to operate efficiently, partly incrementally, not organically but incrementally, in order to make sure that the teams adjust and that the process has begun.

We have embarked on an ambitious agenda that will touch on human resources' policies and practices, under the leadership of Ms. Grasso; how we manage and share knowledge and data equally; the prioritization and management of capacity development; and the digital platforms used by staff.

By focusing not just on the IT systems but also addressing related policies and work practices, it will help us take a step forward to modernization, more efficient provision of services to the membership, and better support for our members. We are doing it out of necessity but also out of strategy. It is the combination of the two—necessity and strategy—that will be best articulated in the weeks and months to come because it is a significant

> endeavor that needs to be rolled out efficiently; that needs to identify, as Directors have legitimately asked, the costs and benefits of each. The combined result of all five will be the "Big 5". Clearly, we need to be both focused and articulate in the way we will roll it out in the next three years. I am convinced that it is a process that will deliver good value. We need to handle that cautiously and carefully.
>
> This work also involves engaging the Board. Directors will be active participants at all stages, including in the preliminary phase, so that they can appreciate the depth and the scope of those projects and how they will change the work that everybody does, including the Board, and the outcomes for the membership.

The Director of the Office of Budget and Planning (Mr. Citrin), in response to questions and comments from Executive Directors, made the following statement:[1]

> I wanted to touch on two main issues that were raised in the gray statements—first, on budget flexibility, and then on the capital budget process.
>
> On budget flexibility, as many Directors have noted or implied, the operational work of the Fund is likely to increase in the years ahead. To be able to respond to this, it is important to increase budget flexibility, in particular since our margins have tightened in recent years.
>
> How to do this? The modernization agenda, the streamlining initiatives, and the use of automation will help. Savings will materialize in phases over the next few years, but they should be significant. We hope to be able to reallocate them to priority activity areas, serving the membership directly.
>
> In addition, we are looking at other ways to increase budget flexibility. One option is to require departments to submit larger resource savings as part of their annual budget proposals—moving from the current 2 percent of departmental budgets to something higher. Some Directors have mentioned 5 percent. Another possibility is to use a zero-based review of work streams that would then feed into departmental budgets. In either case, there are a few constraints to increasing budget flexibility.

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[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

First, the skill sets are not always transferrable. We can do reallocation on paper, but it may not work in practice. Second, much of our work is mandated and dictated by certain cycles. Third, resources for country work—in area departments, for example—are already recalibrated each year, in line with changes in the prospective engagement with members.

As such, it may seem attractive to look for greater levels of reallocation each year, but an iterative process that emphasizes reallocations over a medium-term horizon may be more realistic. In any case, this is an important issue we are well aware of, and we have been doing quite a bit of thinking about this amongst ourselves.

Let me touch on the Big 5 projects and the capital budget process more generally, which all Directors commented on.

We appreciate the strong support for the modernization efforts from all Directors, including for the Big 5. We launched these projects a few years ago to transform the way we work, to improve the quality of our services, and, importantly, to address risks related to operating outdated IT systems. For projects of this scale, I would say that we need to undertake a detailed planning process, redesign, and system selection in order to prepare realistic business cases and cost-benefit analyses, including savings commitments. Teams are working on this, and we will bring the detailed cost-benefit analyses to the Board as soon as possible. Starting with 1HR, which we will be able to present to the Board sometime before the recess—hopefully in June. We will use that Board meeting to also brief Directors on progress with the other big projects and to provide additional information on our internal governance processes that have been put in place to make the projects a success and to manage risks. We would then expect to bring the updated Capacity Development Management and Administration Program (CDMAP) business case and cost-benefit analysis to the Board after the recess, with the other projects likely to follow thereafter.

As we proceed, we would also suggest that we initiate a process of periodic progress reports to the Board, similar to what we have done for the HQ1 Renewal project. Perhaps two to three times a year may be a reasonable cadence to brief Directors on these projects.

Now on the capital investment framework more generally. In the paper, we sought to provide all the relevant available information on these projects, even though the cost-benefit analyses are not yet complete. We do recognize, however, that as we have moved from many small IT projects to a select number of larger transformation efforts, there is a need to improve the sequencing of project design, project documentation, and internal investment decision with the capital budget approval by the Board. As we launch future transformation projects, we will build this sequencing into their timelines.

Beyond this, we also recognize that the capital budget process has evolved, since the current framework was put in place a number of years ago and our business needs have changed. As a number of Directors have requested, we would agree and propose to come back to the Board with an updated capital investment framework before next year's budget cycle gets underway. We hope to be able to do that in September or October.

With that, I thank Directors for their comments and dialogue leading up to this meeting.

Ms. Levonian made the following statement:

I thank the staff for their outreach and the conversations that we have had. They have been very helpful. We also appreciate the expanded budget documents and appendix, outlining the assumptions underlying the medium-term budget. The opening remarks from the Chairman and the staff are very responsive, and we greatly appreciate it. They have taken the wind out of my sails, so I will just say a few things.

We are fully supportive of the Fund's modernization efforts in this regard. We do expect associated efficiencies and a more cost-effective delivery. We greatly appreciate what the Chairman said at the beginning, about coming back with the full business case before new capital funding would be allocated for the post-design work. We are pleased about that.

Table 3 outlines the budget adjustments by department in FY2019-20. While the Board may not have a direct role in this regard—and nor should it, I believe—some visibility on how these adjustments are reached would be greatly appreciated, maybe in an informal discussion.

I also liked what the staff said about the 2 percent reallocation and maybe making it higher, and reallocating within but also among departments. I will highlight what we used to do in the organization that I came from. I found this helpful. I know this sounds horrible, but it works well. We would cut each department by 5 percent every year. We would take that money and put it into a pot. Then business cases would be brought forward for the higher priority items. It is like asking what is the budget rule that applies? It makes it very systematic. One ends up with the highest priority and best use of the money. It is an automatic process every year. Everybody knows their lower priority items are reduced. Then money is put aside for those higher priority items that come. The Fund might be a little bit different, but there are some lessons that could be learned from that.

Mr. Ray made the following statement:

I thank the Chairman for her helpful opening remarks, and Mr. Citrin, whose outreach to our office has been impeccable. I thought that the idea that he raised was a good one and something that we should think about doing more.

We did issue a comprehensive gray statement with seven other chairs and we can support the proposed budget, but I would like to pick up on three of the areas that the Chairman spoke to earlier.

One is on effective prioritization. I was struck by Mr. Citrin's answer to Mr. Castets last time we talked about changing the real to what we would actually understand as being real. Mr. Citrin's answer essentially that this would mean the Board would face some tough choices. That is the whole point. I believe that we should. The membership should face choices and not put unlimited demands on the Fund. The Board should be forced to help with prioritization, and it should not just be left to department heads. To be honest, the membership should face these choices.

The case of financial surveillance is a case in point. Yes, the IEO report shows that resources for financial surveillance are only just back to the pre-global financial crisis levels. At first glance, that seems a bit odd. They recommended significant additional resources. Those two facts leave the Board a bit exposed to risk, and that worries me.

One thing we do know is that there will be a financial crisis sometime. Having those two facts sitting out there unaddressed does worry me. I understand why the staff wants to wait and to do it in a more considered way, but it just does leave with us that risk.

On the capital budget, let me echo Ms. Levonian that we strongly support the objectives of these capital projects and the initiative and the ambition behind them. This is a clear case where the Fund is taking a welcome step to modernize, and we strongly support it. Notwithstanding that, it is a little odd that we are being asked to agree to spending on a project that is already being implemented and we have not yet seen the cost-benefit analysis. It just seems to be an odd way to proceed. It is a bit counterintuitive.

Another thing that we know is that IT investments are inherently risky. They tend not to go as planned. It does not matter whether they are big or small.

The idea that Mr. Citrin set out at the beginning, that we are going to come back with an improved framework, is useful because there are some lessons to be learned from this process. The Fund will need to continue making these investments through time. Now is the right time to revisit the framework. We look forward to coming back later in the year.

Lastly, we recognize that all of this budgeting has improved greatly over recent years under Mr. Citrin's leadership, and we look forward to supporting him further.

Mr. Merk made the following statement:

We thank Mr. Citrin and his team for the insightful report, the well-structured process, and the excellent outreach ahead of the Board meetings. Against the background of the outreach and the many questions we cleared ahead of the Board meeting, I can be brief.

First, we consider it commendable that the net budget envelope has been kept flat since fiscal year 2012 in real terms. We are fully aware that this is based on the global external deflator, but we agree that this is a reasonable approach and guideline, and we always supported that.

Second, we strongly support the ongoing modernization initiatives and have the expectation that the investments will result in efficiency gains and, just as important, will mitigate risks from operating outdated systems and will improve the quality of services. But, like many other Directors, we also see risk from the large capital investments associated with these projects. Therefore, we agree—and we understand that the staff's approach goes in that direction—that we need a prudent and transparent approach to the modernization projects, governance, sequencing, and costing.

What we expect is that we will be briefed when the cost-benefit analyses for individual projects become available. We greatly appreciate Mr. Citrin's and the Chairman's remarks in that regard. We look forward to the periodic progress reports that were mentioned.

Mr. Rashkovan made the following statement:

I thank Mr. Citrin and his team for the report, as well as for their helpful outreach before today's meeting, which is highly appreciated. We issued a joint gray statement with other Directors, and I would like to emphasize three messages.

First, like many Directors, we strongly support the modernization efforts of the Fund, including improvements and security enhancements to the campus and the investments in IT programs. The Fund should remain well equipped to conduct thorough economic and financial assessments and should, therefore, have the necessary technology and support services available in-house. We expect that the anticipated savings in both time and resources will be redirected to the activities most valued by the membership and prioritized by the Board, the IEO, and management.

Second, like Ms. Levonian, we strongly support the objectives of the Big 5 projects. We welcome the establishment of the governance structure for the Big 5 programs to promote stronger ownership and accountability, as well as to ensure adherence to the budget schedule and the proper management of risks. Like other Directors, given the significant increase in the capital expenditures over the medium term, we will be waiting for the staff to present the full business case and cost-benefit analyses for each of the individual Big 5 projects, the anticipated benefits and savings, and an assessment of the organizational capacity to deliver these projects simultaneously in a more complete picture.

Lastly, the modernization of any organization is a complex process, from the technical but also from internal cultural points of view. It requires a holistic view and agile change management. As the Chairman mentioned in the opening remarks, considering the role of the Board in the decision making of the Fund, we encourage the staff to engage the Board in their discussions of the projects around the modernization agenda. We also thank Mr. Citrin for the commitment to it from the Finance Department's (FIN) perspective.

Mr. Kaizuka made the following statement:

I will just skip the part where I should appreciate Mr. Citrin and his team's work because he knows how much we appreciate it. I will get straight to the three points.

First, a reallocation of the Fund’s resources is getting even more difficult because the resources available for the reallocation will be smaller. This is quite a natural thing in any mature democratic country, as the reallocation of the budgetary resources is commonly a big challenge. Japan is not an exception. Ms. Levonian pointed out her own experiences. There are many other countries, including Japan, that have their own practices, methods for how to reallocate the limited resources.

Perhaps the staff, or a country team, could reach out to those countries to learn. They are always talking about the fiscal policy, but they are not talking about the budgetary methods or the budgetary practices. Why not learn from other countries about how they engage in this reallocation, this really challenging work, in their endeavors?

We are happy to provide any technical assistance (TA) to the Fund on that particular front. But since the staff is already very familiar with Japan, I know they do not want any know-how from Japan.

On the capital budget, we emphasized the importance of governance and discipline, as the capital budget is outside the framework of the real flat budget, unlike the administrative budget. The capital project continues for multiple years once it starts. I echo the joint gray statement on the necessity of the cost-benefit analysis, preferably prior to the budget discussion.

In Japan, whenever we make a proposal for a huge capital investment, we are required to come up with a cost-benefit analysis prior to the budget discussion. Otherwise, our authorities would never engage in the discussion without this information. I encourage the staff to provide us a more timely cost-benefit analysis and to update them in the course of the project.

Finally, on capacity development, we understand the background behind the cap of U.S. $ 200 million per year since there is a concern about the stability of the external funding and the possible distortion of priorities. But as one of the major providers of the contributions for TA work, we are proud of continuously providing the amount to the Fund. We regularly have discussions with the Institute for Capacity Development (ICD) and other functional departments on how we can integrate our own priorities with the Fund’s priorities. With that, I believe we can mitigate those risks. Please communicate further about the implications of that cap of U.S. $ 200 million with our authorities.

Ms. Choueiri made the following statement:

We support the proposed decisions on the budget. We are concerned over the increasing resource demands and tight margins, which could impact the ability of the Fund to fulfill its mandate. However, we can go along with the proposal, given the staff's assurance that a flat budget can be achieved with the flexibility of carry-forwards, continued prioritization, and a risk-based allocation of resources.

We appreciate the Office of Budget and Planning's (OBP) continued efforts to incorporate risk considerations into budget planning, including through the Risk Preparedness Matrix that is in the papers. Should those risks materialize and persist over the medium term, we would support an increase in the budget envelope.

Like Messrs. Mozhin and Potapov, we wish to stress that the current methodology for the global external deflator continues to serve the institution well. It allows the Fund to broadly maintain sufficient resources for ensuring the high quality of the work. I welcome the Chairman's remarks on the subject.

I am sure that the staff will respond to the questions we raised in our gray statement, and I look forward to that.

Mr. Castets made the following statement:

We issued a gray statement, in which we approved this proposed budget. We welcome the prudent management of the Fund's budget, to which Chairman also referred in her introductory remarks.

We believe that the rules we have in place are good guiding principles since they create an internal constraint which helps to move toward reallocation and efficiency.

Nonetheless, we still have some questions around the use of the expression "real flat budget," since we feel that a real flat budget would grow only in line with U.S. CPI. There is quite a difference because this year, the U.S. CPI is projected at 2.2 percent, and we will have an increase by 2.7 percent, so there is a discrepancy there. Since it is part of the French character to be a little stubborn, we keep raising the issue. But more importantly, we believe that it is an important question because then it raises the question of how we internalize the decision of the Board on compensation into the whole budget envelope. It is even more true, since we take into consideration the fact that we have an automatic use of the money we save, because the older people and better paid people are leaving the institution. This is automatically used for a merit increase. All in all, we feel that we should have a discussion on how our guiding principles are articulated with these two dimensions.

Importantly, we feel that there could be a case to question whether we should maintain the constraint we have so far. I will elaborate on why we could reflect on whether to give a bit more leeway for the staff to respond to current pressures.

First, we are truly grateful for what is presented on LICs and fragile states. We see the efforts. It is a direct answer to our call last year. Great progress was made there. In particular, we thought that the Fiscal Affairs Department (FAD) dedicating six more analysts to this issue is an important step. We would expect other departments to match FAD, notably the Strategy, Policy, and Review Department (SPR). But, clearly, there are some needs from LICs and fragile states.

Second, on climate, what we read in the staff’s written answer regarding the coverage of countries is clearly limited. We also said that during our Board meeting on climate change. We expect that, going forward, there will be more need in this area.

And then we are rolling out our policy on governance and anticorruption, that we strongly support. But we also expect that maybe at some point, there could be additional needs. All in all, we wonder whether we should not reflect a bit on this articulation between our guiding principles and whether there are additional needs that should be met.

Finally, I thank the staff for the detailed answers on the capital budget. Like Mr. Kaizuka, we feel that the real issue for us, as Board members, is the governance of those difficult projects. We would recall also the need for attention on the articulation between 1HR and the HR Strategy. We look forward to engaging further going forward.

Mr. Mojarrad made the following statement:

We thank Mr. Citrin and his team for the insightful report and the outreach to our office. We have issued a gray statement supporting the proposed decisions and wish to highlight the following points.

We note that the remaining budgetary buffers are being eroded in the context of the eighth consecutive real flat annual budget. We also would like to be assured that the tradeoff that the Chairman referred to in her opening remarks is appropriate—that is, if a potential increase in demand for Fund programs materializes, in such a case, the flat real budget constraint may need to be revisited to help deliver the GPA and the Board's Work Program.

We welcome increased Fund engagement and the higher resources to more than 40 fragile states in FY2024, due to internal reallocation of existing departments' resources and from net new resources provided to departments.

We agree with limiting the use of Fund finance and capacity development to advance the economies, and that charging the higher per capita income countries for TA will help crowd in capacity development to countries that could not otherwise afford it.

We endorse a continuous resource reallocation across departments to meet the evolving needs of the membership. Intensified country engagement is cited as the reason for the Middle East and Central Asia Department (MCD) to receive higher structural funds but lower transitional funds in FY2020. The staff may wish to elaborate on whether a small increase in funds for MCD is sufficient for the resource needs of that department.

The proposed capital budget of US$89 million for FY2020 is about US$15 million higher than the earlier projections and reflects the increased resource needs for HQ security enhancements and investments in the Big 5 modernization projects. While US$30 million is believed to be a prudent IT capital budget, in view of the institution's implementation capacity, we remain open to a request for a supplemental capital budget appropriation, should the Big 5 projects progress more quickly than anticipated. Could the staff indicate the likely size and the timing of such a request? We welcome the establishment of the Big 5 governance structure to provide stronger ownership and accountability.

Finally, a constant level of real administrative resources is assumed over the medium term. Given the risks and the likely higher costs associated with the modernization initiatives and the Fund's new work streams, we expect to increase the real resource needs beyond FY 2020.

Mr. Trabinski made the following statement:

We support the proposed decisions, and we welcome that the 2020 fiscal budget remains unchanged in real terms. As we issued a gray statement and there were many interventions today, let me stress two additional points.

First, we find it important to keep budgetary resources in line with the Fund's core mandate. In this regard, like Mr. Ray, we see merit in allocating additional resources for financial surveillance, as it was recommended by the IEO. We also welcome the established of a monetary modeling unit in the Monetary and Capital Markets Department (MCM).

Second, we perceive the modernization efforts as absolutely key for improving the Fund's efficiency, but the resources allocated for the Big 5 programs require close monitoring. For this initiative, it is important that the Board would be informed about the cost-benefit analysis. But there would be great merit in seeing a more strategic analysis of how those Big 5 projects will change our labor model at the Fund. I would be willing to hear whether we have a more strategic analysis in this regard.

Mr. Sigurgeirsson made the following statement:

We recognize that great progress has been made in improving the budget process. Judging from my past experience in the Board, I can assert that we are much better informed to make decisions than before.

We have issued a gray statement, together with six other chairs, approving the budget. I would just like to add a few points on the capital budget.

We fully support the projects. They have the potential to bring the Fund to a new era, to transform how we work and generate savings, if properly administered. We do see room for improvement in the areas of benchmarking, efficiencies, and deadlines, which, interestingly, the Fund does so well in program design. This should not be seen as an effort toward micromanagement. They are called the Big 5 for a reason and do not come without risks. As we have said before, there is the additional probability of risk compounding when several large projects are implemented in parallel. Therefore, I welcome Mr. Citrin's statement that the Board will be kept abreast of projects going forward.

Mr. Raghani made the following statement:

As emphasized by many Directors, commendable progress has been made to better align the budget process with the GPA and the Work Program. We also appreciate the efforts to take into account in the budget reports the outcome of important Board meetings, including the discussion on the Risk Report.

We have issued a gray statement, in which we expressed our support for the budget proposal, and would like to add the following two comments.

On the flat budget envelope and the savings from the Big 5 projects, the budget proposal for FY2020 represents the eighth consecutive year of a flat budget. While considerable efforts have been made to better prioritize and reallocate Fund resources, the budget proposal for FY 2020 shows reduced buffers to address potential unexpected needs.

At the same time, the Fund has embarked on an ambitious modernization initiative, the Big 5, and sizable savings are expected from these projects, which could be reallocated to the Fund's priorities. As soon as the estimates are available, the Board should be briefed on the savings from the Big 5 and also, importantly, on how those savings will be used to alleviate the pressures on the available resources from the flat budget.

My second comment is on externally financed capacity development. The FY2020 budget proposes to limit externally financed capacity development to US$200 million. The reason has been well articulated in the section of the report on the strategic context. However, many member countries have benefitted enormously from the substantial increase in externally financed capacity development over the years, particularly among LICs. Therefore, it will be essential to ensure that over the medium and long term, capacity development continues to be delivered to all beneficiaries, despite the decision to contain the level of externally financed capacity development.

Mr. Mahlinza made the following statement:

The Chairman's and Mr. Citrin's comments have essentially responded to many of our comments, so I will be brief. I have just two comments.

First, I would like to express our appreciation to the staff for the increase in the resources allocated to the country work in FY2020, apart from the internal support. We also welcome the initial efforts to move resources toward financial surveillance in line with the IEO report on IMF financial surveillance.

Second, on the Big 5, we are encouraged by the comments made by Mr. Citrin, and we look forward to the periodic briefings on the Big 5.

Mr. Di Tata made the following statement:

We thank OBP for the comprehensive budget paper and the bilateral outreach before these meetings and the Managing Director for her introductory remarks.

Within the constraints imposed by an unchanged net administrative budget in real terms for the eighth year in a row, we are in broad agreement with the preliminary proposal for the FY2020-22 medium-term budget. As a general point, we can see that the budget situation continues to get tighter, and that an upfront allocation of carry-forward resources is necessary to cover priority needs of a transitional nature.

We welcome the risk preparedness matrix, as well as the budget risk matrix, which provides a useful ranking of risks in terms of their likelihood and the medium-term budgetary impact. The section describing planned spending by outputs across thematic categories allows for a better alignment of the budget with the strategic plans in the GPA and the Board's Work Program.

Regarding the overall output structure for FY2020, we welcome the modest shifting of the net structural resources toward country work and away from internal support to cover the expected increase in program work, the implementation of the enhanced governance framework, and macro-financial surveillance. However, we notice that the additional resources for macro-financial surveillance are modest relative to the recommendations made by the IEO, and that the IEO's call for further increases will be addressed in the context of the CSR and the FSAP review.

An increased sustained demand for Fund programs constitutes the most critical risk for the institution. We note that Fund engagement with members with arrangements is expected to be more intensive in FY2020. In view of the significant increase in program work, meeting the higher staffing requirements and maintaining a constant travel budget in nominal terms will be challenging.

The prioritization of CD activities is becoming increasingly important, given that the share of CD in total spending is programmed to stabilize. We agree with the identified initial list of growth areas and the focus on fragile states and highly vulnerable countries.

To conclude, we support the capital budget proposed for FY2020 and welcome the Big 5 initiatives in view of the operational savings they could be deliver in the medium term. However, the business cases and the cost-benefit analyses to justify the approval of the Big 5 projects are still being developed. Looking forward, we welcome the staff's intention to engage the Board periodically on these programs and encourage the staff to present the business cases and the cost-benefit analyses to the Board as soon as possible.

Mr. Villar made the following statement:

We thank the staff for the document and for the bilateral outreach. We endorse the budget proposal. We issued a gray statement, so I will provide only a few comments for emphasis.

We support the goal of modernizing the Fund's core processes through the capital investments, and we appreciate the new information provided by the staff. Still, since we are devoting substantial resources to their implementation, it would be important to have a reporting of the cost-benefit analysis.

Regarding macro-financial surveillance, we believe there is scope to increase the amount of resources devoted to this activity, even if we concur with the staff that this should be discussed in the context of the FSAP review and the CSR.

On capacity development, we understand that we have reached a landmark, as the budget presents the proposal to limit external financing of capacity development to US$200 million. We support this proposal, but this should not be a restriction to devote additional internal resources to capacity development in the future, and in particular, to ensure further funding to our Regional Technical Assistance Centers (RTACs).

Finally, a more general reflection, in the past eight years, the Fund has made a tremendous cost-cutting effort to become more efficient and able to maintain a flat budget in real terms. Nevertheless, there are signs that we are approaching the limits in terms of the spending efficiency. Therefore, I will acknowledge that the flat budget during the past years has served this institution well. Looking forward, we should reflect on the goal of addressing our membership needs in a timely and effective fashion.

Since 2012, both the world economy and the size of the financial systems have expanded, but the Fund's budget has remained flat in real terms. In this context, we consider it helpful to undergo an assessment to determine whether a flat budget policy continues to be appropriate to keep pace with the increasing demands from the membership.

Ms. Pollard made the following statement:

I want to agree with Mr. Ray, that I appreciated the staff's answers up front and think that is a process that should be used in other Board meetings. It helps the Directors' comments be more efficient.

I was struck by the comments of Ms. Levonian and Mr. Kaizuka on the way other countries address these issues of tight budget constraints, as well as Mr. Castets' point on this automatic recycling of savings into merit pay. I wonder whether that is used by any countries. This raises questions about what is the best approach, which is something that the Board needs to look into. I fully agree with Mr. Ray that the Board does need to make tough choices. We also should not exclude budget allocations to OED. One of the things that we may want to take a look at is whether the 20 percent carry-forward should continue, particularly given that, for the rest of the Fund, it is only 3 percent, and that has been cut from 6 percent, yet the 20 percent that was instituted in 2008 has never been reduced.

Finally, I want to support the comments of other chairs on the importance of these Big 5 projects but also the importance of keeping the Board well informed. In this regard, I appreciate Mr. Citrin's remarks at the beginning of the meeting.

Mr. Fanizza made the following statement:

Let me say clearly: Without the staff's efforts, finding a solution to the issue of the spending for the Big 5 projects would have been difficult. Thanks to them, we are in a position now to support the budget. This is very welcome. We are happy with the way in which their risk analysis has been incorporated in the document.

I fully agree with Mr. Ray and Ms. Pollard on the fact that the budget has a key role to play in imposing tradeoffs. I do not believe we can proceed to expand our activity, upon the request of the membership, without telling the membership that they will face tradeoffs. If they want a flat budget, then they need to choose. The Board is here for that purpose. Management should come back to us and say that if we want more work on corporate taxation or emerging issues, what should we cut? That should be the function of the Board.

From the perspective of my authorities—I might not be personally convinced of that—it will be difficult to move away from the idea of the flat budget, as a guidance for the next budget.

Mr. Kaya made the following statement:

We thank the staff for their updated paper, their answers to our technical questions, as well as the informative outreach to our offices. Following the earlier engagement with the Board, the staff has embedded a wealth of information in the final version of the paper, adding more transparency and a stronger justification for the budget proposal.

We also welcome the conflation of the staff compensation review prior to this meeting so that the largest expenditure item in the Fund's budget can be estimated in a more precise manner and before formal Board approval. These steps help strengthen the Board's oversight role, and we expect this year's improvements to set the standard for the budget process in the upcoming years.

On the specifics of the budget, I do not want to go into the details, as we raised all our points in our gray, as well as bilaterally with Mr. Citrin and his team. That being said, I want to emphasize a few issues that go beyond the scope of the 2020 budget discussion.

First, our chair advocates continuing with the spending discipline characterized by a flat budget envelope in order to meet the membership's needs without compromising the quality of our policy advice. We should, however, leave room for some flexibility in reallocating resources across departments, where needed.

Second, on the capital budget. We appreciate the additional insights about the Big 5 transformation programs, including their resource implications. Nevertheless, we still see room for an improvement in our internal capital investment framework to further strengthen accountability and risk management practices. We reiterate the importance of a timely provision of detailed business cases and cost-benefit analyses for the Big 5, preferably before the Board recess, and sufficiently enough in advance of a potential Board discussion on a supplemental capital budget appropriation.

Mr. Agung made the following statement:

I would like to offer two brief remarks for emphasis. First, we fully support the proposed administrative and capital budget, but we underscore the importance of previewing the capital budgeting process. We join other Directors in highlighting the need for a more prudent, transparent, and well-structured process to foster accountability and appropriate risk mitigation. We welcome the Big 5 projects and encourage the effective implementation of the Big 5 governance structure to promote steadfast ownership and, thereby, yield expected efficiency gains from this project.

Second, we welcome the increase in the allocated resources for financial surveillance, which includes a reallocation from other areas. We asked the staff to provide a more granular update of the relative priorities and tradeoffs to ensure that this reallocation does not undermine the Fund's ability to effectively fulfill its entire set of mandates.

Mr. Mozhin made the following statement:

We have issued our gray statement. When coming to this meeting, I was fully determined not to say anything and not even to ask for the floor, but as it often happens, I heard something during the discussion which made me want to say a few words. I will focus on only one issue, and this is the issue of limited fungibility or limited transferability among staff. Lately we hear more and more about it, perhaps reflecting the situation of an increasingly tight budget. Mr. Citrin made a reference to how there are limits to how Fund staff could be transferred from one task to the other. The question I have is whether the Fund is doing any contingency planning for the situation when the priorities and demands on the Fund could change again, given this limited fungibility, transferability of the Fund staff.

What lessons have we learned from 2009, when the Fund was caught unprepared for the massively rising demands for country work? The key lesson is that we need some type of contingency planning when everything that is a priority now becomes much less of a priority and some new priorities emerge under the circumstances.

The Chairman remarked that the Fund had been caught a bit off guard when the financial crisis broke.

The Director of the Office of Budget and Planning (Mr. Citrin), in response to further questions and comments from Executive Directors, made the following additional statement:

> In response to Mr. Mozhin, I was thinking mainly about the question of financial sector surveillance and ramping up the resources in that area. If we are going to do this, it takes time because we want to hire experts. It takes time to train people and also to recruit them from the outside. Even if we decided tomorrow to increase the number of financial sector expertise by 30 staff, it would take some time to do this.
>
> With regard to Mr. Mozhin's concern about moving fungible economists around, in 2009, we had a peculiar situation where we had lost many people during the downsizing, who had program experience and then we were faced with the global financial crisis. Hopefully that situation will not recur. In fact, for fungible economists, we usually have done a pretty good job moving people from departments to hot spots when the need arises. But we need to build expertise in specific areas, like the financial sector and some new emerging issues.
>
> One thing we are planning on doing in that respect is to create, under the HR Strategy, an expert track that would allow us more flexibility in bringing these people in and nurturing them once they are here. That is one concrete thing we are doing.
>
> On flexibility, I would welcome the comments made by a few chairs. I was desk economist for Canada in my previous life, and Ottawa is one of my favorite cities. Staff from OBP have few opportunities to travel, so we are more than happy to visit Ottawa. Mr. Kaizuka knows I am always looking for any excuse to go to Tokyo, so I will take some of my colleagues along. But seriously, we will be thinking of different ways to introduce more flexibility and improve the budget process. Perhaps we will be reaching out.
>
> On the issue of the deflator and the recycling of the merit, that is more of a question of our compensation system, and we should leave that issue to the discussion on the Comprehensive Compensation and Benefits Review (CCBR).

There was one question on the timing of any request for a supplemental IT capital budget. It is highly unlikely that we would need a supplemental IT capital budget request this year. We were leaving open the possibility in case the pace of implementation picked up, but frankly, our feeling is that the capacity of implementation will probably preclude the need for any supplemental request this year.

The following summing up was issued:

Executive Directors approved the financial year (FY) 2020 budget proposal, which is formulated against the backdrop of a global expansion that has lost further momentum. Directors agreed that the budget reflects a solid income position and a strategic agenda—operationalized in the Global Policy Agenda and the Board Work Program—to help members rebuild policy space, strengthen resilience, and implement structural reforms. Directors welcomed the accelerated budget preparation timeline, with close Board engagement and conclusion prior to the Spring Meetings.

Directors concurred that the FY 20 net administrative budget remain unchanged in real terms in relation to the Fund budget deflator, noting that this represents the eighth consecutive year of flat real budget envelopes. While many Directors stressed the need to remain flexible to ensure adequate resources for the Fund to deliver on its mandate, address possible risks, and meet the evolving needs of the membership, most Directors considered that a flat real budget stance in relation to the Fund budget deflator has served the institution well as it helps foster essential prioritization and reallocation. Looking ahead, a few Directors considered that the flat budget stance should be revisited, in view of increasing demands from the membership and budget pressures.

Directors supported the reallocation of resources toward country work, particularly countries under a Fund arrangement and countries in fragile situations. They agreed that the ongoing modernization has the potential over the medium term to simplify work practices and systems to achieve greater efficiency, thus freeing up additional resources to directly support the membership. Many Directors called for a further increase in resources to financial surveillance, in response to the IEO's recommendations. Directors noted in this regard that the next Budget discussion would need to take into account the recommendations of the forthcoming Reviews of Surveillance and the Financial Sector Assessment Program, due in spring 2020.

Directors reiterated the Board's role in providing the strategic direction for capacity development (CD), including with respect to the overall envelope for externally-funded CD, and the size of CD relative to other outputs of the Fund. In that context, Directors generally supported the planned leveling off in externally funded CD, and agreed with the identified CD priorities, including supporting fragile states. Directors stressed the importance of ensuring efficient delivery of CD and strengthening the integration with Fund surveillance and program priorities.

Directors approved a capital budget envelope for FY 20 which is about $15 million higher than assumed last year, reflecting needed building improvements and investments in the "Big 5" capital projects. They welcomed the ongoing modernization efforts of the Fund and its IT systems. Directors noted that the Big 5 projects represent a substantial investment, and underscored the importance of strong governance structures to ensure accountability, adhere to budgets, and manage risks to project execution. Directors looked forward to being briefed with more detailed information, including the robust business cases and cost-benefit analyses as they are finalized, and a number of Directors requested being briefed prior to any new capital funding for the projects being allocated for post-design work. Directors also look forward to an updated Capital Investment Framework.

APPROVAL: May 19, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Emerging Areas of Work

1. ***We appreciate the mention that under bilateral surveillance, structural resources are provided to support implementation of the enhanced governance framework and international taxation, although there is no detail of the level of these additional resources. Can staff please elaborate on this point?***

- The FY 20 budget includes $2.4 million to support implementation of the enhanced governance framework (Box 5), mainly to functional departments as they implement a structured assessment process and support area departments' work. An additional $0.5 million supports the integration of international tax analysis into bilateral surveillance.

2. ***Staff comments are welcome, notably on the underlying assumptions of departments on the number of countries for which climate and inequality would be covered in bilateral surveillance.***

- The estimates made were based on the assumption that 10–15 countries would cover inequality each year (EBAP/18/26, Box 1). This assumption appears consistent with experience and expected work on inequality in 2018-2019. Fewer cases are expected on climate (2–3 Climate Assessments in 2018-2019). However, staff in FAD are continuing to deepen analytical work in the area of climate change (e.g., as presented in *Fiscal Policies for Paris Climate Strategies,* SM/19/39), which would underpin greater support to country teams' work in the future.

3. ***We take note that the pilots on gender, inequality, fiscal space and macro-structural issues seem to have reached their steady-state resource level and appreciate that no additional resources were requested for FY 20. However, we wonder whether staff could provide cost estimates for further emerging issues, such as climate change related work, for example.***

- Staff estimates total spending on climate at around $0.7 million. More broadly, work in emerging areas is estimated at about $17 million (Table)—of which $7.3 million relates to country work, representing roughly 3½ percent of total spend on bilateral surveillance. This estimate includes the previously reported steady-state costs of up to $4.5 million for work on gender, inequality, fiscal space, and macro structural (EBAP/18/26), and estimated spending of close to $13 million in other areas, specifically aging/demographics, climate, the enhanced governance framework, Fintech, and digital economy/data/cyber issues.

Estimated Spending in New Emerging Areas (in millions of U.S dollars)	
Reported in EBAP/18/26	
Gender	0.4
Inequality	0.5
Fiscal space	0.6
Macro-structural	3.0
Total	**4.5**
Other areas	
Aging /Demographics	0.5
Enhanced governance framework	3.4
Climate	0.7
Fintech	4.7
Other digital economy, data initiatives and cyber security	3.4
Total	**12.7**
Grand Total	**17.2**
of which: country work	**7.3**
in percent of bilateral surveillance	3.4

4. ***Overall, we understand that the resource demand from these emerging policy areas are very limited and will not expand beyond our existing resource envelope. In principle, we welcome that these works do not crowd out the Fund's core mandate, but we do see a disconnect between the emphasis which our public communication puts on these topics and the rather negligible resources allocated to substantiate their analytical ground. Staff comments are welcome.***

- Staff focus on these emerging policy areas in countries where they are macro-critical and where the Fund has expertise. For this reason, our spending on these topics in the context of country work has been relatively contained. But considerable resources (about $10 million) have been devoted to cross-cutting work to support further Fund engagement on these topics.

- To ensure that stakeholders are aware of the importance that the Fund places on these emerging policy issues, it's important that we highlight our work in these areas in our public communications. This also serves us well in terms of enhancing our ability to collaborate with other institutions with expertise in these areas.

Financial Sector Surveillance

5. ***Could staff clarify why spending on financial sector are not tracked separately in the budget? And is there any plan to track such spending in view of the growing importance of financial sector surveillance in Fund's activities?***

- The Fund's Analytical Cost Estimation System (ACES) is used to track cost, mainly based on time recording provided by staff. To keep this system manageable and to avoid overburdening staff with very granular time reporting requirements, ACES was designed (with independent expert advice) to produce cost data at a relatively high level (as shown in Tables 8 in the Statistical Appendix to the Board Paper). While the cost of FSAPs is captured separately within "bilateral surveillance", country teams in area departments do not report time by topic. Accordingly, we rely on periodic surveys to estimate the cost of more granular workstreams. Given the growing interest in tracking costing by topic, staff is working to design time recording systems to capture this information in a user-friendly way.

6. ***Could staff indicate if demand for FSSR exceeds its annual supply of around 5 FSSRs? What is the expected average waiting period for the interested countries to benefit from such TA? Do the donors influence the choice of countries that receive resources from the relevant trust fund? Is FSSR to be extended beyond 2022 or replaced by increased fund-financed FSAP?***

- To ensure sustainability and quality, and in line with funding availability, MCM has targeted delivery of five/six FSSR diagnostic missions a year. In FY 19 there were six FSSRs; five are planned for FY 20. These are in addition to the follow up TA missions identified by the past diagnostic FSSR missions. Demand for FSSRs has thus far been broadly in line with MCM's ability to deliver, with the turnaround time between request and delivery currently around 12 months. Donors do not influence the countries selected, beyond the criterion of low and lower-middle income countries. TA delivery is demand-driven. The FSSR roll-out has been very successful thus far, and staff hopes that donors will continue to support it beyond the end of the first five-year phase.

Fragile States, LIC

7. ***We welcome the focus on country work reflected in the FY20 budget through an increase in resources of 13 million dollars. We were very happy to see that structural resources are provided to support program work, mainly for the African department including work on fragile states, in line with recommendations by the IEO. We particularly appreciate the details provided in Box 3 on spending on fragile and conflict states and strongly support the proposed increase in spending***

on fragile states by 10 percent over FY19 and FY20, as well as for shifting six fiscal economists from FAD towards LICs and fragile states. We hope the teams will rapidly gain momentum on these very important issues and would appreciate if staff could indicate whether those proposals are the result of a thorough analysis of the needs by the interdepartmental committee which creation was foreseen in the Management Implementation Plan on IEO's recommendations on fragile states. We would also appreciate if staff could indicate whether this increase of resources takes place in a pluriannual effort and whether departments other than FAD (notably SPR and MCM) are also planning to dedicate more resourced to LICs and fragile states.

- An interdepartmental committee, comprised of key Area and Functional Department Directors, has been working on several fronts in support of FCS countries. The committee has analyzed staffing gaps and staffing incentives and plans to soon propose potential solutions to Management.

- In terms of staffing, the FY20 reallocation of 6 FAD economist assignments from EUR to AFR countries reflects the analysis undertaken by the committee. It is expected to last beyond FY20.

- SPR continues to work with area departments to prioritize their needs on country assignments, including FCS and have filled nearly all countries at present. They also expect to spend about 0.5 FTE in FY20 on work related to FCS.

- MCM will devote 1 additional FTE to work on LICs, FCS and small states in FY20. Overall, MCM expects support to these countries via 700 TA missions (of which about 300 are to FCS); Financial Sector Stability Reviews; and program and near-program work. MCM also plans to contribute a chapter to the Annual Report on LIDCs and participate in the LIC Consultative Group, as well as prepare a paper on Lessons Learned from Capacity-Building Efforts in FCS.

8. ***Could staff provide an estimate of resources projected to be allocated to fragile states in FY 2021 and 2022, and the share of TA assistance in the total?***

- We are not in a position to provide precise estimates over the medium-term as departmental spending plans respond flexibly to changes in country status and needs. As outlined in the GPA and the budget paper, work in fragile states will remain a high priority and will be given appropriate attention in resource allocation decisions. Given the CD priorities set out in Box 4, CD is likely to be 40 percent or more of total spending for this group of countries. The FY 19 budget outturn paper will include more detail of actual spending in fragile states.

Capacity Development

9. ***We encourage staff to ensure an evenhanded delivery of capacity development activities to fragile states, LICs and small states. In the same vein, we want to call attention to the financing constraints faced by several Regional Technical Assistance Centers (RTACs), including CARTAC and CAPTAC-DR that include countries in our constituency. Against this background, we wonder whether the Fund should more forcefully contribute resources to RTACs as part of its CD strategy. Staff comments would be welcome.***

- The RTACs are based on a stakeholder model whereby member countries and external partners provide the bulk of the financial resources. This model allows the Fund to deliver additional CD than would otherwise be the case by relying on the Fund's own budgetary resources. For RTACs, the Fund covers costs related to the center coordinator, and where appropriate, start-up costs. Were the Fund to absorb a greater share of the RTAC budgets, in a setting of a flat real budget, it would require important trade-offs in other services to the membership.

10. ***In this regard, while welcoming recent increase in outreach to the board on CD-related issues, we still consider that the Board should be more engaged on CD priority-setting, as agreed at the conclusion of the 2018 Review of the Fund's CD Strategy. Here, we would appreciate if staff could elaborate of any plan toward this end?***

- CD priority-setting is an exercise that is integrated in the Fund's overall priorities and strategies. The Board drives Fund priorities through the GPA, as well as through regular policy reviews, and these feed into the CD priorities through the decisions of the Committee on Capacity Building and the process set out in Box 4. As an example, the 2018 GPA sets out an enhanced focus on fragile states in response to a recent IEO evaluation – this set of countries is then prioritized both in terms of targeting CD, as well as in other resource allocation decision (e.g. increased country resources for AFR and reallocation of FAD economists). As agreed, information on priorities are included in the Budget paper as well as in the annual Budget outturn report.

- Going forward, the CD Strategy Review envisages that bilateral surveillance discussions, particularly for heavy CD users would also provide an opportunity for the Board to discuss the CD strategy and priorities for that country. A richer discussion of priorities in future CD Strategy Reviews is also contemplated, building on the work underway now to build out our CD data on activities and performance.

11. ***Could staff indicate whether the priorities mentioned in Box 4 are translated in a document that has been approved by management and whether those priorities will***

translate into an increase of the CD resources for the items and geographies listed in the upcoming fiscal year?

- Management approves a strategic summary of the three-year Resource Allocation Plan (RAP), which includes plans for spending, with the bulk of that spending focused on the core areas highlighted in Box 4. The "growth areas" identified by the Committee on Capacity Building are also approved by management, recognizing that measurable growth may take time as new tools are developed.

12. ***Could staff elaborate on the activities and departments that will be affected by the proposal to contain externally-financed CD? Will CD delivered to LICs be affected?***

- Externally financed CD delivered by all CD departments has grown in recent years and will now level off. While demand for CD will continue to exceed CD delivery, the level of externally financed CD is not falling and within this now stable envelope CD to LICs will continue to account for a significant share.

13. ***Could staff elaborate on the increased trust fund management fees that help offset additional resources provided to the Institute for Capacity Development (ICD) in support of its operations?***

- The trust fund management fee is used to cover the costs of administering sub-accounts for external partners. It is 7 percent of the direct cost of CD activities. As external financing for CD is expected to rise somewhat to $200 million, the amount collected will also rise (see text table on page 17). This additional collection offsets increased costs in ICD in raising funds, and monitoring and reporting on priorities.

14. ***Could staff elaborate on the efforts to further mitigate external funding risks that are part of ICD's work program?***

- Staff continue to broaden the group of partners that support CD, with the top 5 partners now accounting for about half of total funding, compared to about two-thirds three years ago. We are also increasingly agreeing on more flexible funding envelopes with partners, so that funding can be allocated to areas of greatest need, while delivering more CD through multi-partner funds. It is important to underscore that CD is financed upfront, and work programs can be adjusted in the event of any shortfalls in funding.

15. ***We take note of the modifications to the policy of charging for technical assistance (TA), building on the recommendations of the Working Group on Cost-Recovery for Externally Financed Activities. This includes the move from the current WEO classification of Advanced Economies to the top two deciles of countries ranked by***

GNI per capita to measure the capacity to pay for TA. We request that Bahrain, which is included in the new list of countries, not to be subject to this policy given its fiscal deficit of 12 percent of GDP, public debt of 93 percent of GDP, and low reserves of about one month of prospective non-oil imports. Given the pressure on resources and need for prioritization, we would be grateful if the Working Group on Cost-Recovery for Externally Financed Activities could assess the rationale and the resources used for Fund support to the G-20, which are essentially technical services but considered multilateral surveillance for budgetary purposes, including whether this support should continue to be financed by internal resources. Staff's comments would be appreciated.

- The working group determined that the top two deciles of countries ranked by GNI per capita (using World bank data) was a better measure of capacity to pay than the WEO classification of Advanced Economies, as under the current policy. While not prejudging any specific cases, the policy is not intended to apply to crisis situations (usually programs) where no other source of funding is available.

- The G-20 support provided by the IMF is part of the mandate to provide oversight of global systems. For a large part, this does not involve new policy or analytical work, but rather derives from existing work already under way. Staff estimates the cost of support to the G-20 at around $1¼ million per year, including G-20 notes in the Board Work Program, and support to the G-20 Presidencies.

Resource Allocation, buffers, and the Medium-Term

16. ***While the desirability of a flat real budget has been emphasized so far, does the staff now foresee a change in this stance materializing in the medium term. Staff comments are welcome.***

- The budget stance will depend on various factors going forward. The modernization efforts, while requiring upfront investment costs, will change the way we work internally and with the membership and other stakeholders. Savings will materialize in phases but are expected to be significant. These could then be reallocated to higher priority needs and to meet the changing needs of the membership, mitigating budget pressures. The net impact remains to be seen. Also, budget risks would increase should there be an unexpected and persistent rise in program activities.

17. ***We note the heavier upfront use of the carry forward in FY 20 vis-à-vis FY 19 to finance transitional demands. Considering the near full budget utilization, how likely is an actual reduction of the carry forward in FY 20 and the medium term? Transitional costs need to remain closely scrutinized to avoid excessive pressures on permanent resources.***

18. ***Given that the carry forward has been generated from partially unspent allocations, this higher allocation could impact the carry forward amount generated in the next financial year as well. Could staff comment?***

- As the carry forward has been distributed more deliberately upfront to departments to help them meet transitional demands, it is true that actual spending may exceed the above approved budget in the medium term, and thereby reduce the available carry forward. We expect carry forward resources to be roughly intact at $30 million this year. For FY 20, over half of the currently identified transitional needs are one-off, with current estimates pointing to around $10 million that will carry into FY 21—this includes the need to continue to support modernization efforts, as well as an assumption of a continued spike in country engagement, specifically in AFR.

19. ***In view of the latest developments vis-à-vis the 15th General Review of Quotas and subject to the guidance to be provided by the IMFC, we wonder whether a revision to this section is warranted.***

- Following intensified analytical activity in FY 19, FIN is able to reallocate resources internally to continue work on the 15th Quota Review and on IMF resources and governance. If warranted, staff would take another look at these work streams in light of possible additional guidance by the IMFC.

20. ***In total, there is a need for a net structural increase for all departments/offices in the amount of 2.7 million US dollars, which is expected to be funded with central savings. Staff's additional elaborations on the reliability of these savings would be appreciated.***

- Central savings to fund additional priorities in departments of $2.7 million will come from IT cost recovery on externally financed TA, estimated at around $2 million. In addition, savings from not applying a deflator to travel budgets are also set to be realized—this is possible given continued prudent travel management practices by departments which has led to lower travel spend in recent years. Finally, some administrative savings will come from shifting the purchase of the Fund's fleet of vehicles to the capital budget, consistent with its fixed asset nature.

21. ***Reallocations of resources to higher priority activities amount to 3 percent of total spending (1 percent abstracting from terminating measures). A level of reallocation that leaves 97 percent (or 99 percent) of resourcing unchanged appears to us to be somewhat low. Can staff please comment on the two percent annual minimum reallocation requirement for departments and whether there is merit to increase it.***

- Along with any new gross demands, departments are asked to also submit gross reallocation and savings measures. There is a strong expectation that these should amount to at least 2 percent of departments' net administrative budget. For FY 20, the average amounted to 3 percent. Staff are looking at ways to further increase budget flexibility. One option could be to increase the percentage that departments are expected to identify, although there are limits to such an approach given that much of our work is mandated.

22. ***An increased and sustained demand for Fund programs constitutes the most critical risk for the institution. We note that Fund engagement with members with arrangements is expected to be more intensive in FY 2020. Could staff elaborate further on how the higher staffing requirements for program cases will be met? Moreover, to what extent is it realistic to assume a constant travel budget in nominal terms for FY 2020 given the projected increase in program work?***

- Resources provided to area departments in the FY 20 budget reflect the expected intensity of country engagement. Overall, the budget provides additional resources of about $8 million (most of which is transitional) in support of increased program engagement. With regards to travel, departments facing more intensive program engagement have some scope to redistribute their spending from discretionary travel (such as conferences) to program missions. In addition, AFR will receive $400,000 in additional funding in FY 20, specifically to reflect increased need for program-related travel. At the same time, EUR will be providing savings of $200,000 from its travel budget.

23. ***While the financing risks for CD activities are considered low by staff, we are concerned that the overreliance on external financing may create unnecessary uncertainties and complexities. This also implies that the current flat budget policy cannot fully satisfy all the legitimate needs of the Fund. Could the future budget be increased to eliminate the deficit in CD activities so that internal and external financing can be more balanced? Staff's comments are welcome.***

- While staff are actively pursuing ways to increase predictability and flexibility in external financing, some uncertainty and complexity is inherent to the funding model. As a free good, demand for CD will always outstrip supply. At this juncture, staff is of the view that the most pressing CD needs of the membership can be met through careful prioritization and focus on traction.

- The modernization agenda and other streamlining efforts are expected to free up significant savings that will materialize in phases. These could then be reallocated to higher priority needs and to meet the changing needs of the membership, including CD.

24. ***Going forward, what additional measures is staff considering to minimize the income shortfalls from Concordia.***

- The Concordia income shortfall in FY 19 is mostly due to the Annual Meetings being held abroad, market conditions (increased room capacity in the DC area), and loss of an important client. Besides the return of Annual Meetings business next year, which accounts for about a third of the shortfall, various initiatives were launched to increase Concordia's occupancy rates. This includes engaging with departments to boost usage of the hotel, and intensified marketing and direct engagement with embassies and other international organizations.

Capital Budget and Big 5 Projects

25. ***We would like to ask staff for an approximate timeline for a briefing to the Board on the projected savings expected from the programs.***

- Staff will respond to this question during the Board meeting.

26. ***Could staff clarify when the summaries of business cases and cost-benefit analysis for each program will be finalized and shared with the Board?***

- Staff will respond to this question during the Board meeting.

27. ***We highlight that robust cost benefit analyses and efficient business cases should be a crucial input into the final investment decisions. Could staff elaborate on an envisioned format of the Board's engagement in this area?***

- Staff will respond to this question during the Board meeting.

28. ***Regarding facilities investment, we note an important increase in the HQ1 renewal project to replace aging building systems. Could staff provide more details which systems have been replaced and which ones are being considered for FY2020–22?***

- The main HQ1 building systems that were replaced as part of the Renewal project include:

o Full replacement of the mechanical building systems with the exception of the existing chillers which were inspected and deemed to be in good condition at the time, and cooling towers which had recently been replaced.

- o Full replacement of plumbing system with the exception of some restrooms that had recently been updated.
- o Full replacement of power distribution, lighting fixtures and controls, fire alarm and sprinkler heads.
- o New security and data cabling.

- Building systems that were outside the scope of the HQ1 Renewal project (because they had not yet reached end of life when the project was scoped out) and need replacement in FY 21–22 include:

- o High and low voltage substations, including transformers.
- o Air conditioning chillers and associated chilled water pumps.
- o Installment of a permanent backup generator to replace a temporary generator.

29. ***At the same time, we understand that the Big 5 project and other modernization initiatives at the Fund, while costly in the short run, could potentially free up resources in support departments, as well as other departments through automatization and lower administrative tasks. Do staff have any estimates on how these initiatives could impact output and input shifts, as well as the FTEs' needs in the Fund's departments?***

- Estimates of savings and how they will impact output shifts require not only thorough cost benefit analyses but also careful planning and discussion with affected departments. It is too early to provide this information, given the stages that the Big 5 projects are currently in. Once savings estimates are quantified and capture plans agreed with affected departments, the resources will be returned to the center for reallocation to priority areas as part of the regular budget process.

30. ***How does staff assess the risk of overshooting the proposed budget envelope for FY 20?***

- Current timelines and capacity to deliver suggest a low risk of capital budget overrun for FY 20. The Board will be kept informed of progress and any risks to project budgets will be highlighted. However, should delivery capacity exceed current expectations, any additional capital funding needs for FY 20 would likely imply advancing funding needs from FY 21 to FY 20, rather than an increase in overall project cost.

31. ***We are looking forward to the completion of the HQ1 Renewal in FY 20. Due to delayed security-related facilities projects, the corresponding appropriated resources within the facilities capital budget expired. Could staff please clarify how***

those freed resources were used – if at all – and how the security projects will be financed going forward?

- The remaining funds of $5.8 million appropriated for security improvements for FY 17–19 will lapse and are not being repurposed. Funding for security enhancements are therefore being requested anew under the facilities capital budget, specifically $5 million for FY 20 (current estimates for FY 21 is an additional $9 million).