November 17, 2021
Approval: 11/24/21

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/51-1

2:30 p.m., April 27, 2020

1. FY2021-FY2023 Medium-Term Budget

Documents: EBAP/20/30 and Supplement 1; and Supplement 2

Staff: Schimmelpfennig, OBP; Ulmschneider, OBP; Shannon, OBP

Length: 2 hours, 10 minutes

Executive Board Attendance

K. Georgieva, Chairman

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
	B. Lischinsky (AG)
N. Ray (AP)	
A. Bevilaqua (BR)	
Z. Jin (CC)	
	A. Guerra (CE)
L. Levonian (CO)	
R. Kaya (EC)	
A. Buisse (FF)	
R. von Kleist (GR)	
	N. Thiruvenkadam (IN), Temporary
D. Fanizza (IT)	
T. Tanaka (JA)	
J. Mojarrad (MD)	
	S. Geadah (MI)
	V. Rashkovan (NE)
M. Poso (NO)	
A. Mozhin (RU)	
M. Mouminah (SA)	
A. Mahasandana (ST)	
	P. Trabinski (SZ)
S. Riach (UK)	
M. Rosen (US)	

J. Lin, Secretary
P. Cirillo, Summing Up Officer
D. Jiang, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: A. Fedelino. Asia and Pacific Department: A. Gulde, T. Schneider. Communications Department: A. Ranck, A. Kumar. Corporate Services and Facilities: M. Alamsi, B. Christensen, A. Diolori Epse Oyekola. European Department: P. Dohlman, D. Iakova. Fiscal Affairs Department: A. Lemgruber Viol, S. Tareq. Finance Department: S. Bradbury, M. Manno, D. Nana, A. Tweedie. Human Resources Department: K. Kochhar,

K. Letlaka Rennert. Institute for Capacity Development: M. Davies, K. Westin. Independent Evaluation Office: C. Collyns, M. Kell. Information Technology Department: E. Anderson, T. Rolim. Legal Department: P. Morris, M. Saliba, B. Steinki. Middle East and Central Asia Department: A. Arvanitis, G. El-Masry, R. Mariduena, M. Vera Martin. Monetary and Capital Markets Department: M. Erbenova, N. Rawlings. Office of Budget and Planning: R. Brofft, M. Burke, M. Chuayffet Godinez, A. Economopoulos, S. Khazai, P. Kongsamut, A. Schimmelpfennig, M. Shannon, A. Shtuni, J. Tyson, G. Ulmschneider, M. Vimond, B. Williams, J. Zhou. Office of Internal Audit and Inspection: A. Balakrishnan. Office of the Managing Director: O. Demirkol, M. Furusawa, J. John, M. Jones, A. Kammer, G. Okamoto, C. Oner, A. Sayeh, M. Schrader, T. Zhang. Office of Risk Management: V. Arora. Strategy, Policy, and Review Department: L. Lusinyan. Statistics Department: T. Elkjaer, A. Richter. Western Hemisphere Department: A. Husain, M. McIntyre.
Executive Director: S. Bhalla (IN), P. Inderbinen (SZ), L. Villar (CE). Alternate Executive Director: R. Alkhareif (SA), A. Andrianarivelo (AF), S. Benk (EC), M. El Qorchi (MD), P. Fachada (BR), N. Heo (AP), C. Just (EC), A. McKiernan (CO), L. Palei (RU), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), F. Sylla (AF), K. Tan (ST). Senior Advisors to Executive Directors: W. Abdelati (MI), A. Muslimin (ST), M. Choueiri (MI), R. Farber (US), F. Fuentes (BR), K. Harada (JA), G. Heim (SZ), L. Johnson (AP), N. Jost (NE), S. Keshava (SA), R. Morales (AG), P. Pollard (US), S. Potapov (RU), C. Quaglierini (IT), M. Sidi Bouna (AF), T. Sitima-wina (AE), M. Tabora (CE), J. Weil (CO). Advisors to Executive Directors: A. Abdullahi (AE), A. Arevalo Arroyo (CE), O. Bayar (EC), T. Chrimes (UK), D. Cools (NE), I. Fragin (GR), B. Jappah (AE), A. Korinthios (IT), R. Lopes Varela (AF), M. Mehmedi (EC), P. Mooney (CO), C. Moreno (AG), H. Mori (JA), M. Mulas (CE), G. Nadali (MD), S. Senich (US), I. Skrivere (NO), L. Van Hoek (FF), Y. Zhao (CC).

1. FY2021-FY2023 MEDIUM-TERM BUDGET

Mr. Bevilaqua, Mr. Fachada, Mr. Saraiva and Mr. Fuentes submitted the following statement:

> We would like to thank the Office of Budget and Planning (OBP) for the documents and for the swift consideration of the preliminary impact of the COVID-19 outbreak on the FY 2021 budget. Our chair broadly supports the proposals for the administrative budget for the new financial year, the capital investment framework and the capital budget. We commend the willingness and flexibility shown by management and OBP to swiftly reallocate resources to meet rising membership needs.
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> The global spread of COVID-19 has set extremely challenging conditions for the upcoming budget. The pandemic is expected to impose significant human and economic costs to the global economy, prompting new demands for Fund resources while reshaping the medium-term macroeconomic scenario of most, if not all, IMF member countries. Against this background, focus must remain on supporting countries to fight the spread of the virus, provide emergency assistance, and prepare for the recovery. As global conditions remain challenging and fluid, we would support further reprioritization of budget resources as needed.
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> The Fund may face avoidable trade-offs to remain operating under a flat budget in FY 21. While the flat real budget should remain an overarching principle to foster internal discipline, accountability and efficiency, it should not prevent the institution from fulfilling its "bread and butter" activities, especially under the current global conditions. As risks materialize and more clarity on country needs is attained, the Executive Board, management and OBP should keep an open mind regarding the flat real resource envelope, considering that: (i) the scope for additional savings may have become more limited; (ii) there is significant new spending pressures in core areas; and (iii) substantial capital investment is needed to support modernization projects in the short term.
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> While some carry forward resources are expected to still be available in FY 21, the overall net impact of the outbreak on the budget remains uncertain. We take note of the basic rule of thumb that each new program engagement would require additional resources amounting to $1 to $2 million. Additionally, we believe that the global financial crisis with 25 new programs between FY 08 and FY 10 provides a conservative indication of potential new GRA and PRGT arrangements going forward. On the other hand, the current

pandemic has shown that the Fund can generate savings in travel costs and events without compromising efficiency and quality of staff's work. Indeed, probably one of the legacies of this crisis in Fund operation is the fact that many missions to members countries could be shorter, more focused and/or conducted remotely without any major impact. Similarly, the successful virtual Spring Meetings suggest that there may be room for savings in organizing events, conferences and workshops. All in all, we are confident that budget issues will not prevent the Fund from fulfilling its mandate.

We commend management and OBP for the willingness to reallocate resources to support priority areas. We welcome the additional resources proposed for FY 21 to ramp-up financial surveillance and FSAPs work, and the opportunity to discuss later in the summer the resources and costs related to the ongoing Comprehensive Surveillance and FSAP reviews. Nevertheless, we trust that support for analytical and policy work related to the economic and financial impact of COVID-19 should be prioritized in FY 21, as the Fund continues to provide financial assistance and policy guidance to the membership under unprecedent crisis conditions.

Further emphasis on integrating capacity development (CD) with Fund surveillance is warranted. Strengthening economic policies through CD activities can bolster the traction of IMF policy advice and generate cost savings. This is particularly important to help low-income developing countries and especially fragile states address COVID-19 crisis-related challenges and spillovers. Likewise, enhancing the synergy between the IMF's surveillance and lending work can boost the ability to identify critical CD areas and high impact activities within each country, opening space for additional savings.

Our chair fully supports the priority given to fragile and conflict-affected states in country operations. As we stated in our oral intervention at the time of the informal session to engage in March, we would like to see this priority translated into an effective presence in the field and a more evenhanded delivery of capacity building activities when global conditions are back to normal. For fragile countries, presence in the country, in the form of a resident representatives and/or long-term experts, is fundamental to enhance traction with the authorities and overcome the sources of fragility, particularly those related to weak institutions and low technical capacity.

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

We thank the Office of Budget and Planning (OBP) for its efforts to formulate the FY 2021-23 medium-term budget in the unprecedented and very uncertain environment. The IMF and its members are facing "a crisis like no other" – the Great Lockdown. The crisis impact has already been profound, manifested in the deepest recession since the Great Depression. The Fund is facing an unprecedented surge in demands from the membership for financing, policy advice, and high-quality surveillance. Rising budget pressures point to the urgent need for a substantial structural increase in the Fund's budget envelope. We support the increase in the maximum allowable carry forward of general administrative resources from 3 to 5 percent and, more importantly, look forward to a more sustained and sizable supplementary budget request in the coming months.

The COVID-19 crisis will have a significant impact on the Fund's operations and budgetary needs in FY 21 and beyond. This impact should be addressed against the background of already diminished budgetary buffers in light of the rigid real flat budget strategy that has been in place for eight consecutive years. The scope for spending reallocations and prioritizations without adverse implications for the quality of the Fund's work and policy advice had waned even prior to the COVID-19 crisis. Continuation of the travel restrictions is expected to be the sole source of one-off savings that can be reprogrammed to meet the crisis needs.

It is critical to put the Fund's crisis response work on a more sustainable footing, including through a rapid and sizable increase in staff resources. We note that the immediate response to the COVID-19 crisis was based on staff's extraordinary efforts, a surge in uncompensated overtime, ad-hoc and informal staffing arrangements, as well as the deferral of what was deemed as non-urgent work. Staff's work on Article IV consultations, mandatory FSAs, and major policy reviews were postponed. Such an exceptional response provided the first line of defense, but will not be sustainable for an extended period. We note that during the GFC overall spending increased by around $110 million, while overall staffing increased by around 150 FTEs. We are particularly concerned about the sharp surge in overtime and workload for staff in addition to the unprecedented challenges of the current stay-at-home environment. Could staff elaborate on possible additional measures aimed at supporting staff in the current situation?

The Fund's crisis-related work needs to move from initial emergency response to ongoing crisis management and recovery. We are concerned that the delays in the Fund's surveillance work and major policy reviews may create substantial challenges for the Fund and its members at the time when they are actively seeking the Fund's policy advice. Moreover, we expect the Fund to deal soon with many complex and sizable programs under traditional lending instruments. As highlighted in the Supplement, the Fund will need to support members in addressing a range of complex challenges, including debt vulnerabilities, financial imbalances, unconventional policies, unemployment, and inequality. We would appreciate staff's additional comments on the key mitigation efforts to address the expected gaps in the Fund's surveillance cycle.

We are also concerned that spending reallocations on priority areas and departmental needs in FY 2021 do not incorporate the COVID-19 related effects. We believe that more active Board engagement in the discussions of spending reallocations between the Fund's priority areas is needed going forward. Could staff elaborate on their call for a fundamental review of the Fund's work program?

The crisis impact on Capacity Development delivery should be closely monitored. We are concerned that a prolonged period of travel restrictions can reduce CD delivery, leading to lower-than-expected external financing of staff and reduced Trust Fund management fees. In this context, we welcome the efforts by the CD departments to expand remote delivery. At the same time, we agree with staff that sustained reliance on the CD resources to fill staffing gaps in other departments would not be sustainable given that the Fund is likely to face a sharper and more broad-based rise in UCT-quality program engagement that will be accompanied by a surge of program-related CD requests.

We support the capital budget envelope that reflects the need for improvements in the Fund's building facilities, information technology, and investments in the Big 5 projects. We also welcome the revisions to the Capital Investment Framework and expect that these changes will help strengthen the investment decision-making process and integrate risk and change management into the project governance structure. We encourage the OBP and ORM to continue close monitoring of risks associated with the key modernization efforts and prepare strong mitigation measures in case of the sustained delays and the lack of efficiency gains.

We note that the FY 21 budget will use the January WEO projection for the U.S. CPI as the deflator for the prior year's personnel and non-personnel budgets. We remain concerned that in case of higher than the CPI wage adjustments required to maintain competitiveness, this could put unreasonable pressure on other expenditures in the Fund's budget. Staff highlighted in the report additional risks related to the U.S. CPI forecast revisions late in the budget cycle that could require potentially significant changes to the budget after the Board's approval. We are concerned that the inflation forecast errors can undermine predictability in budget planning and would appreciate additional comments on how these risks can be mitigated.

Mr. Mahlinza and Mr. Abdullahi submitted the following statement:

We thank staff for the well-crafted paper and the analysis of the FY 2021-2023 Medium Term Budget. We note the extraordinary circumstances and uncertainty under which this budget has been prepared and broadly support the FY2021 proposals.

We welcome the FY21 budget which has at its core the pre-crisis membership priorities as laid out in the 2019 Managing Director's Global Policy Agenda (GPA), the IMFC communiqué, and the Executive Board's 2019 Work Program. Although, the budgetary implications of the current health crisis for FY21 are not yet clear and will depend on the duration and depth of the economic impact of the COVID-19 outbreak on the membership, we expect budget pressures to increase as the situation unfolds. Consequently, resources would have to be reallocated to address the fallout from the crisis at the expense of less urgent but important macro-critical issues and policy areas. While we support the budget reprioritization, we encourage staff to pay close attention to supporting members meet their longer-term priorities, including climate change, Fintech, cybersecurity, governance and inequality.

We concur with the identified risks for the budget including COVID-19 related activities, unanticipated large and sustained demand for Fund programs, and information security risks among others. Further, we welcome the expanded discussion of risks in this report as well as the enhanced use of risk-based tools in the FY21-23 budget process. This new focus on risk is timely given the uncertainty caused by the global pandemic and the transitional nature of this year's budget. In this regard, tracking of funding for key risk mitigation efforts and the risk-based assessment of country needs once fully implemented would be instrumental in enhancing the oversight function of the Board.

We note that during the Global Financial Crisis the overall staffing levels increased by 145 FTEs in the two years following the crisis. Similarly, we anticipate that hiring by the Fund will surge and, in this regard, we urge management to pay close attention to diversity and inclusion in hiring new staff particularly from underrepresented regions so that the recent progress made in improving diversity and inclusion is not reversed.

We take note of staff's acknowledgment that the flat real budget, which has been in effect for the past 8 years, is now a binding constraint to the fulfilment of the Fund's mandate. Although the exact magnitude is not known yet, it is clear that additional resources would be needed to meet emerging budget pressures to deliver on pre-crisis priorities as well increased post-crisis demand for services from the membership, as was the case in the Global Financial Crisis. We therefore support the proposed exceptional increase of the maximum allowable carry forward to make the FY20 underspending and emergency buffers available for use in FY21. We also look forward to staff proposal for an exceptional and temporary increase in structural resources to meet crisis related demands over the next 2-3 years.

We support the proposed net administrative budget of $1,186.2 million for FY2021 which is equivalent to $1,158 million in constant FY 20 dollars as well as the associated maximum carry forward of $69.4 million. We particularly welcome the Fund's continued commitment to workstreams to enhance and address social and development challenges and the focus on fragile and conflict affected states (FCS), governance and financial surveillance. In this respect, while noting the six months delay in most of the work areas, we welcome the additional resources to climate change, governance and anti-corruption, and FCS.

We support the proposed capital budget allocation of $98.7 million to mainly finance end-of-life cycle replacements and information technology related expenditures. We commend staff for completing the HQ1 Renewal project ahead of schedule and below budget which reflects prudent use of Fund resources and sound project management. We expect similar performance in the execution of other large capital projects.

Finally, we support the key elements of the updated capital investment framework as set out in paragraph 1 of Appendix X. We consider that the framework responds very well to the concerns regarding the efficacy of oversight and management of large projects. The revised framework clarifies the roles and responsibilities of all stakeholders and strengthens the decision-making process and risk management.

Ms. Mahasandana, Mr. Tan, Mr. Anwar and Ms. Latu submitted the following statement:

We thank staff for their comprehensive set of reports that have rightly acknowledged the extremely uncertain and transitionary nature of the FY21 budget. The increasingly complex and volatile global environment due to the evolving COVID-19 outbreak challenges the role of the budget in operationalizing the MD's GPA and the Board Work Program in response to the membership's needs. The risks to the budget are sharply elevated as a result. We broadly support the proposed decisions on the administrative and capital budgets for FY21 and the Capital Investment Framework (CIF).

The agility of the budget to support the Fund's activities is critical as the full extent of the impact of the ongoing COVID-19 outbreak on the FY21 budget remains highly uncertain. Close monitoring of budgetary developments and optimizing further efficiency savings are vital. This would support the budget's flexibility to ensure quality delivery of the Fund's strategic priorities and timely response to the membership's changing priorities as the pandemic unfolds. We agree that the resourcing requirements should be reassessed once firmer estimates of the crisis-related needs are available, and look forward to staff's forthcoming proposals, including an assessment of the appropriateness of the flat real budget. We also see merit in the Board being updated with any budgetary developments associated to the pandemic at regular intervals, with the first coming no later than September.

Based on information to date, the flat real budget remains appropriate in the current fluid context. We welcome the enhanced budgetary procedure that has improved budget execution in FY20. This includes the improved utilization of the externally financed budget envelope, which is helpful in securing donors' continuing support. In view of the associated implications of the pandemic on the Fund's operations and budget, we support the proposed increase in the maximum allowable carry forward of general administrative resources from 3 percent to 5 percent. This would relieve some of the pressures on the required resources to support the Fund's immediate crisis response. Concurrently, this limits the Fund's capacity to respond to members' unanticipated needs in the rapidly changing conditions. In this context, we welcome the risk-based tools (paragraph 48) to mitigate the elevated risks to the budget. Continued strong prioritization and reallocation of resources, and close budget monitoring and controls are required. We also underscore the importance of timely notification to the Board of any need for new resources and should the necessary contingent measures be activated. In this context, a robust mechanism is warranted to trigger such review to ensure the swift accommodation of unexpected demands. Staff's comments are welcome.

The priority areas are appropriate and should be updated as the crisis-related implications become clearer. We note the initial outlook on the FY21 budget as outlined in the supplement paper and encourage ongoing reassessment of the Fund's activities to ensure they remain attuned to the members' needs in providing immediate crisis responses and addressing post-crisis challenges, with a view toward building resiliency in the long-term. This should include a careful consideration of the downstream implications of accommodating the deferred activities post-crisis and the resumption of other priorities. Attention should also be given to the Fund's human resources capacity and the absorptive capacity of program countries to ensure the effective delivery of the Fund's role. The higher allocation for country operations is well justified as the current crisis warrants more rigorous surveillance, program support and capacity development particularly for the members that are most in need. We also support the increased allocation for analytical and policy work with continued focus on the crisis management and the longer-term economic and financial impact of the pandemic, and other pre-crisis priorities that would better support members to enhance their economic and financial resiliency. In this case, we also encourage examining the potential spillover effects of the crisis-related measures that have been and will be put in place globally.

Within the constraints of the flat real budget, strong reprioritization of resources remains critical. We commend staff's nimbleness in reprioritizing existing resources to address urgent crisis-related needs of the membership and swiftly facilitating the move to remote work arrangements, as outlined in Box 4 and the supplement paper. The departmental saving measures as outlined in Box 2 are welcome in creating budgetary space to meet any unanticipated demands. Looking ahead, staff should assess the changes made to the Fund's work process and service delivery to determine those that could be structural in nature, particularly those changes that have produced effective outcomes with more savings while not undermining the quality of service delivery.

We welcome the increased budget allocation for capacity development (CD) which supports the stepped-up efforts required during the unprecedented crisis. In the same vein, we take positive note that the external donors have increased their support for the Fund's CD activities. We encourage staff to continue expanding the group of donors and fostering more flexible funding envelopes with partners particularly for areas of the greatest need and with the highest impact. We acknowledge the prioritization of the Fund's CD operations as outlined in Box 3, which is evident of the integration of surveillance and program support to the design of the Fund's CD activities. CD activities should remain within the Fund's core mandate and be afforded with high importance to ensure policy quality and traction. We take positive note of staff's innovative approach to providing CD during the crisis through virtual training modes and other means where conventional delivery may not be feasible. This would also support the continued utilization of externally financed CD, and thereby minimize any impact on the Fund's budget.

We support the capital budget appropriations and updated CIF. We welcome the increase in the IT capital appropriation to support the modernization projects and implement the information security roadmap. Can staff elaborate the budget implications of measures to reduce the information security risks further to low from medium? We also welcome the proposed update to the CIF to align capital investments with the Fund's strategic priorities, promote accountability, and enhance Board oversight of large capital projects. Given the substantial amounts involved, these changes would support efforts to ensure the capital investments reap their intended benefits.

Mr. Chodos, Mr. Lischinsky and Mr. Morales submitted the following statement:

We thank OBP staff for the clear reports and their bilateral outreach to our office.

We are in broad agreement with the proposed FY 2021-FY 2023 medium-term budget, including the amount proposed as appropriation for net administrative expenditures and its composition, limits, and sub-limits, as well as the carry forward of net administrative expenditures for Financial Year 2020 that have not been spent by April 30, 2020. We also support the proposed decisions on the capital investment framework and capital budget appropriations for FY2021. It is commendable that budget execution has reached about 100 percent of approved budgets thanks to enhanced budget procedures, which contribute to making budget discussions more meaningful.

Nevertheless, we reiterate our concern that the unchanged net administrative budget in real terms, for the ninth year in a row, appears to be reaching its limits. Against this backdrop, we appreciate the staff's effort to adapt, to the extent possible, to the demands arising from the COVID-19 pandemic, recognizing that the crisis response should take first priority. However, we believe that following this emergency period, the narrowing of budgetary buffers is an issue worth revisiting since the room for finding further efficiency gains may be shrinking in the face of multiple demands for Fund support on many fronts. In particular, a budget 7 percent lower in real terms than its level of 13 years ago in a rapidly changing environment risks hampering the Fund's effectiveness in key areas, as too-frequent reprioritization may conspire against the quality of delivery and the full compliance with the Fund's mandate. Staff comments in this regard are welcome. We understand that the Big-5 projects would help alleviate these pressures in the long run, but as the report indicates, there are non-trivial risks entailed in the transition period. In this regard, we commend staff for improving the risk analysis and the systematic plan for managing budget risks.

Estimating the impact of Covid-19 on the budget is a difficult task. Differentiating temporary from permanent demands, in particular for staffing with the appropriate set of skills, will be challenging. The analytical work following the eruption of the pandemic produced so far by staff has been impressive in terms of both quality and volume, but more may need to be done for a few years to come. The necessary postponement of Article IV consultations would make the next round of discussions especially challenging because of travel constraints. Technical assistance may need to be re-tailored to offer more pragmatic solutions to new urgencies. It may be appropriate to reassess all these budgeting implications of Covid-19 in a separate discussion once there is more clarity about the global economic and health outlook.

Transitional costs for modernization projects and HR and IT service delivery reforms are expected to be large, and therefore we support the recalibration of governance and procedures in line with the changing landscape for capital investment. However, the risks of delays or not realizing efficiency gains in the modernization process warrant continuous caution. We look forward to the forthcoming cost-benefit analysis of remaining modernization projects, including costs associated to possible delays and/or suboptimal use of new frameworks. On a different point, we take note that changes in the way capital projects are structured would require adjustments, for example to adapt to the trend towards cloud-based solutions for IT projects.

We appreciate continuous donors' support of CD activities and the policy to align CD to the Fund's strategic priorities. External funding now funds about 60 percent of the Fund's CD operations. However, anecdotal evidence points to a rising demand for Fund technical assistance in traditional and non-traditional areas, while resources devoted to these activities have remained quite stable (Figure in Box 3). In addition, the crisis would redefine, possibly for a long time, the way technical assistance is provided. While countries increasingly appreciate the experts' presence in the field, travel restrictions may be maintained for a long time and demand for CD activities will likely rise further as countries try to rebuild macroeconomic frameworks and buffers in the "new normal". Staff comments on this are welcome.

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

We thank staff for the comprehensive paper, the timely supplement factoring in the impact of the COVID-19 crisis, and the outreach with our office. Following eight years of a real flat budget envelope, continued reallocations and prioritization, and virtually full budget utilization for four consecutive years, the Fund's budget buffers were very low, leaving little room to handle unexpected resource needs, let alone the current exceptional crisis. To meet the unprecedented demands of this crisis, we therefore fully support the proposed modest increase in the maximum carry forward and look forward to staff's proposals for a more sustained funding. The current exceptional times may continue to demand exceptional measures beyond the short term, with implications to the budget. Close budget monitoring is therefore needed to ensure that the Fund's budget resources allow it to respond to the needs of the membership in a satisfactory and timely manner.

We very much appreciate staff's extraordinary efforts in the past two months to reprioritize its time and budget resources towards meeting the demands of over half the membership. We agree that the FY21 proposed budget should redirect resources to support member countries in managing the impact of the COVID-19 outbreak and the related economic and financial market turbulence and fully support delaying non-urgent work. However, we remain concerned that the Fund budget has become too constraining to allow the Fund to effectively deliver on its mandate, even without the impact of the current pandemic.

In this regard, area departments have provided initial indication that the unprecedented scale of current emergency financing is likely to translate into a substantial increase in the number of upper-credit tranche program engagement. We welcome staff's preliminary estimates of related budgetary resources (Box 4 of the main paper and ¶11 of the Supplement). Work pressures have increased tremendously and are currently being accommodated by a considerable increase in overtime—which was already quite high, indicating that the increase in workload has been accommodated by overtime rather than hiring —and by extending employment contracts and efforts to hire retirees and separated staff as consultants. We ask that staff keeps us informed of how they are meeting the increased work pressures. These practices cannot be sustained over time, and we are concerned about the results of the April 2020 survey, in which 42 percent of headquarters respondents (47 percent in area departments) indicated that their ability to achieve work-life balance is poor or very poor.

Accordingly, as work pressures increase as additional countries have programs with the Fund, we may need a commensurate increase in staff resources (FTEs). The Supplement acknowledges that the Fund is expected to be dealing with the effects of the COVID-19 outbreak for at least the coming 2-3 years. The Global Financial Crisis, while providing a useful benchmark, is not comparable in depth and scope to the ongoing crisis, and this needs to be reflected in the future increase in staff resources. In this regard, we welcome the Managing Director's remarks during the townhall meeting on Wednesday that the Fund will be hiring additional staff, and we request that the needed resources be included in the budget irrespective of the amounts available in the carryover.

The baseline budget identifies fragile and conflict-affected states, financial surveillance, the macroeconomic impact of climate change, and the impact of sustained low interest rates, among the priority areas to which we will turn after the crisis subsides. We believe that the Fund should continue to work on these areas so that the recovery is inclusive and environmentally sustainable.

We support the key elements of the proposed Capital Investment Framework. In light of the large envelope that is dedicated to IT spending, close monitoring of its administrative cost is required to ensure efficiency and appropriate prioritization. The main costs in the IT capital budget pertain to the Big 5 projects (including 1HR and CDMAP). While we welcome the ambitious modernization efforts, given their expected effects on efficiencies and savings, it is important to ensure that these projects do not crowd out smaller but critical projects and risk mitigation initiatives, as emphasized in the 2019 Risk Report. Moreover, we seek close monitoring of IT support capacities, not just of the capital budget spending.

Last March, the Committee on Administrative Matters discussed a proposal to provide unallocated surplus resources from the OED to the Fund's central budget. We strongly support using these funds to enhance regional diversity and efforts to increase the share of staff from under-represented regions (URR), namely MENA+ and East Asia, as well as Sub-Saharan Africa. In this connection, the resources available for recruitment activity in

URRs, including the Special Appointee Program and other initiatives, could be augmented. We would like to see this proposal incorporated in budget documents.

Mr. Buisse, Mr. Fanizza, Ms. Levonian, Mr. Mouminah, Mr. Poso, Mr. Ray, Ms. Riach, Mr. Rosen, Mr. Tanaka, Mr. von Kleist, Mr. Rashkovan and Mr. Trabinski submitted the following joint statement:

We support the Fund's proposed Administrative Budget for 2021, including the proposal to temporarily increase the maximum carry forward upper limit due to the highly uncertain resource needs caused by the COVID-19 pandemic. We are pleased that the budget is now a true flat real budget, anchored with a CPI deflator. We take note of staff's intention to return to the Board with a supplementary budget specifying a temporary and time limited increase in the Fund's administrative budget once a fuller picture of the crisis-related needs emerges. In doing so, staff should clearly articulate and justify the case for additional resources, taking stock of the efforts that have been undertaken to reprioritize and reallocate resources within the existing budget envelope, and informed by a crisis board work program and discussion of potential future program requests. A flat real budget remains the medium-term goal.

We welcome the central role the Fund has to play in this unprecedented crisis, and we want to make sure it has the resources it needs to fulfil this role effectively, both in the crisis response phase and in the recovery phase. We take note of the significant pressure on area departments as well as the extensive policy work that is underway related to the crisis response. However, it is important to look ahead to make sure that the Fund has enough resources allocated to policy work related to the recovery. This includes efforts to support a sustainable and resilient recovery, reflecting key shared challenges and emerging priorities, as outlined in the Managing Director's Global Policy Agenda and annex. Debt transparency and the need to build resilience to natural disasters are important issues. We welcome the increased focus as part of the budget on the most vulnerable of its members and especially on fragile and conflict-affected states.

We need to ensure the best possible use of the Fund's available resources – consistent with what our capitals have to do in exceptionally challenging fiscal conditions. Budget reallocations, efficiency gains and savings need to be implemented consistently before additional funding should be considered. We acknowledge that management and staff have shown their flexibility and their ability to redirect resources, quickly shifting priorities to meet the demands of the membership arising from the crisis. We commend these efforts. In our view, and in light of a rapidly evolving situation, they need to continue.

Given the significant uncertainty, we ask management to keep the Board updated with any budget developments associated to the pandemic at regular intervals, with the first coming no later than September. We consider that the impact of the pandemic and potential for a significant increase in program work is an uncertain risk to the budget framework. We also see a need for a more integrated and clearer approach to budget issues, looking consistently at both spending and income, and considering risks and broader objectives. We therefore welcome efforts toward integrating risk analysis and its mitigation into the budget framework. In order for the board to take informed decisions, it is important to receive a comprehensive overview on costs, risks and objectives and consider them simultaneously.

The pandemic has forced the Fund to look for innovative ways to deliver on its core mandate and we should continue to look for more efficient business practices and procedures. We ask management, together with the change management unit, to analyze how recent work procedures could lead to structural savings for the organization or new ways of undertaking longstanding business processes. In our view, modalities for capacity development and surveillance should be thoroughly examined, including the greater use of technology for surveillance (e.g. staff visits) and more critical examination of non-essential travel, policy areas and work priorities (e.g. working papers and selected issue papers). We would also like to hear from staff how the budget provides for the IT needs related to the recourse to remote working at the Fund. We agree with staff that the budget impact of the current crisis demands close monitoring, including risk mitigation strategies to address possible staffing pressures in area departments. What is staff's current view on human resources and budget to handle the additional program requests?

We recognize that FY21 is a transitional year, with modernization efforts underway, including implementation of the CCBR and the Big 5. It is important that we continue to modernize, and management and staff should monitor the efficiency of the Big 5 and CCBR implementation, to look for synergies, keep capital projects on track to ensure savings materialize, and monitor transitional costs. Can staff elaborate on the pandemic-related costs impacting the Big 5 modernization projects? We welcome the inclusion of the Capital Investment Framework and we look forward to Board consideration of outstanding business cases and cost-benefit analysis before capital funding is approved. It is regrettable that the IT Security risk is only budgeted to reduce the risk to medium, rather than low as the Board has previously expressed a preference for.

We regret that there is no significant additional funding for financial surveillance in the FY21 budget as the Board has been calling for. We expect the forthcoming FSAP review to come to the Board with costed proposals to give effect to the IEO recommendations, including ways to enhance the quality and effectiveness of financial surveillance – through better streamlining and prioritization of resources to areas of greatest value add. In considering additional funding for financial surveillance as part of the FSAP review, we are disappointed that staff and management have taken nearly two years to meet the demands of the Board.

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

We thank the Office of Budget and Planning for the comprehensive set of papers, their engagement with our office and their hard work under particularly straining circumstances. We believe the budget process should be based on a two-pronged approach that ensures financial sustainability while effectively addressing the needs of the membership. Therefore, in the current challenging context, we agree with staff on the overall strategy to allow for some flexibility in the short term to address the immediate crisis needs, and to return to the Board with a supplementary budget request to address the more structural needs following the effects of the COVID-19 crisis.

Administrative Budget

The ongoing crisis has impacted the IMF in many dimensions, including adding more complexity to our budget process. However, we should acknowledge that even before the COVID-19 crisis, the budget was already strained with utilization close to 100 percent and very limited buffers. Although there is high uncertainty regarding the duration of the crisis, it is quite certain that its impact has been devastating to the global economy. The rippling effects of the pandemic have already increased the demand for IMF financing to record levels and will augment the membership’s demand for IMF support in other areas, including policy advice and technical assistance.

The immediate response to the crisis requires additional resources; we support staff’s proposal to increase the maximum allowable carry-forward of general administrative resources to 5.0 percent. However, this measure will allow for a partial short-term solution. As workload related to the crisis response augments and pressures in area departments intensify, exploring avenues to an exceptional increase in structural resources will be required.

We fully support the proposed strategy to return to the Board with a comprehensive proposal to have a more informed assessment of the additional budgetary requirements for FY21, once the impact of the crisis and related needs become clearer. The post-COVID19 world will reflect a structural increase in demand for Fund surveillance, advice and capacity development. Therefore, the Fund should be ready to not only assist the membership in the crisis response but also in the recovery phase. We can expect that after the initial demand for emergency financing, a more protracted demand for upper-credit tranche financing will follow. Higher levels of public debt, stressed financial systems and other legacy issues from the crisis will demand enhanced surveillance and additional policy advice. Moreover, capacity development will take a central place to effectively face a more challenging policy agenda. In this regard, we believe the following considerations should be taken into account:

Increased program engagement should not deter the IMF from continuing its work in other priority areas. As part of a swift response, we welcome the flexibility to reprioritize work streams and redirect resources. However, the justified staff reallocations as an initial response to the crisis cannot be seen as a sustainable permanent solution. An adequate budgetary envelop is crucial for the Fund to effectively fulfill its role and continue its work in the different policy areas, including supporting financial supervision, and work on climate change and inequality.

A budget that allows the IMF to respond in a flexible and timely manner in the following years needs to be preserved. As our membership will face very complex and challenging economic context in FY21 and beyond, the Fund has the responsibility to support the increased demand for policy advice and capacity development as the crisis abates and the recovery phase begins. In this vein, it is clear from the staff analysis that area departments already face significant pressures which are projected to increase, thus, additional sizable increase in staff resources for direct country support will be needed. As mentioned before, staff has done a commendable job in reallocating resources, gaining efficiencies and increasing savings. However, going forward, a more flexible approach to the budget is warranted to provide appropriate resources for the IMF to be able to deliver effectively to the membership.

Risks to the Budget

The budgetary process is being determined under extraordinary circumstances. Notwithstanding the fact that staff has improved risk analysis considerably and a comprehensive budget risk management plan has been put in place, we must acknowledge that under COVID-19, risks to the budget have increased substantially. Moreover, the budgetary planning process will be in constant flux given the record demand for emergency program financing and for addressing the post-crisis challenges. In this context, two issues are to be given special attention, in our view:

We reiterate that action should be taken so that area departments with a substantial increase in programs are allocated the necessary resources. While there should be balance in the appropriate assessment of the crisis-related needs and the required increase in structural resources, there is also a sense of urgency in the timely provision of resources, particularly FTEs, to departments facing pressures to ensure their adequate functioning. As noted by staff, it is clear program demand arising from this crisis will cause a structural change in resource allocation.

Although risks to donor financing of capacity development are relatively low in the short term, an increasingly dire fiscal situation worldwide can imply additional uncertainty over donor financing in the medium term. We should be attentive to respond to any shortcomings in capacity development resources, particularly in regions with a noticeable increase in program demand. Effective CD delivery is important for all members, but more so for countries with arrangements given its positive impact on program success.

Financial Surveillance

While we welcome staff's efforts to explicitly delineate the different components of financial surveillance spending, we continue to believe that the proposed additional resources for financial surveillance are not in line with the Board's demands and the IEO's recommendations. Moreover, as previously requested, we look forward to costed proposals in the upcoming discussion on the FSAP review.

In light of the COVID-19 developments, ramping-up monetary policy work will be needed for the Fund to assess central banks' responses to the pandemic. Furthermore, the current juncture requires not only to analyze the monetary policy response in advanced economies, as previously requested, but also to assess new unconventional measures undertaken by emerging market and developing economies' central banks related to the crisis response.

Capital Budget

We support the proposed capital investment framework and capital budget appropriations. We see merit in the proposed key elements. Notably, we believe that outlining roles and responsibilities will be instrumental to improve the capital investment framework. We highlight that for the Executive Board to effectively fulfil its role, it will be key to have adequate information to timely monitor and follow up the large transformational projects during the implementation phase, and not only at the time of approval. Additionally, it will be relevant to have a comprehensive risk assessment report as part of the approval process of large investment projects, including risks implications for the Fund as a whole.

Finally, as events continue to quickly evolve, it is of the essence that the Board is timely informed of budget developments and the evolution of risk factors. This update, jointly with information on the income position and precautionary balances, is crucial for the Board to take necessary action in an opportune manner.

Mr. Bhalla and Mr. Natarajan submitted the following statement:

We thank the staff for the detailed paper FY 2021-2023 Medium-Term Budget. The impact of the ongoing COVID-19 pandemic requires aligning Fund's priorities and activities to meet the current demands. It is expected that the uncertainty arising due to pandemic would weigh heavily on assessment of Budget for FY 21.

The baseline FY 21 budget has evolved based on priorities set in Fall 2019 GPA, Fall 2019 IMFC communique and Executive Director's December 2019 Work program. As the situation is changing rapidly due to the pandemic, there is a necessity to support new demands by reallocation of resources. The net administrative budget for expenditure is expected to remain flat at FY 20 level of US $ 1158 million. However, the staff review paper on Fund's income position reflects the volatility and uncertainty in the income from lending and investment activities in FY 21. Thus, there must be emphasis on spending efficiency in order to maintain the financial sustainability.

As crisis response takes top priority, we agree on the need to support member countries especially low-income countries and emerging economies, and priority activities like financial surveillance and capacity development. Capacity development has been ramped up with increased donor funding which constitutes about 60 percent of funding requirement of about $ 124 million for FY 21. Can the staff comment on continued availability of external funding for capacity development activities considering the changed circumstances and efforts taken to augment this?

On other key allocations, we broadly agree with the budgetary allocation of $ 480 million for Country Operations, $ 104 million for Analytic Work and $ 72 million for Multilateral Surveillance. Modernization projects are important to enhance efficiency and effectiveness of the Fund operations. We support IT capital budget of $ 56.3 million to improve human resource management, capacity development, data and knowledge management and information security. We agree with the staff proposal to carry forward of $ 32.3 million under the general administrative budget, $ 15.1 for office of Executive Directors and $ 0.3 million for the Independent Evaluation Office from the unspent allocation of FY 20.

We recognize the risks to the budget - due to Covid-19, high demand for Fund programs, information security risks, uncertainty to Fund's income and delays in implementation of modernization projects and expect the staff to monitor and review the situation and keep the board updated.

As we support these proposals, we also note the potential reduction in expenses for Spring meetings, staff travel and in some other areas of work. Could the staff provide an estimate of savings from these key budgetary allocations and how much effectively they can be redeployed to enhance the effectiveness of Fund operations?

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

We thank staff for a comprehensive report on the proposed FY 2021-FY 2023 Medium-Term Budget. We also thank Management for the opportunity to review the Fund's medium-term budget despite a heavy schedule.

The FY 21 budget baseline scenario should take into account the impact of Covid-19. We note that the baseline budget proposal maintains a flat actual resource envelope for FY 21 with reduced buffer and full utilization. Nonetheless, considering the growing number of demands for Fund financing at this juncture, it will be important that the projections of the baseline scenario are consistent with the current global threats. While we are aware that the impact of Covid-19 is difficult to project, a scenario with the budgetary implications of the Covid-19 is warranted.

Gross new demands of $81.2 million (structural and transitional) will be funded through reallocations within and across departments as well as through a higher upfront allocation of carry-forward resources and other streamline efforts. We also note that staff plan to defer some non-urgent or non-essential work if the crisis persists. We would welcome further details on non-urgent or non-essential work that could be differed and the associated costs. Furthermore, given the global economic recession and the unprecedented degree of uncertainty, we would like to re-emphasize the need to have greater flexibility in the budget to ensure that the Fund responds to the needs of its membership adequately. Could staff indicate whether and how the new financing requests made by about 100 countries for emergency financial support are taken into account in the FY 21 budget and how they affect the medium-term budgets?

We appreciate the attention devoted to fragile and conflict-affected states under the proposed FY 21 budget. The priorities set for FY 21 administrative budget on country operations, analytical and policy work, and planned critical reviews are appropriate. We positively note the additional resources allocated to fragile and conflict-affected states (FCS), which is in line with the IEO recommendations endorsed by the Board. However, we also note that half of these resources will be allocated on a transitional basis. Could staff comment on how this could affect the delivery to these countries if not enough resources are generated? We also agree with the priorities and extensive work on financial surveillance and climate change. The Fund should strive to align budget spending with the priorities expressed by membership and IEO recommendations in these areas.

On Country Operations, we take note of the opening of resident offices in some countries with increased engagement with the Fund. We would like to remind staff that a large number of Directors supported the call for a local IMF representative to support the implementation of the program in São Tomé and Principe during the last Board in October 2019. In fact, São Tomé and Principe remains the only fragile Sub-Saharan African country not affected by civil war to have IMF financial engagement without a resident representative. Could staff comment on the reason São Tomé and Principe is not contemplated for in the proposed budget?

We support the proposed level of the capital budget for FY 21 with the continuous efforts on modernizations and enhancement of the Fund facilities and the update to the Fund's Capital Investment Framework. Though more resources are needed to support transition costs related to modernization, we are encouraged by further efficiencies and saving that can result from those efforts over the medium-term. We would have appreciated more information on the possible savings envisaged from these projects. The update to the Fund's Capital Investment Framework is a commendable step to ensure better project management.

Finally, we encourage staff to provide regular updates to the Board given the elevated global risks. We appreciate detailed section on risks to the budget, including the actions at mitigating them. With Covid-19 being one of the significant risks, we take note that its impact will need to be reviewed as needs become much apparent. To this end, it will be essential to keep the Board regularly updated as estimations become ready, not only on its effects on the budget but also on how they would be financed as wells the respective trade-offs. Staff are also encouraged to monitor the budget execution closely, and to stand ready to implement needed measures should risks materialize, including rising budgetary resources to ensure the Fund provides a timely and adequate response to its membership amid this crisis.

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

We thank staff for the comprehensive paper as well as the supplement, which set a pertinent ground for the Board deliberations on the medium-term budget amidst a very challenging, uncertain conjuncture. We also welcome the improvements in the presentation of the paper, clearly delineating the internal resource allocation trends vis-à-vis evolving institutional priorities. We concur that uncertainty is a defining feature of the global economy at this juncture and thus, the budget should allow for sufficient institutional flexibility to respond to the fast-evolving needs of the membership.

In principle, we consider the constant real budget envelope a testament to the Fund's fiduciary prudence in spending public money. Nonetheless, given the extent and depth of the crisis facing the Fund membership, the institution needs to brace for a broad-based and sustained increase in demand for program engagements. We note that several budgetary and administrative measures are employed to cover the immediate resource pressures in the interim. However, we see a clear need for a temporary augmentation in the FY 2021 budget. In that regard, we broadly concur with staff's assessments in the supplement. and approve the FY2021 budget proposal as well as a temporary increase (i.e. of 2 percentage points) in the maximum carry forward. We are open to a discussion of a supplementary budget once budgetary reallocations and efficiency savings are exhausted and a clearer picture of both crisis and post-crisis related needs emerges so that we continue to deliver effectively on our core mandate. Given the uncertainties we call on management for regular updates of the Board on budgetary developments and to integrate risk analysis and mitigation into the budgetary framework.

Going beyond the immediate crisis-related operations, it is crucial that the Fund continues to fulfil its core mandate effectively. In that vein, we welcome the ongoing prioritization of country operations, analytical work to support policy advice – particularly toward post-pandemic recovery efforts, and major fund policy reviews in this budget cycle. We reiterate our support for the continued reallocation of resources to financial surveillance, in line with the IEO recommendations. We recognize that the ongoing works on the CSR and FSAP Review may have sizable and immediate resource implications, and that staff's initial assessments might have changed due to the Covid-19 crisis. We would therefore appreciate if staff could share with us an updated estimate of how much additional funding the two reviews may call for.

We welcome the updated capital investment framework. It is critical that the new system entails securing ex-ante project justification, including a business case and cost-benefit analysis. Integration of change and risk management aspects into the project governance structure is also a welcome provision. We look forward to Board consideration of outstanding business cases and cost-benefit analyses before capital funding is approved.

We appreciate the elaboration in the background paper on the evolution toward subscription-based delivery models within the IT budget. The discussion appropriately highlights the potential implications of this trend on the sustainability of the `flat real budget`. Building on these, we encourage staff to explore alternative accounting treatment of such quasi-capital expenditures not to undermine the already-strained administrative budget. More specifically, on the IT budget, we wonder whether the broad-based and intensive institutional experience with remote working has exposed any deficiencies and gaps that call for a change in the way we plan for future IT investments.

On capacity development (CD), we note that due to travel restrictions the engagements with country authorities have exclusively relied upon remote delivery models. The inherent flexibility of such an engagement model has also enabled the ICD staff to assist other departments with increasing country work. Nevertheless, we agree that once conditions normalize, there will be a very sharp and sustained increase in the demand for the Fund's technical assistance, particularly in the core macro-financial areas. This calls for a careful strategic planning of internal resources, starting from this financial year. We reiterate that within the premises of the current budget proposal, we are concerned that the Fund's reliance on external funding on CD delivery will likely remain a key risk factor in the planning horizon.

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

We thank staff for a well-written report and welcome the discussion on the Fund's FY 2021-FY 2023 Medium-Term Budget amid a fast-moving and exceptionally uncertain global outlook exacerbated by the ongoing Covid-19 crisis. We are, however, pleased to note that the income position will not be a binding constraint in the medium term and endorse budget formulation long-standing twin objectives of meeting members' evolving needs and safeguarding Fund's financial sustainability. We broadly concur with staff analysis, support the proposed decisions, and offer the following remarks:

Commendable efforts are being made to meet structural and transitional needs by reallocations within and across departments, upfront allocation of carry forward resources, as well as other one-off central resources. However, eight consecutive years of flat real administrative budget, four successive years of full budget utilization, and increases in the upfront allocation of the carry forward have eroded the remaining budgetary buffers to handle unforeseen resource needs.

Ambitious internal modernization projects are expected to yield savings over the medium term and create room to take on new challenges. However, more resources are needed in the short run to support related transition costs and ensure timely implementation of the membership's priorities as laid out in the Managing Director's global policy agenda, the IMFC communique, and the Board's work program.

Budgetary savings from holding the Fund-Bank Spring Meetings on a virtual basis and cancellation of staff travel have been partially offset by higher costs associated with intensification of Covid-19 related work and evacuation of field-based staff. We note that the baseline projection has shifted to suggest a net underspend of around $10 million in FY 2020, which will be carried forward to FY 2021.

The 2019 risk report has assessed budget risks as moderate, but above tolerance, in view of diminished budgetary slack. Given the sharp rise in risks to the budget stemming from the Covid-19 outbreak, which requires continued close budget monitoring and controls, could we now assume that the budget risks should be assessed as high? With an unprecedented 100+ countries simultaneously approaching the Fund for emergency financing assistance, and with growing economic and financial dislocations across the globe becoming more entrenched, potential increase in demand for Fund programs has already materialized, necessitating additional budgetary resources beyond the upper boundary of $23 million annually envisaged under the risk report downside scenarios. In the circumstances, we welcome the modest increase in the maximum allowable carry forward of general administrative resources from 3 to 5 percent and look forward to staff proposal to also increase structural resources required to meet crisis-related demands.

A large portion of OED FY 2020 central carry forward of $4.7 million, to be made available to the Fund's general administrative budget in FY 2021, together with potential CCBR savings beyond FY 2021 should be used to increase funding for training and augment initiatives, including the Special Appointee Program, aimed at promoting regional diversity and enhancing recruitment of staff from under-represented regions, including from MENA+. We understand work is underway to establish a framework to support investment in such measures in future budgets and appreciate staff's further elaboration.

The Fund has appropriately increased its focus on fragile and conflict affected states (FCS), as evidenced by an estimated $100 million annual spending, the presence of over 50 local offices, and expansion of CD delivery. We welcome the proposed $4.5 million increase in FY 2021 for intensified program engagement, shift in CD delivery to FCS in AFR and MCD countries, and broad support to increase FCS representation in certain OED offices.

We welcome the extra $1.4 million in FY 2021 to support more work on financial sector surveillance and FSAPs and fund the operation of a monetary modeling unit in MCM. While the donor-funded FSSR has helped low and lower-middle income countries diagnose financial sector vulnerabilities and prioritize financial sector reforms, we join calls for increased resources for voluntary FSAPs for non-systemic countries, in line with IEO recommendations.

The proposed FY 2021 budget, comprising facilities and IT capital, shows a $13 million increase over last year, reflecting investment needed to replace systems that have reached end of life and continued work on modernization projects. While future capital budgets are expected to be lower, given reduced upfront costs, and administrative budgets higher, given subscription fees, we welcome the proposed update to the Fund's capital investment framework that aims to strengthen management of associated risks by recalibrating governance and procedures in line with the changing capital investment landscape.

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

We thank staff for the informative paper and support the proposed decisions for FY 2021. We would like to offer the following points for emphasis.

First, the Fund has been operating under a real flat budget for the past eight years, which demonstrates its strong fiscal discipline and reprioritization efforts to meet new demands among rapidly evolving global economic conditions. However, the outbreak of COVID-19 and the associated possibility of unanticipated large and sustained demands for Fund programs could impose key budget risks. We also take note that the capacity development has been increasingly financed by external financing, and the scale of donor funding poses inherent risks. Therefore, we encourage the Fund to consider reevaluating the rationale for a flat real budget and eliminating gradually the "deficit" in CD that has been funded by external financing.

Second, we welcome the modified paper that has incorporated the analysis of the impact of the COVID-19 outbreak on the budget. As predicted by the Fund, the COVID-19 outbreak would bring about the largest economic contraction since the Great Depression, which also means the largest economic contraction in the Fund's history. Since we now stand only at the early phase of the pandemic, there could be large uncertainties regarding what will happen next and the associated risks to the Fund's budget. Therefore, we encourage staff to conduct stress tests on potential risks and analyze different scenarios as well as corresponding responses. We also take note that some of the existing carry forward is very likely to be used in the future and encourage staff to take this into account when conducting stress tests.

Third, we encourage a more appropriate budget allocation across area departments in line with their relative positions in the world economy. Specifically, we learned from the report that the APD budget accounts for only less than 15 percent of the total budgets for area departments. However, the countries that APD covers account for more than half of the world's population and contribute more than 70 percent to global growth. In addition, many APD countries are geographically at the far end from the Fund and some of them are small islands with transportation inconveniences, which could result in higher travel budget for this department. We also recently take note of the additional workload in APD regarding crisis response that is not proportional to its budget allocation. Therefore, we encourage staff to reevaluate the appropriateness of resource allocation across area departments and consider an increase in the budget allocation for APD.

Fourth, we welcome the identified priorities in the proposed FY21 budget on fintech, trade, financial surveillance, and the impact of sustained low interest rates. At the same time, we also encourage the Fund to further increase resources to enhance its own expertise on macro-critical structural issues, such as labor market, land market, and SOEs.

The Chair made the following statement:

Welcome, everybody, to these two Board meetings, one after another, on topics that are very much correlated--budget and income. To the best of our capacity, we have prepared for you a projection on budget. As we all know, we are in a very unusual situation, with a crisis really like none we have seen in our lifetimes.

What we are proposing to you is a mid-term budget for FY2021-FY2023. We also issued a supplement last week. The supplement gives you an update on the impact of the COVID-19 crisis.

Together, we have concentrated on mobilizing our full capacity to deploy resources, with the sense of urgency that the crisis requires. That meant augmenting our existing work on surveillance and stepping up our work on lending to make sure we have a clear pathway for countries requesting emergency financing. We have started discussions on debt sustainability issues that are going to be quite significant. They were with us before the coronavirus, but some countries are even under more pressure today.

As we have said on a number of occasions, we also need to recognize that with the Fund expanding rapidly its exposure to provide lifelines to countries, the risk we take with our own resources also goes up. That must be reflected in the way we think about the budget for the next few years.

I want to recognize staff for very quickly doing three critical things:

First, early reprioritization. Many of you encouraged us to do that. As you know, we have been very much aligned on that point.

Second, very quickly adjusting to the new working modalities and doing so without any loss of quality, in a way that is genuinely impressive. But that, of course, puts a bit of additional demand on making sure that the staff has the technology and the equipment necessary to do this work.

Third, we have been adjusting by making sure that internal redeployment happens rapidly. I want to recognize the Human Resources Department, Antoinette, and the people who work on that, for very quickly creating a system for staff in programs of a lesser priority at this moment, to volunteer internally to get deployed where the needs are more significant.

We got from you very thoughtful reflections. All Directors have issued gray statements. We have circulated the staff responses on the topics you have raised.

Our proposal to you is very straightforward. We are asking you for a higher carryover, given that we do have more capacity to move into the next year. We are asking you to be mindful that we may have to come back to the Board with some augmentation of the budget.

In exchange for these requests, we give you our pledge that we will be very thorough in identifying how we can redeploy and where we can get the necessary augmentation where it is most needed. Only when we are absolutely confident that we have done all of this, we will come back to you.

Ms. Shannon, would you like to say a couple of words on the broader issues that have been raised by Directors?

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

First, I will start just by saying thank you to Board members. This is the first budget I have been involved in. Your availability throughout this

[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.

year's process has helped me and the team in the Office of Budget and Planning (OBP) to better understand what you need, to make decisions and to help us frame our thinking on how we do our work.

As the Managing Director said, meeting the membership's pandemic needs this year has been the priority for us in the last few months in terms of, how we think about a process that makes sense in a situation of uncertainty, both to meet members' urgent needs but also to make sure that we are meeting the needs stemming from the crisis in a responsible way. That is the basis for this two-stage process.

These are extraordinary times. They are marked by uncertainty. We need flexibility, but we also need to build a clear picture of how the crisis will affect our work for the remainder of this year and in the coming period. In the short term, the use of buffers, savings, and exceptional carryforward will help us to meet the urgent needs of departments, while also giving us time to do the work that we need to do to come back with a fuller assessment, as the Managing Director just stressed.

We recognize that any request needs to demonstrate we are taking advantage of the scope for reprioritization. You have told us that we should think about how we can take onboard the lessons from this crisis and how we do our work, and we will be doing that when we come back to you.

There were some specific questions, and I will just summarize. We have answered these questions in our written responses, but just a note on IT and modernization and the impact of the crisis.

As you know, there has been some additional spending in FY 2020 related to IT needs and remote work. We will be working with the Information Technology Department (ITD) on any additional needs in the coming period to make sure that our remote work arrangements are both effective and secure.

In terms of the modernization projects, each of the teams has looked at their schedules and are continuing on pace. As I mentioned to many of you in our meetings, there has been some delay in the 1HR project, but that team is continuing to work to deliver the second and third releases before the end of the year. You will be briefed on any further updates in the coming months in the regular ITD briefings.

On the Capacity Development Management and Administration Program (CDMAP), the project continues on schedule. On the two projects iData and the Integrated Digital Workplace (IDW) project, we will provide updates and cost-benefit analyses in the coming months before the implementation begins.

There were a number of questions around capacity development (CD) and the impact of the crisis on our CD work. And here, just to add to what was said in the written responses, the CD departments are working closely with the membership, reaching out to the membership to make sure that the members are aware that the Fund is open for business on CD and is ready to work with members, both in terms of regular CD operations and in support of program needs and the specific needs stemming from the COVID-19 crisis.

I have just one other point to emphasize. A number of you stressed the importance of a strong risk assessment in monitoring as a general matter and certainly in the context of the crisis. I would note that this, indeed, is something that will govern our work on the budget itself and in terms of the investments that we make in the coming period to make sure that we have the resources and tools appropriate for financial risk, operational risk, and broader enterprise risks related to our crisis response.

The Chair - Thank you, Ms. Shannon, to you and your staff for working across the Fund to come up with this budget proposal that is, in my view, very clear and meets the needs of the moment.

We will now turn to Directors for comments. Ms. Levonian.

Ms. Levonian made the following statement:

Let me begin by most sincerely thanking Ms. Shannon and her team for both their efforts in these challenging times, as well as for their helpful outreach to our office.

Let me also recognize the strain that this crisis and the Fund’s swift response have placed on staff and management. As the Managing Director has said, this is when the Fund is needed the most and when we need to step up. We commend all of you for your tireless efforts in service to the membership.

We issued a gray statement with 11 Board colleagues, in which we supported the proposal to temporarily increase the maximum carryforward but also stressed the need to focus on reprioritizing work, reallocating resources, and rethinking business processes, as has been mentioned.

I want to start with an issue that we are not really deciding on today, which is the potential future request for a budget increase, which is signaled in the documents anyway. I know we need to move quickly and be agile and flexible, but we should not throw rigor away as a result. I will just outline five items we would want to see relatively quickly. I think you will agree that these are fundamental aspects to informed decision making, some of which the Managing Director already mentioned in her opening remarks.

First, and importantly, some kind of a crisis time Board work program that charts the path forward on the work that we need to focus on in this time of crisis, including which policy items are important at this time.

Secondly, a range of program engagement scenarios that could then be used to gauge the operational and budgetary impacts of a potential spike in demand for the Fund's lending.

Third, a briefing from the Institute for Capacity Development (ICD) on the program and budgetary implications of this crisis for capacity development, including considerations around program delivery in the event that travel restrictions persist.

Fourth, an assessment of efficiency gains, including from our enterprise-wide experience with remote work.

Fifth, and lastly, an update from the Office of Risk Management (ORM) on how the crisis and remote work have potentially impacted the Fund's risk environment and how we plan to respond.

With these elements and steps, the Fund would position itself in a proactive stance by developing a comprehensive plan to guide us through the crisis. Once we have a Board-endorsed plan, we can then discuss whether we are adequately resourced to execute on that.

That was really my main point. I just have a couple of questions.

In her remarks at the town hall meeting last week, the Managing Director mentioned that we would be hiring retired Fund employees on contractual appointments, as well as an extension of certain contractual employees. That is an interesting idea. I would be very interested in hearing what is envisaged there, in relation to where these extra staff are being assigned and the method behind coming to those determinations.

Lastly, we thank staff for the response to the question in our gray statement in relation to the pandemic-related costs impacting the Big 5 modernization projects. We were just wondering if you could elaborate on the anticipated capital investments in audiovisual capabilities, as mentioned in the supplemental budget document that was issued this week.

The Chair made the following statement:

We are moving exactly on that pathway. We want to have a work program that is clear in terms of why we are setting priorities the way we are, the timeline under which we need to deliver, and on that basis, to identify where we are in terms of resource capacity.

One message that I am sure you have heard from me is that staff has its own work pressure dimensions. We should exhaust every possibility to utilize what we have because at a time of urgency, at a time of crisis, onboarding and training people is not being done as it is in normal times. So, we are extra careful.

Just to answer very quickly, we are going to share with Directors guidelines on how we are going to identify an augmentation of staffing. In the meanwhile, we are very keen to know who we may be able to call on from the retirees. HR has actually started a process of scanning, given what skills we need and who we may be able to turn to.

Mr. Rashkovan made the following statement:

We thank Ms. Shannon and the team for the introductory remarks and for the very effective interaction with our office prior to today’s meeting. We issued a comprehensive gray statement with 11 other chairs, supporting the proposed decisions, but there are still a few things worth mentioning today.

Let me start by saying that, since this crisis is really global, many capitals in the world are facing significant fiscal pressures. We see strong efforts are being undertaken in all our societies to cope with it, and our flagships clearly lay it out. We altogether, capitals and multinational institutions, at the center of which the Fund stays, have to demonstrate that we can deliver under stress, including under the budgetary pressures. It is commendable that how much the Fund has done in the last weeks. It is remarkable and visible, and I would like to acknowledge the efforts of staff and management. They are really impressive. Thank you for that.

I want to reiterate that we fully support the Fund's efforts to deliver on the core and emerging topics agenda. We want to make sure that the Fund has all the resources needed to get the job done well. In this sense, we continue to support the flat real budget in the short and medium term, and to rely on the management's actions to make sure that the flat budget covers the resource demands needed to maintain the Fund's functions. Of course, we may consider funding increases, both temporary and/or structural, if and when they become necessary. All increases, whether temporary or structural, need to be justified. In other words, going forward, we are looking for a strong business case to be presented to the Board, laying out the need for any further budget increases.

That said, we expect that the Fund will continue to maintain financial discipline, also seeking efficiency gains in all departments, in addition to those identified in the past. A prioritization and internal redeployment are key, as the Managing Director outlined in the introductory remarks. We understand that this is challenging, but it is necessary. As such, we urge staff to monitor the efficiency of the Big 5 and Comprehensive Compensation and Benefits Review (CCBR) implementation and to look for internal synergies. Prior to the Board meeting, we discussed with staff that we expect some additional continuous reporting to the Board on these big and important transformative initiatives.

Similarly, I believe that there are lessons to be learned from the way we run operations currently. These lessons can lead to structural savings. We encourage management to work with the Change Management Unit in this context. We discussed this with the Managing Director on Friday. I am sure there are a lot of good practices that we can take forward, from organizing the Spring Meetings to interacting with the authorities via teleconferences. Perhaps some staff visits could be substituted by WebEx solutions. On the same side as providing capacity development assistance, we see that many innovative solutions are scalable for large audiences with lower costs.

While we expect very serious all-hands-on-deck efforts to keep the Fund running as efficiently as possible, we also want to make sure we will be able to continue assisting the entire membership in the recovery phase.

We should take this crisis as an opportunity to rekindle all of our economies with all the tools available and, importantly, taking into account the sustainability and equity concerns.

Here, one of the issues that should be front and center is climate change. In effect, the pandemic is a thorough reminder of the importance of respecting our planetary boundaries and the risks of overstepping. Climate change considerations need to become an integral part of our bilateral surveillance. Before the pandemic, this was probably one of the urgent priorities for 2020. While other issues need to be dealt with first, we should not wait too long before addressing this matter forcefully. We should use this time to work very hard on our internal capacity to meet the membership's demands. This is certainly an area for which this chair would be happy to consider more resources. However, as I stated earlier, such a consideration would be conditional on a transparent demonstration by staff that all other resources have been used up.

A last, maybe a more procedural point, we really appreciate a discussion on the budget on the same day we are discussing the income position. As you mentioned, Managing Director, the budget and income position are integral parts. We want to re-emphasize that in the framework of such an integrated approach, the Fund's budget is necessary to be considered together with the income side, hopefully in one document in the future.

Mr. Buissé made the following statement:

One of the good things about not being the first is that I can jump right in after Mr. Rashkovan and say that it is nice to discuss both papers on the same day, but I would have enjoyed to have it in one paper and one Board. I think that would have been even more efficient. That is an idea for next year maybe.

We would like to thank the staff for the comprehensive and well-written set of Board papers, as well as Ms. Shannon and her team for taking the time with us and answering our questions. We cosigned a gray statement with a number of other Directors, so I wish to only highlight a few key points.

First, we are very happy that we are approving the ninth year of a flat real administrative budget and with a new definition of "real flat budget." This being said, we do see staff working around the clock in the current crisis, given the huge workload. We understand there might be resource pressures at the current juncture, which might result in a need for additional budgetary resources. Let me just say at this time that we are open to a follow-up discussion, as you underlined, Madam Managing Director, in your introduction. Of course, along those lines, we expect to have a firm real sense of a reallocation and the trade-offs already achieved, so that if management does come back to the Board with a request for a supplemental budget, it is clear to all of us that all other options have been exhausted. In the medium term, we expect the budget to remain flat in real terms.

Second, we commend staff and management for all their efforts to streamline and reallocate the funds that enable the IMF to keep fulfilling its mandate and the priorities defined in the Global Policy Agenda (GPA). We remain reassured that the carryforward and contingency funds will be able to provide some cushion to face the current crisis. In this regard, we support the proposed increase by 2 percentage points to the maximum carryforward.

Third, on the implementation of the FY 20 budget, we are pleased to see that there was a shift toward country work, in particular, the most vulnerable members, especially Africa and the fragile and conflict-affected states. As the crisis unfolds, we, of course, expect this to continue to be a priority.

Fourth, this is a point that is particularly important to this chair, as our budget needs to reflect both the current crisis and also how the Fund can support the recovery. As you framed it in the GPA, Managing Director, the recovery needs to be resilient, and future growth needs to be sustainable and inclusive. We are pleased to see the output structure for FY 2021 in this regard, with additional resources for climate change, social spending and inequality, governance, and anticorruption, including through an additional CD budget. On climate change, we appreciate the efforts to bring additional funding and reallocate resources. We expect this to continue to be a strong resource priority, because we simply cannot afford to lose time.

Fifth and finally, on the capital budget, we were pleased to find the revised Capital Investment Framework (CIF) in the document. We believe it is a useful exercise for management, for staff, and for this Board.

Ms. Riach made the following statement:

Let me start by thanking Ms. Shannon and the OBP team for the paper and, as others have said, for the outreach ahead of the meeting. I do feel that we are having a more iterative discussion around the budget and that the papers that we are looking at today reflect prior discussions with Directors. I am very grateful for that. We also signed the gray statement with 11 other colleagues, so I am going to restrict myself to three issues.

First, and most importantly, is the response to the current crisis and how that impacts the budget. I am really grateful for the approach that is set out in the supplement, which seems like a really sensible way going forward to me. Of course, it is essential that the Fund is able to fully support members, both in the immediate crisis response but also in supporting preparations for the recovery. As Ms. Levonian said, I am grateful to management and staff for the way that they have undertaken that effort. It is appropriate that the first way to finance that is to look at a reprioritization and a redeployment of efforts. This is a really important step, and I am very pleased that it is happening. I am also pleased to hear the Managing Director's remarks about HR and staffing, particularly looking at bringing back retired staff, but also in making sure that we have the IT and, more broadly, we have the support in place to support staff during a very challenging and busy time.

Regardless of the reprioritization and redeployment, given the size of the current crisis, it is not surprising that we are looking at potentially having to find additional resources. In that sense, I absolutely support the proposal to carry forward some budget. Having that increased flexibility seems to be a really sensible first step.

On the issue of whether this should be an augmentation to the budget, I welcome the fact that the supplement to the document flags that as a potential issue but it does not ask us to reach decisions on that today, which I think would be premature when there is still so much uncertainty about what is happening and what the needed response is.

My authorities' position is still very much that a flat real budget is the baseline. As Mr. Rashkovan said, in the medium and longer term, we would absolutely want that to remain the baseline. But I believe my authorities would be willing to consider a temporary budget increase, if there was a very clear and well-documented case for why it was needed and if it was clear that this was done in a time-limited way to respond to very specific challenges. I am absolutely not in a position to agree to that today, but I am very open to continuing to have the discussion.

The next point I wanted to raise, which will not be a surprise, is the issue of climate. When we last discussed the budget, we talked about the importance of having the necessary resources to work on this issue. Given the challenges that the Fund and the global community are now facing, this is even more important than ever. As Mr. Rashkovan said, this needs to become an integral part of our surveillance. As the Fund is supporting its members toward recovery, it should be supporting people to build back better, to really integrate thinking around climate and green responses into that recovery response.

What makes that different from other areas of policy, which the Fund will potentially want to return to or increase efforts on, is that this is an area where even before the current crisis, we needed to build expertise. This is not about putting people back to work on it. This is about increasing the resources that we have and increasing the expertise that we have. Therefore, this needs to be properly resourced. I hope that we will be able to think about that very carefully in the budget context.

The final thing I wanted to touch on was on financial sector surveillance. As we said in the gray statement, we are disappointed that we have not seen more of an increase in resources in response to the Evaluation Committee report. One of the things that we have expressed concern about when we have talked about this in the past was there was a delay in the timeline, because we were waiting for the Financial Sector Assessment Program (FSAP) Review and the Comprehensive Surveillance Review (CSR). We are now potentially looking at a world where those reviews are pushed further out, for very good reasons. However, if that potentially also pushes out an increase in resources on this, then that is an increased concern. We regard this as a priority. In particular, when we do return to the FSAP Review, we very much hope that it will include costed options to increase the resources being devoted to FSAPs.

The Chair made the following statement:

On the two issues, on climate and the FSAP, I am in full agreement. On climate, we have started building up our own skills and, very importantly, how we work with others. I just want to remind us that this will continue to be a necessity.

I hear you on the issue of a possible further delay. We will reflect on how to prevent this from turning into an obstacle.

Mr. Geadah made the following statement:

We thank Ms. Shannon and her team for the very good work. I have a very brief comment.

Unlike the previous two speakers, I think our budget has become too tight for the Fund to effectively deliver on its mandate. There is only so much that we can do through efficiencies and redeployments and reprioritization, which we have been doing for the past eight years, at the point where the buffers that we have are really staff overtime, at a time when, as you know, many staff have not been happy with the outcome of the CCBR. I think we need a real increase in the budget. If you look at the past eight years, the Fund has taken on several important mandates--climate change, digitalization, inequality, gender--yet at the same time, we are saying the budget should stay constant in real terms.

When I look at the budget documents, the thing that I miss--and I think that OBP has done a great job--but the thing that I miss is that I do not really know where the cuts are. If we had a budget that was 10 percent bigger, I do not know what else we would do. That is why I very much look forward to the augmentation proposal later on to see what we will be doing with it.

If I look at my constituency, several of the countries are very thinly staffed. Mission chiefs get replaced with big delays. Therefore, we are not delivering the way we should deliver. I really think that the budget has become way too constrained for us to effectively deliver on our work.

Mr. von Kleist made the following statement:

We thank staff for the insightful paper and the supplement. We issued a gray statement together with, among others, Ms. Levonian, Mr. Rashkovan, Mr. Buissé, and Ms. Riach, who have all spoken before me, so I can be quite brief. I will still repeat a couple of points because they are very important to my authorities, so they really want me to say it again.

We support the administrative budget and believe maintaining the real flat budget approach for the eighth consecutive year and looking forward is the right approach. In this context, we particularly welcome and we thank you and HR for the current reprioritization and reallocation of resources. That is the way to go. We concur with the staff’s proposal to temporarily increase the maximum carryforward due to the highly uncertain resource needs.

We also take note of the intention to return to the Board with a proposal for a time-limited budget increase. As others, we will take a look at it then, and it needs to be clearly articulated and justified.

Ms. Levonian was a bit more extensive on the question of the crisis Board work program and the discussion of potential future program requests, but a flat real budget remains the medium-term goal. In this context, we note staff's reference in the supplement to the intended further work on the Fund's lending toolkit. Here, I am a bit at a loss because, for the Spring Meetings, we have substantially strengthened the toolkit. Therefore, we currently see higher value in focusing efforts on how to make the best use of the existing and expanded lending toolkit and how to integrate lending tools with other non-lending support mechanisms in the Fund to generate the most valuable benefits for members. Maybe SPR could get back to us bilaterally on this.

We thank staff for the additional information provided on the work of climate change. As others, we think this is very important. We would like to continue this discussion on another occasion, not today, on what the Fund can do within its mandate, leveraging the work of other international organizations, specifically regarding the integration of climate-related work in the context of the Fund's bilateral and multilateral surveillance, as well as technical assistance (TA).

Lastly, we endorse the proposed capital budget and broadly agree with the proposed Board approval process of the capital investment budget. However, for large transformational projects, it is essential to have an estimate of the total project costs available at the time of annual budget approvals by the Board to allow for an informed decision.

With this, I thank the staff and, of course, the Managing Director and the management team for the leadership you have shown.

Mr. Fanizza made the following statement:

First of all, I would like to thank staff for the excellent job. It is clear and well presented. We also thank staff for reaching out to us, which has been very useful.

I was a bit surprised because I was thinking that I was actually in agreement with all the previous speakers, except Mr. Geadah, and I was a bit worried. Why? I realized these are the chairs with whom we have issued a joint gray statement, so it is no surprise. So I will limit my comments to a few things.

One issue that has been hinted at, which has also been raised by Mr. Buissé, is the idea of integrating the budget exercise with the income exercise and with the risk exercise. This is essential to have an idea of where we stand. Having a paper which looks at the expenditure on the one hand and another one on revenues is misleading. I will give you an example of why it is like that.

If you look at the papers as they stand now, in the supplement to the budget paper, I am sure there is a hint that we might reconsider the need for increasing spending in the future; whereas the income paper stresses the fact that this year we are making a loss, and also that the income, as projected conservatively now, does not look so good.

So if you tell me that, under these projections, we should make an expenditure increase six months down the road, it is going to be a really hard sell because you are asking us to increase expenditure, but on the revenue side we have issues. Instead, if the two things are integrated, you will end up with more realistic income projections, regarding in favor of the spending increase. That is an example. The two things need to be consistent and be done by the same team. If somehow, they are not done by the same team, there could be somebody who puts the two things together and gives a chapeau that makes everything consistent. It is like a government that goes to parliament with expenditure on the one side and revenues on the other side.

On the substance, we agree on the approach that has been taken. I would guard against taking too high a rate of budget increase into decision, which is what we are doing practically. Live with the increased carryover for a moment. Then we will see what happens, because it is not wise to take a budget position under stress when you need to do something. Of course, this has to be measured with how difficult the situation is.

Also, like several of my colleagues, I have to stress the importance of climate change for this chair. I would also like to stress that we need to be very careful about what we do in this area, not only doing general work on climate change, but we believe that we should do work on identifying the investment gaps in different countries and how to fill them up. That also leads to financial sector work, in terms of how the financial sector can actually help in that direction.

Our concern is to be exactly concrete and to make sure that we do what people are interested in.

Saying that, let me move to my last point, which has to do with the investment plan. Maybe I am being too naive and there is something that I do not understand well. Do we really know the investment needs, which we will have in the future? At a certain point, we talked about improving the HQ1 building. Do we really know whether we are going to use it again? Should we wait a little bit and see how the needs evolve? The situation will evolve. We might have completely different needs, and we will not be able to work in a traditional office building. Maybe we will need something else. This is not a question. Are we sure that we should go on and implement what we have planned to do? I do not know. Maybe there are some things that we should think a bit more carefully about.

The Chair made the following statement:

Since many of you brought up this issue of why we did not integrate the budget paper and income paper into one paper, let me just make two points.

First, we do need to have consistency. The two teams are talking to each other. It is not exactly the same team. One is the budget team, and the other one is the finance team, but they collaborate very closely.

Second, we need to be very cautious about the ambitions to integrate the two papers, because they actually serve different purposes. We are not an institution where, if our income grows, our expenditures are going to grow, and when our income shrinks, we shrink and fire staff. We are not that institution. We have long-term commitments, vision, and strategy. Then we implement it. We have a mandate to serve.

In addition, we generate more income in the outer years. In fact, the two cycles are not necessarily synced. Therefore, I would be keen to seek close collaboration and consistency, but not go the step of coming up with one combined paper. Institutions like ours keep these two highly consistent but as two separate papers.

Mr. Trabinski made the following statement:

Thank you, Managing Director. As Ms. Levonian, we would like to thank you and staff for your efforts to revise the preliminary proposals for the medium-term budget, amid the rapid developments around the COVID-19 outbreak and all other work that you are undertaking these days.

As stated in our joint gray statement with many other Directors, we support the Fund’s proposed administrative budget for 2021. The urgency of the COVID-19 crisis measures and the corresponding shifts of budgetary resources are evident and require a prompt response. It is of critical importance to continue reallocating resources in line with the evolving priorities. The difficult trade-offs and the change on the pre-crisis agenda are inevitable in order to manage the budget prudently.

As Mr. Buissé, we support the proposed temporary increase in the maximum carryforward of 2 percentage points, as this helps to provide further flexibility in the current circumstances.

At this stage, as Mr. Rashkovan, we remain to be convinced about the temporary structural resource increase, especially for a period of four more years. At the same time, we would like to stress that the increase should be well justified. In this regard, we are also open to tackling the issue raised by Ms. Levonian. We find the need important for a discussion of a temporary structural increase.

We also support the proposed capital budget for FY 2021, which we agree is broadly in line with the previous assumptions. At the same time, the staff points out that updates and cost benefit analyses will be provided for IDW and iData projects before their implementation. We would appreciate timely information on the potential need for a supplemental appropriation delivered to the Board.

On the CIF, we would reiterate our call for strong governance, as well as a robust risk management framework. To this end, we welcome the codifying in the revised CIF, the recent practice of seeking the Board's endorsement for large transformational projects prior to implementation.

With this, let me wish you and staff the strength and energy needed to work in these difficult circumstances.

Mr. Bevilaqua made the following statement:

Like previous speakers, we would like to thank OBP for the budget documents and for effectively providing a preliminary assessment of the impact of the COVID-19 outbreak on the FY 2021 budget in a short period of time.

The global pandemic has brought additional country work to staff, with more than 100 requests for emergency financing and several potential new program engagements, and a large part of this extra work will continue in FY 2022 and beyond.

We commend area departments for being able to respond to these extraordinary work pressures by internally recruiting staff from other departments. However, this does not look like a sustainable option over the medium term. That said, we broadly support the proposals for the administrative and the capital budgets. We issued a gray statement, and I will make three brief points for emphasis.

The conditions imposed by the pandemic have forced the Fund to look for innovative ways to deliver on its core mandate, without compromising the efficiency and quality of the staff's work. The savings generated from travel and events could be a valuable lesson of this crisis regarding Fund operations, particularly in the greater use of technology for surveillance, program work, and capacity development. Indeed, the current experience suggests that many missions to member countries could be shorter, more focused, or conducted remotely without any major impacts. This would represent a major change to the IMF's travel culture, so to say. Is it really necessary to have staff visits every year to all countries, in addition to the Article IV missions? In addition, are two-week Article IV consultations really needed?

We certainly agree that physical meetings with the authorities are fundamental in many cases and remain an important way to address the specific needs that cannot be easily replaced by remote meetings. As many others, we look forward to those meetings. But in many other cases, the Fund's model of conducting business with the authorities could perhaps be largely reshaped, taking advantage of the valuable experience gained during the pandemic.

Similarly, the successful virtual Spring Meetings indicate that there may be room for savings in organizing events, conferences, workshops, and ICD trainings. It will be important to discuss the implications of reinforcing this approach on the IT budget, along with the experience of member countries relying more on technology to engage with the Fund remotely, including by strengthening our cybersecurity defenses.

Finally, I want to reiterate our support for the priority given to work streams dedicated to addressing social and development challenges on fragile and conflict-affected states and underscore our desire to see this priority translated into a more evenhanded and focused delivery of capacity building activities and an effective presence in the country, when global conditions are back to normal.

Fragile states are the members for which the Fund can make the most difference. I recognize enormous progress in some cases, for example, with Somalia. Nevertheless, there remains a reason for concern that other fragile countries, such as Timor-Leste and São Tomé and Príncipe, do not have IMF resident representatives to enhance the Fund's support to those economies.

Mr. Rosen made the following statement:

I thank staff for the very thorough papers and answers to our questions and the very helpful engagement with our office. We support the decisions and joined the gray statement with 11 other chairs.

The Fund has responded admirably to its members' needs during this crisis. It has brought forward multiple programs at a rapid pace, streamlined policies, and delivered it all using new remote work modalities. We believe the Fund is delivering on its mandate at this critical time and within its budget, and I would have to differ from my friend Mr. Geadah on this point.

As my authorities consider what additional resources may be needed for the whole range of international financial institutions, it is critical that we can say that the Fund has explored all possible efficiencies and has made all the necessary reprioritizations to respond to this crisis.

We are pleased that the current budget is a truly flat real budget, calculated with a Consumer Price Index (CPI) deflator and note that it will be challenging for us to consider an increase, even on a temporary basis. As long as the crisis continues, we believe our focus must be almost solely on crisis-related issues. Longer-term policies and issues should be put on the back burner. Items such as the CSR and the FSAP Reviews should be postponed, so that the lessons from the crisis can be incorporated.

The Board needs to have a full picture of the program engagement forecast and the expected work plan, before we are able to properly consider this year's full budget picture. We need to be shown what issues the Fund has determined are not priorities. We expect the current situation to continue to create some cost savings, when compared to business as usual, through reduced travel and meeting costs, as other Directors have mentioned. We also join other Directors in believing the Fund should use this opportunity to consider how some changes could be made permanent. It is clear that some conferences and meetings could be held virtually. While I recognize the importance of face-to-face meetings, as Mr. Bevilaqua said, not all surveillance needs to be done many times a year and in person. We look forward to future updates on budget execution and any budget developments related to the pandemic.

Finally, we support all five of Ms. Levonian's suggested items that we would need to see as part of the business case for a temporary supplemental budget.

Mr. Mouminah made the following statement:

Thank you Chair for your introductory remarks. I agree with you, Managing Director, that whatever the crisis, we will learn a lot, especially in the way we conduct our business, which will provide some savings in the future. We should continue to observe as we go forward.

We thank Ms. Shannon and her staff for the well-written set of papers, for the outreach, and for her opening remarks and clarifications. We cosigned the joint gray statement with 11 other Directors and support the proposed decisions. We also highly appreciate the substantial efforts undertaken to streamline the process and to reprioritize and reallocate resources within the existing budget envelope. These efforts should continue and are more important now than ever.

We noted the staff's intention to return to the Board with a supplementary budget. This has been discussed by many. I very much support all five elements mentioned by Ms. Levonian as a prerequisite to discuss potential supplementary budgets.

On integrating the income and budget reports, I hear you Managing Director, but it should be considered under a clear framework, if you will. At least, how do we streamline the reports and the discussions, but not necessarily the decisions, if you will. Again, let us keep an open mind.

I will focus on three things: fragile states, CD in the Middle East and Central Asia region, and regional diversity.

On fragile states, like Mr. Raghani, we appreciate the attention devoted to these states under the proposed budget. We also agree with Mr. Bevilaqua that the presence of resident representatives or long-term experts in fragile states, when conditions permit, is crucial to enhance the traction with the authorities and to overcome the sources of fragility, particularly for those related to weak institutions and technical capacity.

The second is on departments' budgets. We join Mr. Mojarrad in welcoming the additional resources for the Middle East and Central Asia Department's (MCD) increased engagement with vulnerable countries. This rebalancing is appropriate, given the number of programs in MCD. We view this as a correction. This could be why Mr. Geadah perceives the region as underserved and wants more resources, while we see it as a part of the redistribution, if you will, and streamlining the provision of timely CD, particularly for vulnerable countries at this time. We are pleased to see this rapid step-up in the remote delivery of CD since the onset of the crisis, despite the travel restrictions.

In difficult circumstances, we encourage the staff to continue to take an adaptive and agile approach to CD delivery by being open to the opportunities that often come with these disruptive matters. This also addresses the issue with the supply-side, which we raised in a previous meeting on the MCD region. Now we can better match supply and demand.

My final point, like Mr. Geadah, we stress the need for enhancing regional diversity by increasing the share of staff in underrepresented regions (URRs), namely, Middle East and North Africa (MENA) Plus, East Asia, as well as sub-Saharan Africa. Again, we have mentioned it many times, but I always like to reiterate it.

Mr. Tanaka made the following statement:

We thank Ms. Shannon for the presentation and staff for the informative additional paper as well, which reflects the impact of COVID-19 to the extent possible at this moment. As we support the proposed decisions and have issued a joint gray statement with 11 other Directors, we would like to add the following points for emphasis.

The Fund has a central role to play in the current unprecedented crisis and should be well resourced to fulfill the role effectively. We welcome the staff's intention to return to the Board with a supplementary budget, specifying the temporary increase once the impact becomes clearer. In the meantime, we encourage the staff to ensure the most effective use of the existing resources by maximizing budget flexibility through reallocation, reprioritization, and streamlining efforts.

This chair is deeply interested in the budget provision for the IT needs related to the remote working environment. This situation could make space by reducing physical work, including travel, for the further use of IT to be improved. An elaboration on the pandemic-related costs impacting the Big 5 modernization projects would be much appreciated.

We should ensure that each department can use enough resources for crisis operations. In this context, the Asia and Pacific Department (APD) budget, which accounts for less than 15 percent of the total budget for area departments, seems low. Even though program engagement by APD is relatively small, the current crisis requires an additional workload on APD for policy advice and capacity building, other than program-related activities themselves. We ask OBP to carefully evaluate the resource situation across departments. Accordingly, additional resources should be allocated to APD and other departments, as needed.

It is indispensable to address the URR issue. It should be budgeted sufficiently. We ask staff to effectively utilize the savings from the modernization projects and the CCBR to support URR recruitment. In relation to this, we underscore the importance of the transmission of information in URR languages, and the budget for such translation functions should be protected.

Finally, on capacity building, we ask the staff to closely engage with external financing donors, as such financing covers about 60 percent of CD activities. The impact of the crisis on CD activities should be carefully monitored and adequate resources should be secured to support the member countries' crisis response and recovery, where CD complements the program engagement. As one of the main CD donors, we would like to be flexible in responding to the changing needs and request the staff to share information in a timely manner.

Mr. Kaya made the following statement:

Thank you Chair for your introductory remarks. We would like to join other Directors in thanking staff for the update of the budget paper and the supplement. It sets pertinent ground for our deliberations on the internal resources in the wave of unprecedented challenges. We also acknowledge the extent of uncertainty for our baseline assumptions and appreciate the staff's efforts to underpin institutional agility, vis-à-vis the increasing and evolving demands of the membership.

We take note of the proposed two-tier strategy put forward by staff, which bases the FY 2021 proposal on a flat real budget, while utilizing the internal savings and efficiencies to the fullest extent possible. We would like to stress once again that interdepartmental reallocations should be done in a way that not compromise the Fund's core mandate.

We also agree that a modest increase in the maximum carryforward is warranted to augment the budgetary buffers in FY 2021 against an exceptional hike in demand for Fund services and resources. Nonetheless, through the next few months, if these transitional resources appear to fall short of the crisis-related needs, we should all be open to a temporary augmentation in the FY 2021 budget, as articulated in the supplementary report.

On that note, we would appreciate if the staff would clarify whether this supplementary budget proposal would only cover FY 2021 or a longer horizon. If the latter is the case, we assume that the Board will be able to review the adequacy of the internal resources through the next budget cycle. In any case, we need to closely monitor budgetary developments and keep the Board informed more frequently.

On the capital budget, we very much welcome the updated CIF, which is something this chair has repeatedly asked for. We expect that the new framework will strengthen accountability and risk management practices.

Another point that I would like to highlight is the evolution toward a subscription-based delivery model, which is poised to bring a fundamental change to the traditional definition of capital and administrative expenses. We raised this issue in our gray statement, wherein we also point to the discussion in the background paper within the context of the IT budget. That said, we encourage staff to go beyond a descriptive assessment mode to exploring alternative approaches to account for such wide capital expenditures in a way that would not further strain the administrative budget. We understand that this was not possible this year for obvious reasons, but for the next budget cycle, we would appreciate it if staff would bring some options to the table.

Mr. Mojarrad made the following statement:

We thank Ms. Shannon and her able team for the informative report and responses to our questions. We welcome the supplementary information and, like other Directors, support the increase in the maximum carryforward and the strategy to return to the Board with a comprehensive proposal to have more informed assessments of the additional budgetary requirements for FY 2021 once the impact of the crisis and related needs become clearer.

We have issued a gray statement but wish to add three more points.

First, the escalating crisis pressures and the increasing staff's uncompensated overtime have led the Fund to contemplate several initiatives, including a reallocation of staff within and between departments, rehiring of retirees on contractual appointments, and an extension of contractual employees, which we support. The increased workload has also impacted the Offices of Executive Directors (OED), for which a reallocation of staff is not an option like staff. The OED staff size has shrunk and expanded in tandem with the Fund's staff size, as experienced before and after the 2009 global financial crisis, and this should be the case now as well. Therefore, consideration should be given to appropriately address the staffing needs of OED offices, including by hiring contractuals.

Second, the cessation of travel in March and April is set to have given rise to $5 million in additional CD expenses in FY 2020 due to lower charge-backs of the staff's time and the lower-than-projected trust fund management fees tied to the level of donor-funded CD delivery. Given that the CD departments are adapting rapidly to remote delivery, which may need to continue for quite some time, CD financing by donors should be extended to cover the overhead costs currently borne by the Fund's own budget. We would appreciate the staff's comments.

Finally, personnel costs constitute about 70 percent of the Fund's administrative budget. The likely wage increases above the U.S. CPI would imply real cuts in non-personnel spending under a flat real budget envelope. We look forward to funding modalities that are consistent with the new compensation framework and a more fully fleshed-out proposal related to the general administrative needs in the coming months.

Mr. Poso made the following statement:

We thank staff for the informative papers and the helpful meeting with our office. We have issued a gray statement together with 11 other chairs, supporting the proposed decisions, so I will emphasize just a few points.

We agree that responding to the COVID-19 crisis should take the first priority. We acknowledge that the budgetary implications of the virus are still very uncertain. At the same time, the crisis does not nullify the rationale of preserving budgetary prudence neither here nor in our capitals. We continue to support a flat real budget in the medium term, with productivity-enhancing measures and a reallocation of resources supporting prioritization. The lessons learned from suspended travel might be put to good use in the search for productivity gains once the situation normalizes, as Mr. Rashkovan and Mr. Bevilaqua also mentioned.

We can accept the exceptional increase to the maximum carryforward upper limit due to the highly uncertain resource needs. We acknowledge that there is a need for short-term budgetary breathing space. However, we emphasize that the Board is to be kept updated regularly as the situation evolves and as the budgetary impacts of the crisis become clearer.

We know that the staff intends to return to the Board with a supplementary budget later this year and agree with Ms. Levonian's five-point list. We especially expect that such a budget request would include the following three elements: first, a thorough assessment of resource reallocations already made within the existing budget envelope; second, an allocation of the additional carryforward decided today; third, a justification for any additional resources grounded in the Board's crisis work program.

One area of high priority for my constituency is the need to strengthen macro financial surveillance. We understand that the CSR and FSAP Review processes are to be paused due to the crisis. However, we look forward to the resumption of these discussions soon.

Lastly, we have previously called for an improvement of the CIF. We welcome the changes. The alignment of capital investments with strategic priorities, a clarification of roles and responsibilities, and an improved understanding of project costs and benefits are certainly warranted. Ensuring proper Board oversight in substantial funding allocations for large projects is crucial. We look forward to seeing how the updated CIF will function in practice. We accept the proposed capital budget appropriations for FY 2021.

Mr. Ray made the following statement:

Let me start by thanking staff for the papers but also, importantly, for the very useful outreach. There is no doubt that this is a very challenging time to land an administrative budget, so let me congratulate Ms. Shannon and her team. Like others, I thought that the supplement presented a very sensible way to proceed at this time, so thank you for that. I issued a gray statement with 11 other Directors, but I wanted to emphasize three points.

First is the need to focus on the crisis and to move quickly to recovery and resilience. As colleagues know, I do not think this is going to be particularly short or linear. Therefore, we are going to need to be quite agile. Clearly, the Fund has a critical role to play. And, as other colleagues have said, it has stepped up in a remarkable way, and it does need to be resourced to prepare. In this regard, the efforts of reprioritization and streamlining are encouraging. I do wonder whether more could be done, perhaps with a slightly more interventionist approach from management, rather than a voluntary approach from staff. That is something that you might want to think about, Managing Director.

As the crisis starts to clear, the policy agenda is likely to shift and refocus, and we are likely to face increased complex macro-stability challenges. Governments everywhere are going to need to disentangle the temporary effects of the structural shifts. That is going to be challenging for all of our authorities. But I wanted to mention one group that it is going to be particularly challenging for, and that is small states. We have had discussions on small states in several recent Board meetings. We have got three of them tomorrow. They are facing incredible challenges. It is something where we are going to need to make sure we have got both the right resources in terms of quantum but also in terms of people.

Looking ahead, like many colleagues, we remain committed to a flat real budget. We are very pleased that we actually have one now. That is going to mean a continued reprioritization and reallocation of staff through what is going to be a very changing environment. We would be open to considering a temporary supplement or augmentation, but we would need to be convinced on that before considering it. In this regard, like other colleagues, I support Ms. Levonian’s five points.

Turning to risk, obviously, the biggest risk is the potential for upper-credit tranche high levels of access. Here, we need a clear line of sight on that front, given the Board’s fiduciary responsibilities, as that is going to drive a lot of our decision making.

Like other colleagues, we welcome the new CIF. This chair is one of those calling for it quite loudly, so we are very pleased to see it. We congratulate staff on delivering it. We also welcome the integration of risk into the budget discussion a little bit more this year.

There are two areas, though, where we feel slightly more exposed. One is financial surveillance, where, to be blunt, management has been slow to respond to the Independent Evaluation Office evaluation. We have seen in recent weeks how critical that function is. We would encourage you to think about increasing resources in this area.

Secondly is cybersecurity. Mr. von Kleist raised this on Friday afternoon in a very clear way, so I do not think I need to add to what he has said. Given the way we are working, it is obviously getting more important.

Lastly, my third general heading would be lessons from our own operating environment. Like Mr. Rashkovan, Mr. Bevilaqua, and Mr. Poso just now, and as you Managing Director said, we should not miss the opportunities, and we should embed structural changes here, including on travel and what we spend resources on. There are quite a few things which we stopped doing, which I would suspect the membership will not miss, and there is no reason to start them up afterwards.

The Chair made the following statement:

Thank you very much, Mr. Ray. On the point you made around the management's role in reallocating staff, the issue that I want to highlight is that we see tremendous motivation amongst staff and a willingness to match their own skills and prior knowledge in real time with where the needs are more significant. While I agree with you – we do have to have a structured way in reallocating the staff time, and some of this is already happening – I do want to continue to encourage this sense of camaraderie that this crisis is generating. Actually, one of the things I want to stress is the unity that has emerged between management, staff and the Board, and with the membership.

Ms. Mahasandana made the following statement:

We thank to Ms. Shannon and her team for the excellent paper.

The COVID-19 pandemic has resulted in an unprecedented call on the Fund's budgetary resources to the rising demand for financing, policy advice, and capacity development. This calls for a continued reliance on spending reprioritizations, without undermining the quality of Fund services.

We agree with staff on the proposed first steps to provide some flexibility in the budget in the short term to support the reprioritization efforts and to later present a supplementary budget request to facilitate a more sustained crisis response and support the path to recovery, including the tackling of macro-critical structural issues.

We would like to focus on three main points in addition to our gray statement.

First, ensuring adequate budgetary resources is critical to strengthen the Fund's ability to effectively meet the membership's evolving and increasing needs. This calls for an all-hands-on-deck approach that would concurrently consider the sustainability of the Fund's income stream, the ongoing seeking of more scope for spending efficiencies and savings, and the close monitoring of the efforts to mitigate budget-related risks. The lessons learned from the streamlined work practices during the crisis should also be considered. Like many Directors, we believe that there are many good practices that we can take forward.

Second, the ongoing proactive management of the externally financed CD envelope is required. We take positive note of donors' intention to continue their existing funding commitments and willingness to provide additional support for COVID-19-related CD activity. However, with donors' competing priorities, the Fund's environment is more challenging going forward. Like Mr. Villar and Mr. Jin, we encourage the staff to develop an appropriate contingency plan to augment the CD resources, where donor financing is not forthcoming, with its implications to be included in the supplementary budget requests. We also encourage staff to continue exploring innovative way to deliver CD, using technologies and streamlined work processes to enhance effectiveness and save costs.

Third, we join other Directors in reiterating the call for more regular updates to the Board on budgetary developments, in addition to the supplementary budgetary request. We welcome the staff update on the forthcoming Work Program ahead of the supplementary budget request. This should be driven by the work on ongoing crisis management, as well as an exit strategy and a recovery policy, including the assessment of exceptional crisis-related measures, such as unconventional policies and debt sustainability. Equally important is the consideration of other priorities, as set out in the Managing Director's 2020 Spring Meetings GPA.

We echo many Directors, that the supplementary budget request should be substantiated by a clear case for additional resources to augment the reprioritization efforts. To facilitate well-informed Board deliberations, like Mr. Jin and Mr. Raghani mentioned in their gray statements, we would like the staff to provide scenarios of a budget outcome based on the stress test results, with the associated budget financing needs under those scenarios.

Mr. Jin made the following statement:

We thank staff for the informative paper, the useful supplementary document, as well as the helpful engagement with our office. We support the proposed decisions for FY 2021 and would like to offer the following points for emphasis.

First, we welcome the paper, which has incorporated the analysis of the impact of the COVID-19 outbreak on the budget. As predicted by the Fund, the pandemic will likely bring about the largest economic contraction in the Fund's history. We agree with Mr. Merk, in his gray statement, that the potential lending risks arising due to the increased outstanding credit from arrangements with little or no program conditionality may have a significant impact on the Fund's budget. Therefore, we encourage the staff to conduct stress tests on potential risks and to analyze different scenarios. In this context, we support an increase in the maximum carryforward of general administrative gross resources from 3 percent to 5 percent and welcome the staff's suggestion of an exceptional and temporary increase in structural resources to meet the extraordinary demands over the next two to three years.

Second, I would like to echo Mr. Tanaka's point, that the budget should support the goal of diversification set by the Fund. For example, the APD budget accounts for less than 15 percent of the total budget for area departments. However, the countries that APD covers account for more than half of the world population and contribute more than 70 percent of global growth. In addition, many APD countries are geographically at the far end of any international flight route, and the CD demand of this vast region is far from being satisfied. Therefore, we encourage staff to re-evaluate and increase the budget allocation for underrepresented regions.

Finally, we welcome the identified priorities in the proposed FY 2021 budget on fintech, trade, financial surveillance, and the impact of sustained low interest rates. Meanwhile, we also encourage the Fund to further increase resources to enhance its own expertise on macro-critical structural issues, such as the labor market, land market, and state-owned enterprise-related issues.

Mr. Mahlinza made the following statement:

Thank you, Chair, very much for your opening remarks earlier on. We thank Ms. Shannon and her team for preparing this budget under extraordinary and uncertain circumstances, as well as for their outreach to our offices. We have issued a gray statement, and I will make some brief comments.

First, we want to commend the OBP for the well-crafted budget, as well as the initial reprioritization. We support the immediate objective to pay close attention to support members in meeting their short-term priorities. As noted by staff, it is clear that the program demands arising from this crisis will result in structural changes in resource allocation. We, therefore, remain open and look forward to a discussion on a possible increase in structural resources to meet crisis-related demands over the next two to three years, as intonated by staff in their paper.

Given the uncertainty under which the mid-term budget has been prepared and the implications of the global pandemic on the Fund's work program, it is important that the Board is regularly updated. In this regard, we agree with Mr. Mozhin on the call for more active Board engagement on spending reallocations. We consider diversity and inclusion to be an important priority for the Fund. Therefore, we encourage hiring managers to pay particular attention to diversity and inclusion when hiring personnel. In the same vein, we support Mr. Mojarrad and Mr. Geadah's call for OED financial year 2020 carry forward resources to be made available for the Fund's general administrative budget to help boost hiring staff from underrepresented regions and the Special Appointee Program.

Finally, we welcome the Fund's increased focus on fragile and conflict-affected states. Fragile and conflict-affected states are particularly vulnerable to the pandemic, with weak healthcare systems and limited capacity to contain pandemic. Like others, we also agree with the priorities and the extensive work on climate change. We continue to see climate change as an important priority.

Mr. Guerra made the following statement:

We thank the OBP for the comprehensive set of papers, their engagement with our office, and their hard work under these particularly strenuous circumstances. We want to emphasize three points.

First, on capacity development, Ms. Mahasandana has already covered it, so I will join her.

Second, the Fund should effectively fulfill its mandate, notwithstanding the increased lending demands. Departments should have adequate resources to continue to work in all priority areas, including enough resources for financial supervision, work on climate change and inequality. In this regard, we should not forget that the flat real budget is not an objective in itself, but a very effective instrument. We request that when the additional budgetary proposal is brought to the Board, a one-time structural increase in our budgetary resources should be considered. I can see arguments, in the sense that this increase could be temporary. However, this increase would be one step structural, given that we are going to have, after the 100-plus programs, an increased level of debt and an increased level of demand for Fund engagement.

Third, the planning for additional budgetary resources should come to the Board in a timely way. Let me explain what we mean by this. The rest of this year will be instrumental to set the basis for a durable and structural recovery. We need to be ready with adequate resources to control the additional upcoming demand for IMF engagement. In this regard, we believe that there is a need for greater urgency and clarity in the budget timeline and action plan to confront the post-COVID-19 crisis period.

The Managing Director’s introductory remarks gave us confidence that the plan to address this issue is going to be taken up in an effective and an expedited way. We have to be knowledgeable. We have to remember that there is a fine balance that we need to go through in order not put too much pressure on staff. We know that we are planning to hire additional staff who have previously worked here, which will be expedited, but there are going to be additional human resources that we need to hire.

With this, I will finish with a reflection. We cannot demand IMF staff to run a marathon at the speed of a 100-meter race. Even prior to the crisis, half of area department staff reported pressures and an unbalanced work and life. Now it is the responsibility of this Board to act in a timely manner to protect our most valuable resources, our human resources, and effective delivery to the membership.

Thank you, Chair, for your leadership in this regard.

Mr. Morales made the following statement:

We thank OBP staff for the good reports, the outreach to our office, and the answers to our questions.

As we stated in our gray statement, we agree with the proposed FY2021-2023 medium-term budget and the provision that unspent net administrative expenditures for FY 2020 would be carried forward to the next financial year.

As we mentioned in our gray statement, we are impressed by how the enhanced budget procedures have helped to raise budget execution. At the same time, we are concerned that the room for additional efficiency gains may now be extremely narrow--with some examples mentioned this afternoon, and there are others, both on CD and on surveillance that I am sure many of us have in mind--which may force the Fund to continuously reprioritize its work, in addition to what is demanded by the sudden changes in global conditions, like the one that we are experiencing now.

We know that the Big 5 projects could help mitigate these tensions in the medium term, but we do not really know by how much. What we know from past experience is that previous attempts to simplify processes, including HR procedures or CD mapping, showed mixed results. Therefore, it seems prudent, at some point, to consider steps to anticipate the possibility that the extent of the efficiency gains from these projects could be lower than expected.

In the short run, it seems appropriate to have a chance to look at the supplementary budget containing a temporary increase in the Fund’s administrative budget, responding to the challenges arising from the COVID-19 pandemic. In the medium term, the Fund needs to ensure that it has sufficient resources for the policy work ahead once the economy recovers.

Between the short and the medium term, we agree with many Directors that periodic updates on the budget implications of changes in the work program are going to be key to guide future budget decisions. In particular, we want to avoid a repeat of the 2009 episode when the Fund lost experienced staff through a downsizing, when positions were canceled, including in the Offices of Executive Directors, to promptly switch to a staff recruitment in large numbers because of the global financial crisis. We understand that some temporary adjustments to staff country teams are taking place. We need to figure out soon how much of these requirements will become permanent.

Mr. Mozhin made the following statement:

We thank Ms. Shannon and her OBP team, for the reports, the outreach, and the written responses to our questions. We support the proposed decisions and would like to make a couple of points for emphasis.

We are concerned that even prior to the COVID-19 shock, the Fund's budgetary buffers had already been diminished due to the rigid real flat budget strategy that had been in place for eight consecutive years. These days, the Fund is recommending all of its members to increase spending, and the Fund should not fail to lead by example. In that respect, I welcome the flexibility demonstrated by the authors of the joint gray statement issued by 12 chairs, who have accepted the possibility of a temporary increase in the Fund's budget, should the need arise.

We commend staff for the extraordinary efforts to urgently address the COVID-19 crisis. Due to the lack of budgetary resources, the immediate response was based on a surge in uncompensated overtime, ad hoc and informal staffing rearrangements, as well as the deferral of everything that was deemed to be nonurgent work. As we highlighted in our gray statement, such an exceptional response provided the first line of defense but will not be sustainable for an extended period. The Fund needs to move from an initial emergency response to ongoing crisis management and recovery, including through a rapid and sizable increase in staff resources.

We are concerned that the proposed spending reallocations on priority areas and departmental needs in FY 2021 do not incorporate COVID-19-related effects. We share the staff's view that a fundamental review of the Fund's work program is needed to strike a balance between crisis-related work and other key priorities in a more formal, efficient, and sustainable way.

We call for conducting this review, and the sooner, the better. A full assessment of the budgetary implications for the updated program will be crucial.

We welcome the recent measures to strengthen knowledge management in response to COVID-19, including the creation of the COVID-19 knowledge hub. We believe that this hub can be very useful in supporting the efforts to address the current unprecedented crisis. Our chair has been actively calling for these types of initiatives and various knowledge platforms to strengthen and improve the dissemination of knowledge, policy advice, and best practices across the Fund and its members. In this context, we are seriously concerned that access to the COVID-19 knowledge hub is denied to the Board and Board members. We would appreciate some elaboration on this situation.

Finally, I would like to raise something else. Recently, the Board approved, on a lapse of time (LOT) basis, an increase in the staff's contribution to the Medical Benefits Plan (MBP). I regret that I failed to focus on this report and accepted the LOT decision, because I have serious questions about the proposed decision. We have a rule that MBP contributions should be increased by the same level as the structural salary increase. This time, the overall salary increase was used, instead of a structural salary increase. This would seem to be changing the rule as a matter of convenience, without any consideration.

I am opposed to the very regressive scale of the MBP contributions, so that the higher paid staff have a cap on their contributions proportionally, while the lower paid staff is required to pay more. I certainly realize that this topic is not for this Board discussion. However, as I am not sure where else I can raise these questions, I felt I had better raise it now.

The Chair made the following statement:

Thank you very much, Mr. Mozhin. On the point about access to information, we will follow up, and we will come back to you. Of course, we would like to have the Board and, broadly, the membership benefit from the work we do. I promise you that we will look into the situation. We will make sure that we make every effort possible for the Board to be able to tap into the knowledge that we generate and what we learn from others.

Your second point, about the staff's contribution to the medical plan. There is, indeed, an objective to keep contribution increases aligned with the structural salary increase, but there is also an overarching objective for the plan to be financially sustainable. What has happened over the last years is twofold. One, health costs in the United States went up. Two, specifically for the Fund, there has been an increase in larger claims; in other words, more people needing much larger financial support to deal with medical conditions. That is what has led to the necessity to make an adjustment. It is, of course, not something that we enjoy. On the other hand, we do have an obligation to make sure that the medical plan is financially sound.

I take note of your point about higher paid and lower paid staff. I do not know the details, so I cannot react to that. I will certainly work with

Kalpana and will make sure that somebody gets back to you on that point as well.

As a matter of fairness, I am always in favor of making sure that we treat people accordingly by sharing the burden in the fairest possible manner. If there is room for any improvement in that regard, we will explore it.

Mr. Raghani made the following statement:

Thank you, Madam Chair, for your introductory remarks. I thank staff for the set of papers and Ms. Shannon for the opening remarks. We welcome the opportunity to discuss the FY 2021-23 Medium-term Budget at this critical moment, when the membership is facing a major global challenge. I also thank staff for the responses to our questions. We support the proposed decisions. As we have issued a detailed gray statement, I will be very brief and will limit my intervention to a few points.

First, on the size of the budget, I believe in the appropriateness of a flat real budget. I will abstain from elaborating on this principle that has been underlying our budget approach for eight years. At the same time, as a matter of consistency, the budget should reflect our objectives and priorities. We cannot adopt a Work Program and, when it comes to the means necessary to implement these programs, we do not take the decisions that result from it. I think there is a need to review this paradigm of a flat real budget. We need to adapt our budget to our mandate and our priorities. There is a need to review. We cannot extend our activities, aspiring to be effective and, at the same time, constraining the resources needed to achieve our objectives. We have highlighted in our gray statement the need for budget flexibility to make sure that we respond adequately to the needs of our membership. We also stressed the appropriateness to consider a scenario with the budgetary implications of COVID-19.

On capacity development, I just want to make a point on a specific issue that we have in our constituency. It is related to the case of São Tomé and Príncipe and the issue of a resident representative. It is the only fragile sub-Saharan Africa without one, despite many calls, including to that effect from colleagues at the Board. Again, we call on staff to look into this matter.

On diversity, I echo the points made by Mr. Mahlinza, Mr. Mouminah, and others, on the issue of diversity in our budget priorities.

Mr. Natarajan - made the following statement:

We thank the staff, particularly from OBP, for preparing this budget and presenting it today.

The context of this budget is extraordinary. The situation is fluid and will remain so in the foreseeable future. We appreciate the efforts taken to reprioritize the activities and adapt to the situation. A proactive response to the urgent needs of the members is of the highest importance. For this, there is a need for flexibility, innovation, and vigilance. As we support the budget proposals, we would like to highlight some key points.

In the context of the budget and in general, this is not a normal year; hence, our approach to the budget and its implementation should take into consideration these extraordinary circumstances. This is certainly not a normal year. Given the immensity of the crisis and the demands on the resources, we support a reprioritization of the activities and a particular focus on emergency funding support to the members.

We can expect a huge rise in the Fund's financial exposure in terms of the number of members, as well as the quantum of exposure. This requires a strengthening of concurrent surveillance in the overall situation to stay abreast of what is happening. We also welcome the emphasis on capacity development and the capital expenditure on IT. I share the points expressed by my colleagues on the issue of external funding for capacity development. As we go along, I hope we will be able to assess this situation much better and be prepared for any eventuality.

We support and encourage the capital expenditure on IT infrastructure. We note that the implementation of capital expenditure will take a longer time. At the same time, a stronger IT backbone is a necessity even during the normal day-to-day activities of the Fund. So any requirement, anything to support that should be taken care of, so that the IT infrastructure is adequate and fulfills our requirements.

The Chair - If there are no other Directors requesting the floor, we will turn to Ms. Shannon. Ms. Shannon, quite a number of points were raised by Directors, many of which have been signaled in the gray statements. Could you just please address those that are additional to the gray statements.

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

I can be very brief. I think that some of the questions were answered by the Managing Director during our discussion. Let me touch on three particular points.

First, on CD. There was a question about the impact of CD on the Fund's own budget this coming year and the potential risks around that. This comes from the lower-than-expected management fees and the impact on the coverage of the staff who would typically charge their time. Just to say that we are fully alert to this issue, and the work underway to increase our delivery through innovative mechanisms is one response to that. Of course, the Fund will look forward to being in a position to deliver CD both in-country and virtually in the coming period.

We will be working with ICD and the CD-delivering departments on the governing agreements with the donors on that eligible costs and the tiered ability to charge back to the eligibility of the costs that link to the original purpose of the funding. Indeed, the corollary to that is our ability to maintain strong external funding for CD operations. As we noted in our written responses, our colleagues in the Global Partnership Division of ICD are working quite closely with donors on that issue.

A second set of issues was around capital expenditures. There were a number of questions about COVID-19's impact on the Big 5, and this issue of a potential increase in spending on audiovisual. Just to say that the notion is, if we are going to be doing more work remotely, if we are going to be working to increase our ability to deliver to all of our members through new techniques, we need to be prepared to invest in the infrastructure to make that possible. While our current capital funding for audiovisual is focused on a traditional cycle of replacement, we are also stepping up our thinking about how to make sure that we can deliver remotely. Certainly, the Big 5 projects, which will rely on cloud-based solutions and rely on mobile delivery, support our ability to work remotely and work much more flexibly. So that is all toward the same objective.

There was a question on the impact of budget administration, as we do move toward more cloud-based solutions. This is certainly something that is on our radar. Just to confirm, we will be looking at this for the next budget cycle, to come to you with a specific proposal on how we can address that, also looking at what our sister institutions are doing on this issue because it is impacting others as well. So following best practices can help make sure this does not create artificial pressures on the budget going forward, as these iCloud costs come online.

Finally, there was a specific question about the period that would be covered in the supplement. We will certainly focus on the period of FY 2021 but will start to bring out a broader picture of what we see developing in the period thereafter. To the extent that we are increasing program engagement later this year, including during the summer, that is going to require investments over time. We will bring you as specific information as we can. We certainly take note of the principles in the framework that were discussed at the beginning by Ms. Levonian, and we will come back based on that guidance. We will also come back in the normal cycle for the FY 2022 budget to provide the Board the opportunity to continue to consider the budget as we get more information over time.

The Chair made the following statement:

A number of Directors were keen to make sure that we do not go overboard in a way that may be harmful to the service of the membership, and I hear you on that.

I also take note that some of the Directors are concerned that there are some priorities on which we may be a little slow and that are important in the context of this crisis. I particularly noticed the attention to the issue of financial stability and how well prepared we are to defend it. Of course, we take the encouragement you are giving us to heart.

I want to make one very personal comment here. People are hurting. In our membership, businesses are affected. Individuals are affected. Policymakers are struggling with a very difficult situation. For us at the Fund, it means we do our best not to fall short in our own determination to do what we have to do in the most efficient and effective manner. We want to be there for the members, but we want to be there for the members in recognizing how tough this moment is. We have to be an example in sharing the pain of our members.

The following summing up was issued:

Executive Directors approved the FY 2021 budget proposal, while recognizing the severe uncertainty associated with the duration and impact of the COVID-19 crisis. They were pleased with the Fund's rapid response, and stressed the importance of maintaining the capacity to quickly and comprehensively help the critical needs of the membership.

Directors encouraged ongoing reallocation, reprioritization, and streamlining efforts to ensure the best possible use of available resources, especially against the backdrop of the exceptionally challenging conditions among the membership. They encouraged learning appropriate lessons from the expanded use of IT solutions during the crisis to improve the efficiency of the Fund's operations. To help meet urgent departmental demands in FY 2021, they agreed to an increase in the maximum carry forward from 3 to 5 percent of the Fund's general administrative expenses for the next three years. Given the temporary needs associated with the current crisis over this period, they noted the intention to present the Board with a clearly justified supplementary budget later in 2020, including additional measures that may become necessary in light of developments. In view of the continued uncertainty, Directors asked that the Board be updated regularly on budget developments in a comprehensive manner.

Looking beyond the crisis, many Directors considered that, over the medium term, a flat real budget would continue to serve the institution well. However, a number of other Directors believed that, given the diminished buffers and significant increasing demands from the membership, reconsidering the flat real budget stance would be appropriate. More generally, many Directors stressed the importance of continuing to integrate core elements into the budget presentation, including by coordinating the consideration of spending and income issues and taking into account risks and broader objectives.

Directors agreed that, as the Fund's crisis-related work moves from initial emergency response to ongoing crisis management and recovery, the Fund should stand ready to support members in addressing a range of complex challenges, including debt vulnerabilities, bankruptcies, unemployment, and economic inequality. More broadly, the temporarily delayed work on existing priority areas will need to be resumed, including bilateral surveillance, and work on other areas such as financial sector surveillance, fragile states, governance, digitalization, and climate change, among others. Directors stressed that the delivery of capacity development should be more closely integrated with surveillance and lending activities, leveraging innovative approaches used during the crisis. They looked forward to considering soon a proposed Board Work Program appropriately focused in the immediate period on crisis-related activities, while ensuring that ongoing priorities and workstreams are addressed as appropriate.

Directors acknowledged that FY 2021 will be a transition for the Fund's operations, given the implementation of the Comprehensive Compensation and Benefits Review (CCBR) and the 1HR project, and the continuing work on other large modernization projects. They stressed that these projects should deliver long-term savings, and called for careful monitoring and reporting to the Board. A number of Directors recalled that, as agreed in the context of the CCBR, some of the realized savings would be used to increase the recruitment of nationals from under-represented regions.

Directors agreed with the proposed capital budget, and welcomed that the IT capital budget is allocated to the modernization projects and enhancing information security. Directors welcomed the proposed Capital Investment Framework that codifies the recent practice of seeking Board endorsement for large, transformational projects prior to implementation. They underscored the importance of the envisaged ex ante project justification for Board consideration, including through a business case and cost-benefit analysis.

Directors acknowledged the rising risks to the Fund operations and budget associated with an unprecedented number of program requests and related work. They called for diligence in addressing information security risks, those related to the ongoing large modernization projects, as well as potential risks to the IMF's own budget from delays in donor-financed CD activities. Directors called for heightened risk assessments and timely and comprehensive updates to the Board.

The Executive Board took the following decisions:

FY2021-FY2023 Medium-Term Budget—FY2021 Administrative Budget for the Fund

A. Appropriations for net administrative expenditures for Financial Year 2021 are approved in the total amount of US$1,186.2 million, of which: (a) up to US$74.7 million may be used for the administrative expenditures of the Offices of Executive Directors, (b) up to US$6.7 million may be used for the administrative expenditures of the Independent Evaluation Office, and (c) up to US$1,104.7 million may be used for the other administrative expenditures of the Fund.

B. In addition to the amounts for net administrative expenditures appropriated under paragraph A, amounts appropriated for net administrative expenditures for Financial Year 2020 that have not been spent by

April 30, 2020 are authorized to be carried forward and used for administrative expenditures in Financial Year 2021 in a total amount of up to US$69.4 million, with sub limits of (a) US$15.1 million for the Offices of Executive Directors, (b) US$0.5 million for the Independent Evaluation Office, and (c) US$53.8 million for the other administrative expenditures of the Fund.

C. A limit on gross administrative expenditures in Financial Year 2021 is approved in the total amount of US$1,498.3 million, with sub limits of (a) US$91.2 million for the administrative expenditures of the Offices of Executive Directors, (b) US$7.2 million for the administrative expenditures of the Independent Evaluation Office, and (c) US$1,399.9 million for the other administrative expenditures of the Fund.

D. The appropriations for "other administrative expenditures of the Fund" for Financial Year 2021 set out in paragraph A above and the "limit on gross administrative expenditures" and the sub limit for "the other administrative expenditures of the Fund" set out in paragraph C above will be increased by the amount of the OED Financial Year 2020 central carry forward as determined in the Financial Year 2020 year-end closure of the Fund's financial books. (EBAP/20/30, Supplement 1, 04/21/20)

Decision No. A/14259-(20/51), adopted
April 27, 2020

FY2021-FY2023 Medium-Term Budget—Capital Investment Framework

The key elements of the Fund's updated *Capital Investment Framework* are approved as set out in paragraph 1 of Appendix X. (EBAP/20/30, Supplement 1, 04/21/20)

Decision No. A/14260-(20/51), adopted
April 27, 2020

FY2021-FY2023 Medium-Term Budget—Capital Budgets for Projects Beginning in Financial Year 2021

Appropriations for capital projects underway or beginning in Financial Year 2021 are approved in the total amount of US$98.7 million and are applied to the following project categories:

(i) Information Technology: US$56.3 million

(ii) Building Facilities: US$42.4 million (EBAP/20/30, Supplement 1, 04/21/20)

Decision No. A/14261-(20/51), adopted
April 27, 2020

APPROVAL: November 24, 2021

CEDA OGADA
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:

Prioritization

1. **We believe that more active Board engagement in the discussions of spending reallocations between the Fund's priority areas is needed going forward.** ***Could staff elaborate on their call for a fundamental review of the Fund's work program?***

- The last Board Work Program (BUFF/19/19, Revision 1), finalized in December 2019, has been superseded by the COVID-19 crisis response. In line with the Global Policy Agenda and the IMFC Communiqué from the Spring Meetings, efforts to help members defeat the pandemic and minimize its economic fallout will be afforded priority in the foreseeable future, with other work streams being delayed to make space for crisis-related activities. The Spring 2020 Work Program is tentatively planned for consideration by the Board over the summer ahead of a proposed supplementary budget request.

2. **Continued strong prioritization and reallocation of resources, and close budget monitoring and controls are required. We also underscore the importance of timely notification to the Board of any need for new resources and should the necessary contingent measures be activated. In this context, a robust mechanism is warranted to trigger such review to ensure the swift accommodation of unexpected demands.** ***Staff's comments are welcome.*** **We ask that staff keeps us informed of how they are meeting the increased work pressures.**

- In the proposed two-stage approach, the decision today to increase carryforward will allow us to meet urgent needs while assessing broader needs as the impact of the crisis on ongoing work becomes clearer. Staff would then come back to the Board with a supplementary request, which would provide greater detail on where the need for new structural resources arises and how they would be spent. The final outturn for FY 20 will be reported to the Board in the summer, updating the preliminary information that was included in EBAP/20/30, Supplement 1. We will come to the board informally to discuss this. In this context, we will also update the Board on the ongoing reallocation of resources in early FY21 and the outlook for the remainder of the year.

3. **A budget 7 percent lower in real terms than its level of 13 years ago in a rapidly changing environment risks hampering the Fund's effectiveness in key areas, as too frequent reprioritization may conspire against the quality of delivery and the**

full compliance with the Fund's mandate. *Staff comments in this regard are welcome.*

- The Fund has achieved significant savings over the last decade through modernization, reprioritization, and streamlining as outlined in the main paper. This has created budget space to expand in new areas and adapt priorities to members' evolving needs. At the same time, budget execution has been gradually increased to near 100 percent in recent years. The budget retains some, albeit reduced, buffers. In this context the Board decision to increase the maximum carry forward, along with remaining buffers and anticipated travel savings will provide some room to ensure that the Fund can continue to respond to the memberships' needs in this crisis episode. Once we have better information on the crisis and recovery needs, the full budget implications can be discussed.

4. ***We would welcome further details on non-urgent or non-essential work that could be deferred and the associated costs.***

- Beyond the temporary suspension of most Article IV consultations and FSAPs, several policy reviews have been postponed (e.g., Comprehensive Surveillance Review, FSAP review, External Sector Report, in addition to other scheduled policy items in the last Work Program). In addition, departments have identified other non-essential work that they have deferred or cancelled (e.g., certain analytical projects; events; publications). At Management's request, departments are also streamlining and simplifying business processes to reduce the burden on staff during the crisis and with the support of ITD and the modernization team, utilizing new productivity tools. The Annual Talent Management Exercise has also been streamlined on an exceptional basis.

5. **The Fund will need to support members in addressing a range of complex challenges, including debt vulnerabilities, financial imbalances, unconventional policies, unemployment, and inequality. *We would appreciate staff's additional comments on the key mitigation efforts to address the expected gaps in the Fund's surveillance cycle.***

- While Article IV consultations have been suspended temporarily, the bilateral policy dialogue between staff and authorities is ongoing and has intensified, in particular for countries requesting emergency financing. For all members, teams are closely following the impact of the crisis and the authorities' policy responses, which are summarized in a policy tracker publicly available on imf.org, and country teams remain closely engaged with the authorities on these.

6. **We recognize that the ongoing works on the CSR and FSAP Review may have sizable and immediate resource implications, and that staff's initial assessments might have changed due to the Covid-19 crisis. *We would therefore appreciate if staff could share with us an updated estimate of how much additional funding the two reviews may call for.***

- It is difficult to estimate the extent of additional funding the two reviews may call for, as the cost of implementation would also depend on the Board's final decisions and guidance on the direction of surveillance, including on the extent and degree of changes in surveillance and FSAP modalities. Lessons learned from simplification in crisis would also need to be taken into account.

Capacity Development

7. Can the staff comment on continued availability of external funding for capacity development activities considering the changed circumstances and efforts taken to augment this?

- Staff have been in regular contact with the IMF's CD partners. As of now, partners have indicated they intend to continue with their existing funding commitments. Some partners have also indicated their willingness to provide additional support for activities directly in support of member countries' COVID-19 response. At the same time, significant new financial support for CD activities not linked to the COVID-19 response will likely not be available.

- With immense competing demands on partners' budgets, we expect the funding environment to be a challenging one going forward. Thus, while most of our regional centers and trust funds have sufficient liquidity buffers to support a gradual return to full activity in the next financial year (reflecting the pre-financing model for the IMF's externally-financed CD), we will be working with partners to renew and augment their support in the recovery phase of the crisis. With the delivery of IMF CD likely to increase in support of country programs, and consistent with the greater integration of CD with the IMF's lending and surveillance work, we expect CD fundraising to be more closely linked with other fundraising in support of the IMF's activities.

- On CD delivery, staff welcome the flexibility shown by partners on CD activities they support as we reprioritize resources, modify work plans, and adjust delivery modalities to enable us to best respond to the crisis.

8. **In addition, the crisis would redefine, possibly for a long time, the way technical assistance is provided. While countries increasingly appreciate the experts'**

presence in the field, travel restrictions may be maintained for a long time and demand for CD activities will likely rise further as countries try to rebuild macroeconomic frameworks and buffers in the "new normal". ***Staff comments on this are welcome.***

- Staff anticipates that the demand for CD will rise as countries respond to the crisis, including as a result of increased Fund lending programs. Prior to the crisis, the Fund had already been increasing its ability to deliver CD remotely and this has been stepped up rapidly since the onset of the crisis, with CD departments and member countries adopting new working methods. CD was delivered to 166 member countries in March, despite travel restrictions. The lessons learned and tools developed during this period will be invaluable in ensuring the Fund can respond effectively and efficiently to increased CD demand going forward.

HR Issues

9. **We are particularly concerned about the sharp surge in overtime and workload for staff in addition to the unprecedented challenges of the current stay-at-home environment.** ***Could staff elaborate on possible additional measures aimed at supporting staff in the current situation?***

- The impact of the covid-19 crisis is placing extraordinary demands on the Fund's staff, as evidences in overtime indicators and in the feedback to the staff survey. Management has called on HRD and the broader Crisis Management Team to continue to look at measures to mitigate these pressures.

- Critical in this regard is to reprioritize work and streamline processes. The MD has called for all non-crisis work to be put aside and this has been done, including through the deferral of Article IVs and FSAPs, as well as non-essential publications and events, while review and approval procedures have been significantly streamlined. Additionally, the Fund's performance management process for the current year has been simplified to reduce the burden on both staff and managers. Several other initiatives are also underway to identify opportunities for streamlining at the project, departmental, and Fund-wide level to identify streamlining opportunities in business and operational processes.

- A second priority is to get staffing to front line departments, building on efforts so far with staff from several CD departments provided on temporary loan to crisis teams, and additional support from functional CD departments to country teams. In the short-term, a staff exchange has been established to enable a more efficient and seamless way to match the needs of departments to volunteers amongst Fund employees. With additional resources following today's discussion, targeted increases in staffing will also be possible on a more sustainable basis. Rehiring of Fund retirees on contractual appointments has also been facilitated, which allows a rapid scaling of the Fund's capability by tapping into a resource pool with institutional experience.

- To help cope with the Work-from-Home, the Fund has upgraded its remote working and connectivity tools (see Q.12) and is supporting staff with equipment for working from home on a need-based approach. Managers have been provided with resources to help them managing staff working at home. Flex work policies including for working outside the duty station have been eased. The Crisis Management Team is looking at other ways it may help staff and managers improve work-life balance during the Work-from-Home period, where many staff are finding it more difficult to establish boundaries and expectations.

- Other measures to support staff include lifting the "use or lose" 15-day minimum annual leave usage requirement as well as the carry over cap on annual leave and extending the home leave timetable by up to 6 months, recognizing that many may be unable to take leave or travel. Additional R leave has been granted for the care of dependents (whether they are sick or not).

- The Fund has assisted with the voluntary evacuations of 161 internationally recruited staff and dependents from field offices. In collaboration with the WB/IMF Health Services Directorate, the CMT is working on distributing Personal Protective Equipment to field offices.

10. ***We understand work is underway to establish a framework to support investment in* [initiatives, including the Special Appointee Program, aimed at promoting regional diversity and enhancing recruitment of staff from under-represented regions, including from MENA+] … *such measures in future budgets, and appreciate staff further elaboration.***

- We recognize that significant institutional effort is required to achieve and maintain the diversity benchmarks for underrepresented nationals.

- Going forward, and as outlined in the recent Recruitment and Retention paper, Departments will be required to develop Diversity Action Plans. Additional strategies include the expansion of the Special Appointee Program (SAP), Fund Internship Program (FIP) and Research Assistant Program (RAP), as specific examples which would require additional resources. The CCBR reforms include provisions to increase funding to support HR-related competitiveness, including to provide additional resources to support these efforts.

- In addition, discussions will be opened with the authorities to explore interest in provision of collective financing for positions in the Externally Financed Appointee program (EFA), to rotate amongst participating countries, based on their needs. This could be setup on a regional (MENA) basis, or on a sub-regional basis (GCC, Maghreb etc.).

- Moreover, the mid-career economist pipeline is a key tool to enhance diversity and it has just been replenished with the following candidate characteristics (26 percent are women; 65 percent are nationals of underrepresented regions; 26 percent are French speakers; and 17 percent are Arabic speakers).

- Additional specific diversity measures will also be considered based on the proposals of the 2025 diversity benchmark working group.

Capital Budget/Capital Investment Framework;

11. ***Can staff elaborate the budget implications of measures to reduce the information security risks further to low from medium?***

- The Director of ITD briefed the Board on the Update on the Information Security Roadmap on 01/29/2020. The funding proposed here is consistent with the agreement at that time. Specifically, ITD proposed and the Board agreed:

  - focus the scope of the enhancements for information security on the Fund's Crown Jewels (not all Fund information assets);

  - seek to achieve medium risk over a 3-year period from the current state of high risk.

- Once the Fund has achieved medium risk, ITD would re-evaluate the Fund's information security posture and determine the potential budget and work process impacts of shifting to low risk. A more informed decision can then be made at that time.

12. We would also like to hear from staff how the budget provides for the IT needs related to the recourse to remote working at the Fund.

- The Fund already provided two different remote access solutions (Citrix and Pulse Secure) and various collaboration solutions including video conferencing, web conferencing and instant messaging. Remote working identified a few gaps that were quickly closed by the ITD team. These gaps included network connectivity enhancements, additional licenses for our remote working tools, ramped up remote helpdesk support and an increased need for security monitoring and risk awareness.

In addition, capacity at the IT disaster recovery center was upgraded to provide for greater redundancy in the event of issues impacting HQ remote access infrastructure. These additional needs were covered by repurposing FY20 underspend.

13. More specifically, on the IT budget, we wonder whether the broad-based and intensive institutional experience with remote working has exposed any deficiencies and gaps that call for a change in the way we plan for future IT investments.

- The crisis has demonstrated the ability of the Fund to work effectively under remote arrangements, even with the extraordinary circumstances we are facing. There are opportunities to focus more on solution availability across various platforms and devices, expanded remote-based access and capacity, support for collaboration solutions and effective communication to staff on which Fund technologies and are best suited for particular purposes so that they can securely work from anywhere. Adoption of cloud-based technologies (as with the large transformational projects) will also help in this regard, and the budgetary impacts will need to be managed in line with new Capital Investment Framework.

14. ***Can staff elaborate on the pandemic-related costs impacting the Big 5 modernization projects?***

- The modernization projects are continuing to be implemented through remote work by the relevant teams, with some delays arising from the need to adapt to a remote work environment and the fact that many of the groups that the project teams need to work with are more constrained due to crisis-related pressures. Each project team is continuing to assess the medium-term impact of extended remote working arrangement. 1HR, the most advanced project, will delay its first release to accommodate the challenges in system testing and other project deliverables expected as a result of the remote working environment, with the cost impact still being assessed. To date, CDMAP has retained its planned schedule, taking advantage of the pause in CD delivery to press on with preparations. Discussions are ongoing with our vendor implementation partners to determine the cost impacts (if any) of these delays. iData is expected to come to the Board for consideration in late summer. Work on the Integrated Digital Workplace is continuing with some immediate repurposing to support productivity tool enhancement in the context of the remote working environment.

15. ***We would have appreciated more information on the possible savings envisaged from these projects***.

- On the savings from the projects, the cost-benefit analyses (CBAs) for 1HR and CDMAP envisage savings of around $10 million per year ($6.5 million for 1HR and

$3.5 million for CDMAP). CBAs for other large modernization projects are forthcoming.

Resources and Risk

16. Given the sharp rise in risks to the budget stemming from the Covid-19 outbreak, which requires continued close budget monitoring and controls, could we now assume that the budget risks should be assessed as high?

- With the outbreak of the Covid-19 crisis, the risk of increased program engagement is now being realized. Mitigating actions are as proposed in the supplement: (i) reprioritization of activities; (ii) retaining savings from FY 20 underspend, use of buffers, and an increase in the allowable carry forward, providing approximately $30 million in breathing room; and (iii) consideration of a supplemental budget to be requested later as the situation becomes clearer, to mitigate the risk of a critical impact. Once the crisis impact has been factored into the budget, budget risks would not necessarily increase further, and staff will update the risk assessment at the time.

17. What is staff's current view on human resources and budget to handle the additional program requests?

- The Fund has responded to immediate crisis pressures through reprioritization, increased overtime, and significant temporary reallocation of resources within and between departments. Current reliance on overtime is not sustainable. A fuller assessment will be made on the longer-term resource needs (number of expected programs, extent of analytical work arising from the crisis and its aftermath), the scope for reprioritization and savings from new ways of working.

18. ***Could staff indicate whether and how the new financing requests made by about 100 countries for emergency financial support are taken into account in the FY 21 budget and how they affect the medium-term budgets?***

- Staff is responding to the requests for emergency financing with existing resources through overtime, temporary reallocation, as well as reprioritization and streamlining. The longer-term budget implications from potential follow-up to emergency financing operations have not yet been reflected in the budget, and staff proposes to do so once we have better information on the demand for successor upper credit tranche conditionality programs, demands on surveillance and monitoring, and requests for CD.

19. ***However, we also note that half of these resources [to fragile states] will be allocated on a transitional basis. Could staff comment on how this could affect the delivery to these countries if not enough resources are generated?***

- The approach to resources for anticipated program work, including for fragile states, has been to provide them initially on a transitional basis and bring them into the structural base subsequently as programs materialize, and as structural budget space becomes available from other identified savings. Over time a mix of structural and transitional resources is provided until the increase can be fully absorbed into the structural budget.

20. ***As we support these proposals, we also note the potential reduction in expenses for Spring meetings, staff travel and in some other areas of work. Could the staff provide an estimate of savings from these key budgetary allocations and how much effectively they can be redeployed to enhance the effectiveness of Fund operations?***

- The travel ban and the shift to virtual Spring Meetings provide the bulk of the projected savings of $10 million in FY 20 (text table on p. 4 of the supplement). The proposed increase in the carry forward ceiling would allow making these resources available to front line departments in FY 21. For FY 21, an important source of savings would be from a prolonged travel ban. – we have assumed that continuation of the travel ban during the first quarter of FY21, providing $10–12 million in savings that could be used in frontline departments for the immediate crisis response. A further delay in the return to travel, slow ramp up or structural reduction would also extend these savings.

21. ***Could staff comment on the reason São Tomé and Principe is not contemplated for in the proposed budget?***

- A range of factors are taken into account by area departments in terms of their staffing of country cases. We understand that AFR is working to ensure that its ongoing engagement with all of its member countries is well resourced, including to address the special needs related to covid-19.

Deflator

22. **Staff highlighted in the report additional risks related to the U.S. CPI forecast revisions late in the budget cycle that could require potentially significant changes to the budget after the Board’s approval.** ***We are concerned that the inflation forecast errors can undermine predictability in budget planning and would appreciate additional comments on how these risks can be mitigated.***

- With the U.S. CPI inflation now applying to the full budget, it is important to have the projection available early in the budget cycle to have planning certainty. Therefore, staff have indicated in the paper that we will plan to use the U.S. CPI inflation underlying the January WEO Update which would be available earlier in the budget process. Staff will report on actual versus projected CPI and its effect on budget performance in its annual outturn paper. In the past, the forecast error has averaged out over time.