INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

BUDGET AUGMENTATION FRAMEWORK

May, 2022

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- The **Staff Report** on the Budget Augmentation Framework was prepared by the IMF staff and completed on November 12, 2021 for the Executive Board's consideration on December 1, 2021.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BUDGET AUGMENTATION FRAMEWORK

November 12, 2021

EXECUTIVE SUMMARY

Context. The membership and, in turn, the Fund face an inflection point as we work to emerge from the COVID-19 crisis and address the profound macroeconomic and financial implications of longer-term global challenges. The membership has called on the Fund to step up its work on identifying and managing the macro-critical impact of climate change, digitalization, inequality, and fragility, in close collaboration with partners. The Fund has a long history of agility, adapting in a cost-effective way to shifting needs, and is prepared to do so again, as highlighted in the Fall 2021 Global Policy Agenda. After a decade of real flat budgets, the IMFC has recognized the need to explore the appropriate budget envelope to ensure that the Fund has the staff and skills to continue to carry out its mandate in a changing global context.

New imperatives. Following the 2021 Comprehensive Surveillance Review (CSR) and the 2021 FSAP Review, strategies for the Fund's engagement on climate change, digital money, fragile and conflict-affected states (FCS), as well as inclusion and gender were presented to the Board during April–October 2021. Likewise, the Executive Board reaffirmed the importance of redoubling efforts to strengthen macro-financial surveillance. The strategies identified deliverables and related resource implications for the Fund to address these new imperatives, squarely focused on the Fund's mandate and expertise, and working in close collaboration with other institutions.

Budget augmentation proposal. To support these efforts and taking on board input from Directors in informal engagements, staff proposes a budget augmentation to be implemented through annual increases in the real net administrative budget averaging 2 percent each year during FY 23 to FY 25 relative to FY 22, returning to a flat real budget trajectory thereafter. The proposed augmentation allows for a ramp up in new areas while ensuring appropriate resources remain in place for existing workstreams. The Fund will continue to exercise strict budget discipline through robust annual savings and reprioritization exercises, even as it builds up new workstreams. The augmentation proposal is consistent with projected income dynamics.

Implementation. Following endorsement of an overall framework for the three-year ramp-up in resourcing, resource allocations will be set out in the annual budgets approved by the Board, starting in FY 23. Carefully calibrated workforce planning and recruitment will support the implementation of the issue strategies. To ensure transparency and accountability, staff will regularly report to the Board on progress in implementing the strategies for the individual issue areas.

Approved By
Michele Shannon

Prepared by the Office of Budget and Planning (OBP) team lead by Andrea Salerno, Anika Shtuni, and Angeliki Economopoulos under the supervision of Axel Schimmelpfennig with contributions from Feras Abu Amra, Gillian Adu, Emre Alper, Leslie Alvarez, Anand Balakrishnan, Raquel Chuayffet, Cher Huo, Mercy Pinargote, Delano Radgman, Haydn Schaefermeyer, Paul Tershakovec, Justin Tyson, Muriel Vimond, and Barrie Williams. Christine Kamunge and Roberto Fernandes Guimaraes-Filho (both HRD), issue strategy teams contributed to this document, as noted in relevant annexes.

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SECTION I. INTRODUCTION

1. Inflection point. Throughout its history, the Fund has adapted to meet fundamental changes in global economic and financial circumstances and the shifting needs of the membership—from the end of the Bretton Woods System in the 1970s, to the 1980s debt crisis, to welcoming new transition economies in the 1990s, to the systemic financial crises in the past three decades (Box 1). Today, the membership and, in turn, the Fund face a new inflection point, as we work to emerge from the COVID-related crisis to address longer term global challenges that will have profound macroeconomic and financial stability implications.

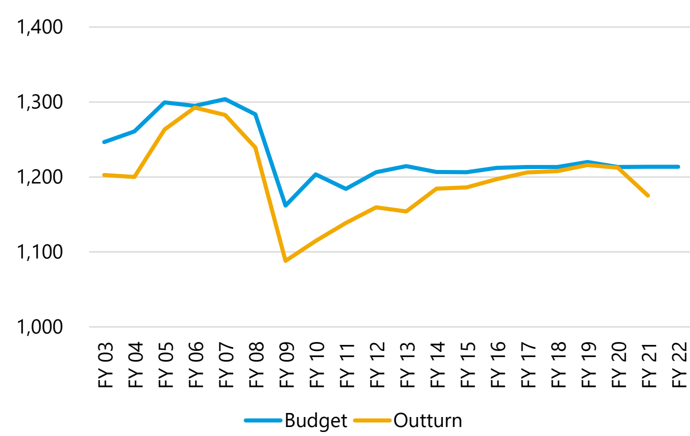
- In April 2021, the IMFC called on the IMF to step up work to help its members identify and manage the macro-critical implications of climate change, digitalization, inequality, and fragility, in close collaboration with partners, and to further integrate these issues into its surveillance, lending, and capacity development in line with its mandate." To this end, in October 2021 it encouraged the Fund's Executive Board to "consider the appropriate budget resources to ensure that the IMF has the staff and skills required to carry out its mandate."

- Rising to this challenge is no small task—with implications for the Fund's staffing, organization, and the way we operate. The Fund will need to continue to focus on its core mandate, building new relevant competencies and reinforcing collaboration with others. The goal is to ensure that the Fund's advice reflects a full range of relevant factors, while continuing to defer to and collaborate with other organizations where they have greater expertise.

2. Budget context (Figure 1). This challenge also has implications for the Fund's budget. The Fund's longstanding tradition of budget discipline, through continuous reprioritization and savings, has helped the institution remain nimble and efficient. At the same time, after a decade of expanding activities within a flat real budget, human and financial buffers have been exhausted. Given the magnitude of the new imperatives, the absence of additional resources would risk crippling efforts to address them in a timely and comprehensive manner, force undesirable trade-offs with critical traditional work, risk compromises in the overall quality of work, and lead to persistent, unsustainable work pressures on the Fund's staff.

Figure 1. Net Administrative Budget, FY 03-22

(Millions of FY 22 U.S. dollars)



Sources: FACTS, OBP. Note: The FY 21 outturn reduction was driven by temporary, Covid-related factors, including a travel moratorium.

3. Scope. This paper therefore outlines a proposal for an augmentation of the Fund's resources during the FY 23-25 period. It comes in the context of an ongoing COVID-19 related crisis response, which has been addressed separately through temporary resources authorized by the Board in the last two budget cycles. It recognizes the importance of helping members build resilience even as they work to emerge from the crisis. It also comes during a period of severe strain on staff—with increased overtime and underutilization of leave. Finally, it comes during a period of ongoing institutional change, with parallel efforts to modernize the Fund and bring lessons from virtual operations during the pandemic into the Future of Work at the Fund.

Box 1. Past Shifts in the Fund's Budget

In the last 30 years, the Fund's budget materially changed during two discrete episodes in response to global changes and new demands from the membership. Given shifts in budget utilization, comparisons here are in terms of outturn.

- **Transition economies.** To support the entry of Eastern European and Former Soviet members to the Fund during the 1990s, real expenditures grew by an average of 14 percent (year-over-year) during FY 92–94, as the Fund's membership increased significantly. Over the full decade, the average annual real increase in expenditures was 5 percent.

- **Global financial crisis and aftermath.** Coming on the heels of a significant downsizing of Fund real expenditures beginning in FY 09, Fund spending grew by about 2 percent annually from FY 10 to FY 12, utilizing temporary resources. During this period, resources were focused on temporary needs associated with the crisis, mainly in EUR, but also encompassing increases in other departments directly involved in the crisis response. Spending growth also addressed early work to take on board the lessons of the crisis. In FY 12, the Fund recognized the benefit of maintaining an expanded role, including through support for the G-20 and other international fora, new products related to multilateral or systemic surveillance, and enhanced financial sector surveillance, notably through mandatory, regular FSAPs in countries with systemically important financial sectors. Temporary resourcing was thus made structural and has formed the baseline for the real flat budget anchor over the last decade.

4. Principles. The proposed augmentation incorporates four Board-endorsed principles:

- **Ongoing budget prudence**, with reprioritization and savings continuing to be a core element of the budget process and with reversion to a flat-real budget trajectory following the augmentation.

- **Focus**, including by framing new work through robust, issue-specific strategies endorsed by the membership, driven by the Fund's mandate and expertise, and recognizing the need to preserve resources to deliver in existing workstreams and the importance of collaboration with partners.

- **Sound implementation**, with a phased approach that marries strategic requirements with organizational, HR, and budget needs in an integrated and structured manner, consistent with the Fund's absorption capacity.

- **Sustainability**, ensuring the augmentation is consistent with the Fund's medium-term income outlook and precautionary balances objectives, as well as the risk management framework.

5. Prior discussions. This proposal builds on discussions on the principles and timeline for a potential augmentation in the context of Board approval of the Fund's FY 22 Medium-Term Budget in February and April 2021. It also builds on discussions of underlying strategies to address emerging imperatives during April–October 2021, through the Comprehensive Surveillance Review (CSR), FSAP Review, the Fund's Climate Change strategy, Digital Money paper, as well as informal discussions on engaging with Fragile and Conflict-Affected States in July and October and on inclusion and gender in July. It recognizes important linkages with CSR follow-up on modalities for surveillance and parallel discussions on the Fund's income and precautionary balances. Finally, it builds on the feedback received from the Board during an informal discussion of the contours of the budget augmentation on July 30, 2021, and additional outreach to Directors.

Addressing Global Challenges: Fund Role

Climate change (Annex I). Working with partners to assist members in addressing macro-critical aspects of mitigation, transition to net zero, and adaptation; leveraging fiscal, financial, and structural policies; supporting multilateral solutions.

Changing Financial Landscape

- **Digital money** (Annex II). Analyzing and helping the membership to address the implications of digital money on economic and financial stability as well as the stability of the international monetary system, in coordination with partners.
- **Macrofinancial surveillance** (Annex III). Responding more fully to macrofinancial needs, building on progress in recent years, including better anchoring macro-prudential policy advice.

Inclusion

- **Fragile and conflict-affected states** (Annex IV). Expanding capacity to support these members, especially through reinforced field presence and closer engagement with partners on the ground.
- **Inclusive growth and gender** (Annex V). Drawing on work with partners, incremental investment to support mainstreaming analysis of macro-critical aspects of these issues in country work.

6. Paper structure. Section II provides background on the strategic and budget context. Section III outlines the proposed augmentation, with details by issue area (further detailed in individual annexes). Section IV lays out operational considerations. Section V considers risks.

SECTION II. OVERVIEW

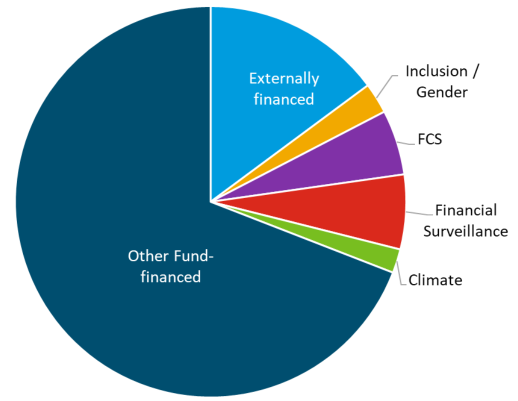
A. Strategic Context

7. Global Challenges. As highlighted in the Fall 2021 World Economic Outlook, the global economic recovery continues notwithstanding persistent pandemic-induced fault lines, with new challenges posing a threat to long-term sustainability. The Managing Director's Fall 2021 Global Policy Agenda highlights the need for bold measures to tackle a range of disruptive forces by accelerating the transformation of the global economy and calls for the Fund to adapt, by expanding and refining its support to members in addressing the climate emergency, the digital money revolution, and the increasing divergence within and between members.

B. Budget Context

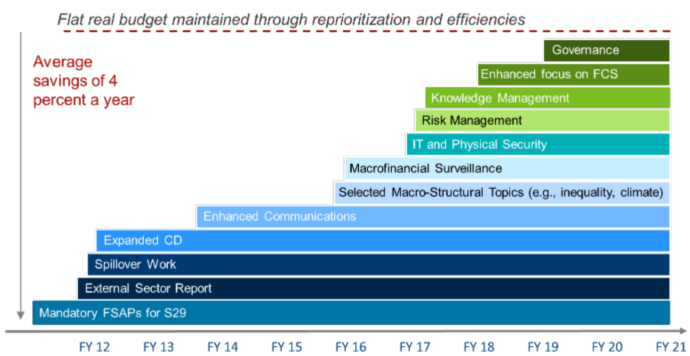
8. Overview. The issue areas covered by the proposed augmentation fall within workstreams that currently represent less than 20 percent of the Fund's $1,214 million net administrative budget (Figure 2). The bulk of Fund spending in core traditional areas will be unaffected by the augmentation and continue to be managed within the existing envelope. An additional $210 million in external financing mainly supports the Fund's capacity development activities.

Figure 2. FY 22 Budget Allocations



- **Tradition of agility.** Recent budgets reprioritized an average of about 4 percent of the aggregate envelope, releasing resources for expanded activities in other areas in response to evolving needs within a flat real context. As such, Fund activities have evolved, incorporating advice from the IEO on issues including financial sector surveillance, fragile states, or social protection (Figure 3). Indeed, early incremental growth in issues areas covered by the proposed augmentation was funded through such reprioritization. A robust annual framework provides for Fund-wide and department-level review of the scope for savings, while periodic Fund-wide streamlining exercises and the ongoing modernization agenda identify capturable savings that can be redirected to higher priority uses (see Box 1 in the FY 22 Medium-Term Budget report for a detailed discussion).

Figure 3. Extensive Reprioritization in Last Decade



Source: OBP

- **Ongoing reprioritization.** While the targeted augmentation would protect against unacceptably deep cuts in ongoing activities, it does not displace the need for ongoing reprioritization at levels in line with recent years. Indeed, the bulk of Fund-financed activities will need to continue to be managed within an unchanged envelope. This includes ensuring sufficient space is available to address potential needs for new crisis lending against an uncertain outlook. It also includes the expected ramp up of work on debt (including sovereign and corporate debt restructuring), medium-term fiscal and monetary frameworks, international taxation, and governance, including work on illicit and tax-avoiding financial flows. Likewise, it includes continued review of the lending framework and resourcing, additional work on concessional financing, debt vulnerabilities and relief, as well as the G20 Data Gaps Initiative. For the Fund's own operations, it includes investments in risk assessment, modernization, and, over time, new ways of working associated with lessons from the crisis (Box 2).

Box 2. New Ways of Working

As noted in the FY 22–24 Medium-Term Budget report, new ways of working provide more flexibility to staff while maintaining a productive and inclusive work environment, potential savings or cost avoidance in facilities-related expenses, and the ability to reduce the Fund's carbon footprint. They will also require upfront investments, with the net implications over time hard to predict. The Fund has initiated four workstreams that complement the ongoing modernization of the Fund's operations, covering the hybrid workforce model, the Fund's global presence and workforce, HQ operations and facilities, and the Executive Board modernization and engagement. Estimated costs and potential net savings will be discussed in the upcoming annual budget proposals.

As part of these efforts, scope to incorporate virtual engagement more fully in the Fund's toolkit will be considered. The crisis period and resulting travel ban have pointed to both benefits and limitations of virtual engagements, as detailed in the April budget paper. This experience suggests targeted scope for substitution of travel with virtual engagement over time, supported by investments in technologies. However, the experience also points to the continued centrality of in-person engagement for traction, broader effectiveness, and efficiency of the Fund's operations.

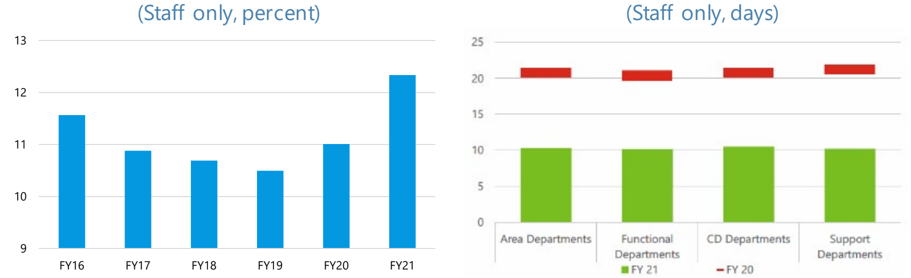
- **Crisis and recovery needs.** The Fund has met significant crisis-related needs, in terms of member services and its own crisis operations, within the existing budget envelope. This was achieved through reprioritization and use of temporary savings (including through reduced travel), supported by a temporary expansion in the scale of unspent resources that can be carried forward for use in future years. These resources will be unwound as crisis needs abate.

- **Reduced budget buffers**. Pre-crisis budget execution reached close to 100 percent. While the Fund maintains a small structural buffer (0.7 percent), the Fund is dependent on temporary, one-off resourcing for flexibility in budget execution and to accommodate additional needs.

- **Exhausted human buffers**. Despite reprioritization, work pressures have increased by a variety of metrics, including overtime, leave usage and training (Figure 4). In part, this reflects crisis-related activity, with an increase in average mission length in the virtual environment and with time differences requiring significant off-hours work. While rising pressures are to be expected during a crisis, the episode also illustrates that human buffers had been exhausted in the run-up to the pandemic, and limits on slack to meet new demands.

Figure 4. Average Overtime Rate and Annual Leave

Average Overtime, FY 16-21 1/ (Staff only, percent) | **Avg Annual Leave by Dept Type, FY 20-21** 1/ (Staff only, days)



1/ Excludes regional offices. Percent of actual hours worked

1/ Excludes regional offices.

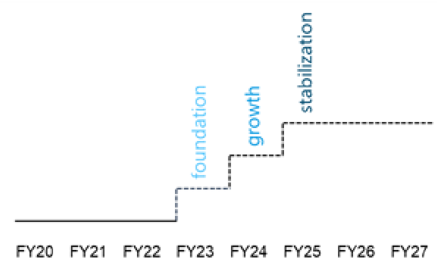
SECTION III. PROPOSED AUGMENTATION

A. Overview

9. **Proposed augmentation framework**. Recognizing that the Fund's budget is subject to annual review and approval by the Executive Board within a medium-term context, staff propose that the Board endorse a framework for an augmentation to the Fund's net administrative envelope that will set the foundation for staff proposals for FY 23 through FY 25, with reversion to a real, flat envelope at the new, higher level thereafter.

- **Phased augmentation and implementation.** Reflecting Board feedback, staff will propose a phased augmentation over three years (Figure 5). This balances the need for predictability to support strategic planning of sequential implementation with the need for time for effective recruitment in new areas and for ongoing review of strategies and organizational readiness. Hiring would be slightly backloaded, drawing on existing hiring channels (Economist Program, mid-career pipeline, visiting scholar and expert tracks—predominantly specialist economists), as well as new markets for specialized skills. Hiring of harder-to-fill positions (e.g., digital money specialists; certain field positions in FCS) would ramp up more slowly.

Figure 5. Multi-Year Budget Shift



- **Scale**. The proposed scale reflects initial resourcing proposals by each issue strategy team (taking into account existing resources), a robust vetting of initial proposals consistent with prudent budget principles, as well as input from Executive Directors on individual issue strategies and the overall augmentation framework (Box 3). Underlying deliverables and associated resourcing have been updated following these discussions. Real resourcing averages 2 percent of the FY 22 net administration each year over three years, with slight backloading:
  - **FY 23—Foundational.** About 1.8 percent real augmentation versus FY 22 (about $22 million in FY 22 dollars), allowing development of core tools, guidance, and analytics, while piloting country engagements. Dollar resourcing will support increased staffing in field offices (over the three-year period). This period will also focus on development and launch of recruitment and broader organizational and support planning.
  - **FY 24—Growth.** About 2.1 percent real change versus FY 22 (about $25 million in FY 22 dollars), with expanded recruitment and increased capacity to leverage increased expertise and analytic foundations into direct country engagement.
  - **FY 25—Stabilization.** About 2.1 percent relative to FY 22 (about $26 million in FY 22 dollars). Ramp up would continue and begin to stabilize. Budgets for FY 26 and forward would be maintained at the FY 25 level on a flat real basis.

Box 3. Costing

Objectives and deliverables. For each issue area, the Board has discussed objectives and concrete deliverables for Fund engagement. Formal strategy discussion on FCS and updates on plans related to inclusion and gender, drawing on previous informal discussions, are planned during FY 22.

Direct resource implications. Based on quantified deliverables, direct personnel requirements were derived using relevant unit costs and reflecting existing resources allocated to these issues, prospective availability of external funding for CD delivery, and anticipated synergies between issue areas, given expected overlaps (e.g., coverage of inclusion and gender in FCS members, or coverage of digital money issues by macro-financial experts on country teams). An additional 5 percent discount was applied to capture further synergies and efficiencies in the implementation process.

Overhead costs. The scale of the proposed augmentation also recognizes both direct non-personnel costs (e.g., travel) and indirect costs (e.g., HR, corporate services and facilities, IT support, outreach), associated with the incorporation of new staff, recognizing scope for economies of scale. Specific indirect activities include expanded:

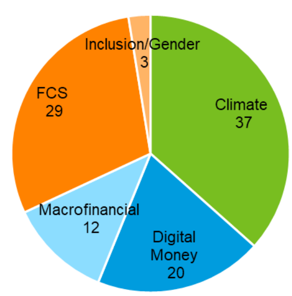
- Workforce planning, recruitment, onboarding, HR administration, and career support for new personnel.
- Communications, including broadcast, digital communications, design, language services, and supporting membership engagement.
- Support for greater field presence, including security, real estate, HR, and connectivity/IT support.
- Building operations (cleaning, maintenance, utilities) and field-based office and housing costs. HQ office space is assumed to be adequate to accommodate new personnel under the hybrid working model.
- Purchase/expansion of software and IT-related licenses for the additional personnel.
- Expanded IT support associated with the increased headcount.

Feedback. Based on Board feedback, the overall scale of request (and associated deliverables) was moderated, while ensuring that core underlying objectives supported by Executive Directors were protected.

- **Allocation by issue area.** The relative scale across issues areas reflects a range of considerations, including the degree of ramp-up supported by the membership and the differing starting points in terms of the existing resource base. Overall, the framework assumes just less than 40 percent of the augmentation would support an expansion of the Fund's work on climate change, with about 30 percent each to support efforts related to the changing financial landscape and strengthening work in FCS (Figure 6). Incremental resources will support more effective leveraging of the Fund's work on inclusion and gender. A further breakdown by issue areas is covered in Table 1 and Annexes I-V. The precise breakdown by issue area will be set out in annual budgets, reflecting ongoing review of underlying strategies.

Figure 6. Overall Allocation by Topic

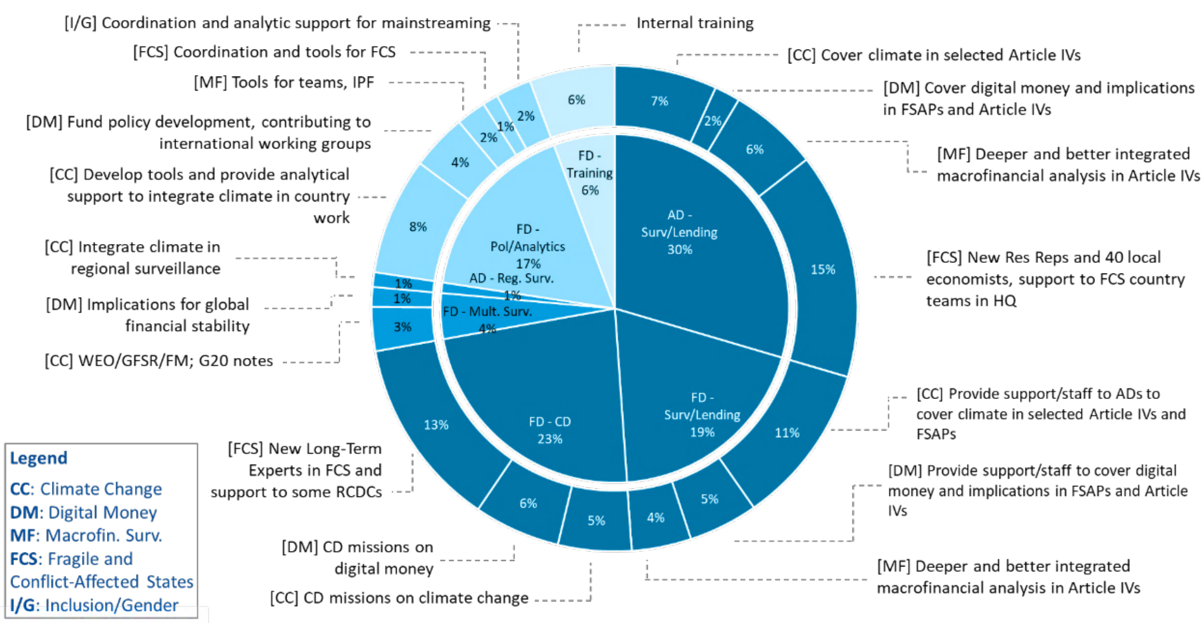
(percent of dollar resource)



Source: OBP; Strategy Teams

- **Allocation by activity and department type.** About 70 percent of resources are expected to support direct country operations, covering surveillance, lending, and, as outlined in Box 4, CD. Remaining resources would support analytic, policy and training-related functions, led mainly by functional departments (Figure 7). Allocation by department and activity will be determined as part of detailed budget formulation and implementation planning, with regular Board updates.

Figure 7. Allocation and Outputs by Department Type



Source: OBP; Strategy Teams

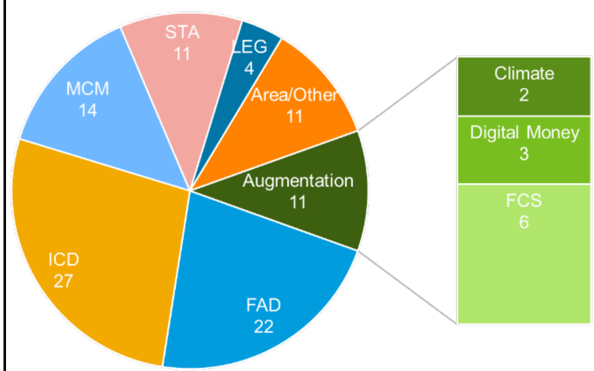
- **Reporting and oversight.** Board approval of the augmentation framework will provide the necessary planning certainty for staff to implement the strategies in a deliberate, strategic, and efficient manner. Regular Board budget and HR review will support ongoing oversight. In addition, staff will periodically report to the Board on progress in the individual issue areas through dedicated Board briefings. Operational and organizational aspects of implementation will be covered in the annual recruitment and retention strategy update, other HRD briefings to the Board, as well as the medium-term budget and outturn reports.

Box 4. Impact of Augmentation in Fund-Financed CD

Direct spending on pre-crisis CD (not including support costs), accounts for about 23 percent of the Fund's overall spending (relative to 27 percent for bilateral surveillance and lending combined), over half of which has been funded by donor partners in recent years. Just less than 40 percent of economic department budgets in FY 21 (and 20 percent of Fund-financed budgets for these departments) went to CD operations. The augmentation will support increased CD delivery to members as part of a broader strategy on strengthening Fund CD, including deeper integration with surveillance and lending, strengthened prioritization and monitoring, and enhanced evaluation.

Fund-financed CD and Augmentation

(percent)



Source: ICD, OBP

- About one-quarter of the augmentation ($17 million) will support CD-related activities, equivalent to about 11 percent of post-augmentation Fund-financed CD. The augmentation is largely additive in terms of CD delivery, albeit with $3 million to help stabilize funding for the running costs of RCDCs serving fragile states, freeing these resources up for other purposes. Increases in the existing IMF02 envelopes for climate, digital money and FCS are also proposed in the related strategies.
- Half of the proposed increase for CD will focus on higher field presence in FCS and greater funding stability for key RCDCs facing financing issues. The remainder would help increase CD related to climate change and digital money as an integral part of the respective strategies.

<table>
<tr><th colspan="3">Table 1. Issue-Specific Strategies and Resourcing</th></tr>
<tr><th>Issue Area</th><th>Deliverables</th><th>Implementation</th></tr>
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Climate change. Strategy discussed by the Executive Board in July 2021.

Summary:

37 percent of augmentation

Existing: $28 million, of which $1.6 million transitional. IMF02: About $2 million.

Augmentation (after synergies):
FY 23: $8.0 million.
FY 24: $9.3 million.
FY 25: $9.3 million.

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Country support: In the steady state:

- Coverage in some 45-50 Article IVs per year.
- Every three years: mitigation policies for the 20 largest emitters of greenhouse gases.
- Every four years: adaptation and resilience for the 60 most vulnerable countries.
- Coverage of transition risk to a low-carbon economy prioritized by need (no universal/cyclical coverage)
- 8 FSAPs per year covering climate risk, regulatory, and supervisory assessments.
- In-depth CD coverage to increase by about 25 countries per year, as well as 5 CMAPs.
- A climate-related macroeconomic course will be developed, and climate modules included into existing courses, with supporting online tools and webinars.
- Work is underway to incorporate RST-related work into the broader climate agenda.

Other activities:

- Flagships would continue to include climate-related chapters about once or twice a year.
- Climate work in regional surveillance reports would also be significantly expanded.
- 1 additional Board paper/year complemented by a climate notes series
- How-to notes/templates, in-house models and toolkits

Training and staff support: “Climate 101” course and a “Climate Bootcamp.”

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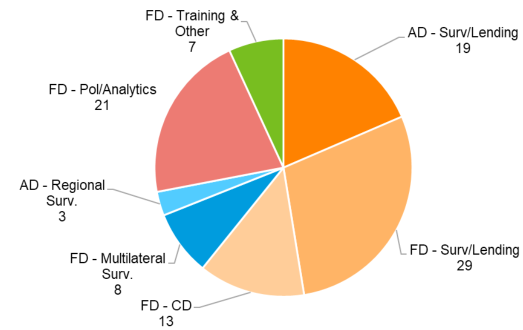
Climate—Allocation by Department Type

(percent of dollar resources)



- **Staff/Organization:** Staffing would constitute HQ-based experts and fungible economists, trained in climate-specific skills. Direct support to Area Departments (including regional coordination functions) will build on and expand existing organizational structures and positions.
- **Phasing:** Early years of implementation would see a focus on developing policies and training. As policies mature, resources would be moved to further increasing country support.
- **Key partners:** World Bank, European Commission, OECD, various UN agencies, International Energy Agency, World Trade Organization, regional development banks, NGOs, FSB, BIS, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), and the Sustainable Finance Working Group (SFWG).

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Table 1. Issue-Specific Strategies and Resourcing (continued)

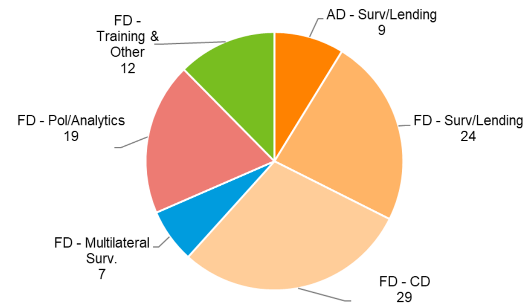
Issue Area	Deliverables	Implementation
Digital money. Strategy discussed informally in April and formally in July 2021. **Summary:** 20 percent of augmentation Existing: $4 million, of which $0.3 million transitional. No IMF02 resources. Augmentation (after synergies): FY 23: $3.6 million. FY 24: $5.0 million. FY 25: $5.7 million.	**Country support:** In the steady state: • About 25 Article IVs to cover digital money issues every year with different degrees of intensity, depending on specific needs, • Targeted coverage in about 12 FSAPs annually. • In-depth CD coverage to about 35 countries per year. **Other activities:** • Fund's contributions to G7 and G20 efforts would increase (participation to 4 international working groups per year), as would policy papers, reference notes and toolkits to support bilateral surveillance. **Training and staff support:** • Internal training (4 sessions per year) would be provided in the form of regular courses, workshops and seminars to help bring economists up to speed.	**Digital Money—Allocation by Department Type** (percent of dollar resources)  • **Staff/Organization:** Supporting structures would include a cross-departmental coordination group; a technology learning environment with the World Bank; a dedicated online platform; an active seminar series; an external advisory group. Work includes a mix of resources for Article IV teams (from both AD and FD), FSAP teams (FD), and CD teams (FD). • **Phasing:** Initial implementation efforts will focus on building the analytical foundations (policies, tools, review capacity, training). Surveillance and CD will be ramped up soon after. • **Partners:** Bank for International Settlements, World Bank, Financial Stability Board, Committee on Payments and Market Infrastructure, Financial Action Task Force. • **IMF02:** Additional external resources, to be proposed through the CCB process, would help support LTXs in Regional CD Centers (RCDCs).

Table 1. Issue-Specific Strategies and Resourcing (continued)

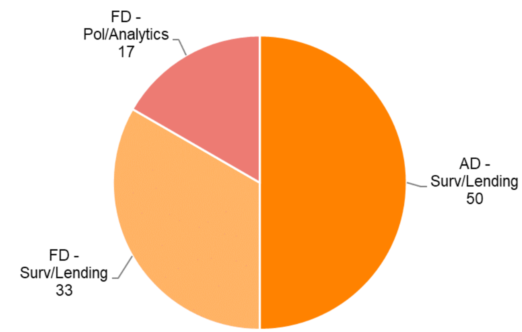
Issue Area	Deliverables	Implementation
Macrofinancial surveillance. Follow-up to the 2019 IEO evaluation and the CSR. **Summary:** 12 percent of augmentation Existing: $83 million for financial surveillance, of which $3.2 million transitional. No IMF02 resources. Augmentation (after synergies): FY 23: $3.9 million. FY 24: $2.6 million. FY 25: $2.2 million.	**Country support:** • Over 80 percent of the additional resources would provide direct country support with the goal of eliminating the identified gaps in the depth and integration of macrofinancial linkages, systemic risk analysis and macroprudential policy advice. **Other activities:** • The remaining resources will help better integrate and deepen macrofinancial analysis of systemic risk to better anchor macroprudential policy advice through toolkit development, training, and support through the review process. **Training and staff support:** • Macrofinancial analysis is part of the Fund's structured curriculum. Specific additions to current training will begin with an expanded use of the Systemic Risk Tracker, Growth-at-Risk, and training on financial development, inclusion, and integrity.	**Macrofinancial Surveillance—Allocation by Department Type** (percent of dollar resource)  • **Staff/Organization:** In the steady state, resources for direct country support would be split between ADs and FDs , with staff deepening skills in MCM and then rotating to ADs. • **Phasing:** The phase of recruitment will be at a pace at which the gap in macrofinancial analysis can be closed in a three-year period. • **Partners:** The Fund needs to have an independent view about macrofinancial linkages, systemic risks and policies in Article IV consultations. Teams will leverage work done by the Fund in collaboration with other institutions (e.g., the Financial Stability Board or the World Bank).

Table 1. Issue-Specific Strategies and Resourcing (continued)

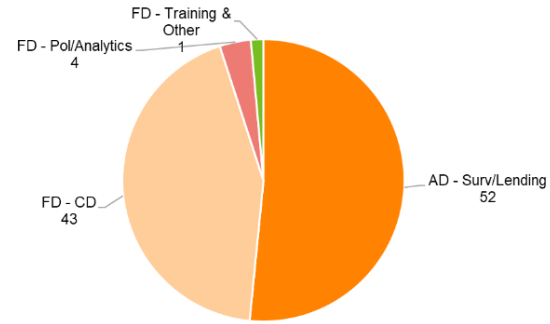
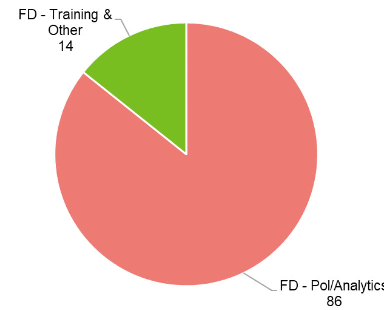
Issue Area	Deliverables	Implementation
Fragile and Conflict-Affected States. The updated strategy for enhanced engagement on FCS was discussed informally at the Board in July and October 2021, with the final strategy expected to be approved in early 2022. **Summary:** 29 percent of augmentation Existing: $76 million, of which $3.8 million transitional. IMF02: About $28 million. Augmentation (after synergies): FY 23: $5.3 million. FY 24: $7.4 million. FY 25: $8.5 million. Local economist hires will be undertaken over time, with some frontloading.	**Direct country support:** • Additional resident representatives to grow the coverage of FCS from current 22 to 26 (out of a 42 FCS). Field-based staffing to increase to an average of 2 local economists per FCS field office. • Strengthening support for CD-surveillance integration, in particular for heavy CD users (an expected 30 FCS over the medium term). • Expansion of in-depth and regionally-provided CD support together with existing resources to support backstopping capacity at HQ. • $3 million to cover administrative costs of RCDCs. **Other activities:** • Centralized analysis of the drivers of fragility (including climate change and natural disasters), sharing of experience, analytic frameworks, and collaboration with other partners. • The existing resource base will be leveraged to support FCS teams on governance reforms **Training and staff support:** • Specific internal training will be available to Fund staff, through a dedicated FCS curriculum.	**FCS—Allocation by Department Type** (percent of dollar resources)  • **Staff/Organization:** Staffing increases at HQ would focus on ADs, which would also see growth in their FCS-based local offices and related CD centers. The strengthened Fund presence will require renewed efforts on the employment framework governing local employees. • **Phasing:** Work is expected be somewhat backloaded, leaving space to adjust to experience. Hiring for ADs and field positions will begin upfront but will phased recognizing the time needed to recruit effectively. • **Partners:** World Bank, United Nations, regional development banks, bilateral cooperation agencies, and civil society organizations (CSOs). • **IMF02:** Increased IMF 02 funding will be sought through the CCB process, plus related backstopping at HQ, to be placed either in RCDCs or specific FCS members.

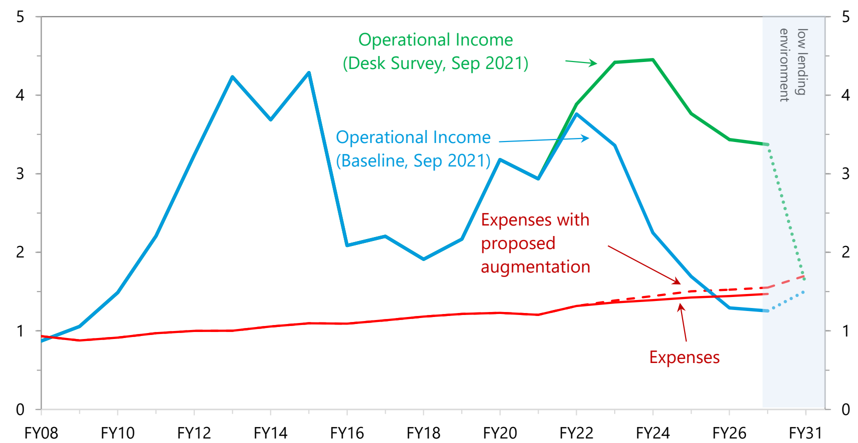
Table 1. Issue-Specific Strategies and Resourcing (concluded)

Issue Area	Deliverables	Implementation
Inclusion and gender. A workplan on inclusion and gender was discussed by the Executive Board in July 2021. **Summary:** 3 percent of augmentation Existing: $36 million. IMF02: About $1 million. Augmentation (after synergies) FY 23: $1 million. FY 24: $1 million. FY 25: None	• The resourcing is incremental in nature and focused on two dimensions: deepening internal and external coordination on inequality to better leverage existing resources; and strengthening analytical tools on gender issues to support country work, albeit in a targeted manner. • Current work includes preparation of a new gender strategy for Board consideration. **Training and staff support:** • About 3 new internal training courses on inequality and gender.	**Inclusion and Gender—Allocation by Department Type** (percent of dollar resources)  • **Staff/Organization:** A central coordinating function would be established within SPR to leverage analytics and increasingly support country engagement, working closely with the interdepartmental inequality and gender advisory groups, as well as regional and country teams. • **Phasing:** Recruitment will be frontloaded. • **Partners:** World Bank, UN Women, OECD, International Labor Organization, World Food Program, multilateral development banks, cooperation agencies, academia, CSOs.

B. Affordability

10. Impact on income dynamics. The proposed augmentation is consistent with sustainable income-expense dynamics. Based on the end-September Desk Survey on potential near-term new demand for Fund's lending, operational income is expected to remain well above expenses even with the implementation of the proposed augmentation and after accounting for the impact of recent policy changes related to the PRGT reimbursement suspension and SCA-1 distribution (Figure 8). The proposed augmentation, when fully implemented in FY 25, would absorb 2.1 percent of FY 25 projected operational income, and the overall net administrative budget would absorb 37 percent of operational income (Table 2).

Figure 8. Operational Income and Expenses
(FY 08-31; Billions of U.S. dollars)



Source: Finance Department. See EBS/21/35 (04/12/2021) and Informal Briefing to the Board (09/17/2021) for underlying methodology, and forthcoming Interim Review of Adequacy of the Fund's Precautionary Balances for further details on assumptions.

11. Impact on precautionary balance target. The proposed augmentation would also not materially impact the timeline for achievement of the precautionary balance target of SDR 25 billion. The precautionary balance target is projected to be achieved in early FY 25, after considering the impact of the recent policy decisions on PRGT reimbursement suspension and SCA-1 distribution. With the proposed augmentation, this target, which would still be reached in FY 25. The forthcoming Interim Review of Adequacy of the Fund's Precautionary Balances will provide additional details.

Table 2. Operational Income and Net Administrative Budget, FY 22-25
(Billions of U.S. dollars, unless noted)

	FY22	FY23	FY24	FY25
Projected Operational Income	3.9	4.4	4.5	3.8
Percent change	32.3	13.7	0.7	-15.4
Projected Net Administrative Budget incl. Augmentation	1.2	1.3	1.3	1.4
Percent of Operational Income	31	29	30	37
Proposed Augmentation in the Net Administrative Budget after FY23 (cumulative)	...	0.02	0.05	0.08
Percent of Operational Income		0.6	1.1	2.1

Source: Finance Department and OBP

SECTION IV. IMPLEMENTATION

12. Overview. The proposed augmentation will entail a significant ramp-up in employees across departments and across HQ and field offices, under different categories of employment and over the short- and the medium-term. This section sets out budget and HR planning and implementation considerations that will guide operationalization of the strategies with support from an HRD/OBP-led interdepartmental Issues Group.

13. Managing change. The proposed budget augmentation framework will be a key input for formulation of the FY 23-25 Medium-term Budget. Building on the broad allocations in the issue strategies (which were informed by interdepartmental inputs), departments will set out their respective implementation plans in augmentation areas and related resource requests as part of the Accountability Framework exercise and budget formulation process. Detailed resource allocations for the first year will be presented for Board discussion on a preliminary basis in March and as part of the formal budget proposal in April, along with the regular reprioritization and saving exercise for the existing areas of Fund activities. Outlines of medium-term plans will also be presented.

A. Workforce Planning

14. Overview. Workforce planning at the Fund-wide and departmental level will support integrated consideration of budget and HR implications of the augmentation in a medium-term context. It will set new needs under the individual issue strategies into the broader budget and HR context, recognizing the simultaneous questions around crisis resourcing and unwinding, as well as the broader demographics of the Fund's existing staff that will drive increased retirements in the coming period. It will also allow for structured consideration of HR-related imperatives and priorities.

15. Staff allocation by department type. The staffing framework recognizes the benefit of some centralization of resources (e.g., to support knowledge hubs, that support coordination, consistency, and evenhandedness in the policy and analytic foundations of the Fund's work) while also recognizing the importance of direct resourcing to area departments to ensure region and country-specific adaption of advice and integration into core country work, timely response to members' requests, and parallel feedback of lessons from country experience into the Fund's policy and analytic work.

- **Experience.** The Fund will draw on its substantial experience in integrating new activities into its work as it determines the organizational framework for the new issue areas covered by the augmentation. This includes lessons from work to date to ramp up in macrofinancial activities (requiring both strengthening of functional expertise and increased resourcing at the country level) and in CD activities across a range of specialized issue areas (where ongoing work to integrate CD and surveillance recognizes the important partnership between functional experts and area departments and between field and HQ-based staff).

- **Link to workstream.** Organizational decisions also take into account the specific needs under different workstreams.
  - **Direct country engagement** will involve both additional fungible economists in area departments and experts/economists in functional departments dedicated to country support (as currently with SPR, MCM, or FAD economists assigned to country teams, specialists who provide ad-hoc advice to country teams through structured engagement; or functional department reviewers of country-specific work). Close collaboration between functional department experts and area department economists also supports "on the job" training and diffusion of knowledge and expertise through the economist pool. Existing cross-departmental planning and accountability mechanisms for direct country engagement will be enhanced to support this needed coordination.
  - **Policy/analytical work.** Conceptual and research activities, the development of Fund policy, analytical tools, and training modules, as well as cross-regional consistency checks, sit more naturally in functional departments, with Area Departments providing critical inputs and leading in region and country specific adaptation.
  - **Phasing**. It is expected that initial allocations will lean toward resourcing functional departments to build analytical capacity and develop policy positions, with the relative scale of resources to support Area Department country teams increasing over time. At the same time, initial allocations will need to recognize that country teams are already facing demand for more substantive engagement.
- **Support.** Support departments will also be affected by the sizeable increase in staff and work program, including expanded field presence. The strategy therefore reflects allowances for support departments and central functions as part of broader overhead costs. Needs are expected to be highest in the start-up phase of the augmentation implementation and as such will be partially funded on a transitional basis.

B. Talent Sourcing

16. Sourcing strategy. The issue strategies recognize that staffing for the new areas will require a mix of approaches, with a focus on needed skills. HRD will consult with strategy teams and implementing departments to develop recruitment strategies for both fungible and specialist economists tailored to the specific needs in each issue area and work with support departments to address their own needs stemming from the expansion of staff under the augmentation.

- **"Building Talent."** As expertise is gained, it will be leveraged to train existing staff and increasingly mainstream and/or integrate new workstreams into existing core work. ICD's Structured Curriculum is being expanded to include coverage of new issue areas covered by the augmentation, in close coordination with strategy teams and experts. This training will reinforce the more fundamental mainstreaming of these issues into the Fund's work through the structuring of teams to bring together experts and fungible economists and use of mobility assignments between functional and area departments.

- **"Borrowing Talent."** These strategies will be particularly important for highly specialized skills (e.g., climate, digital money/payments), where the Fund may confront supply-side and competitiveness issues. Borrowing will require coordinating with other international financial institutions and governmental agencies on secondments and swaps and continued use of other temporary arrangements (e.g., visiting scholars).

SECTION V. RISKS

17. Resourcing risks. As noted above, the augmentation request itself seeks to mitigate risks associated with the mismatch between the available budget envelope and the ambitious calls on the Fund to expand its work in new areas. Inaction would drive a piecemeal response to changing needs that would reduce the Fund's capacity to anticipate risks and provide timely policy advice to the membership, while exacerbating work pressures on staff. It likewise risks crowding out critical, traditional work and perpetuating unsustainable work pressures for staff. The augmentation strategy calls for envisaged deliverables to be scaled consistent with available resources, including to safeguard core work and manage human resources.

18. Implementation risks. Effective use of additional resources also requires recognition of implementation risks, with close monitoring and management through coordinated mitigation measures within the Fund's risk management framework with support from ORM and with recognition of change management challenges, supported by OIC.

- **Scale.** Bringing in a significant number of new resources and onboarding staff quickly in a hybrid environment requires (i) organizational and workforce planning to ensure effective targeting of resources and organizational support for increased staffing in new areas with concurrent unwinding of crisis resources; (ii) adoption of the hybrid work model and space utilization strategies to accommodate the growth in staff in the existing HQ space; (iii) phased hiring phased to support effective onboarding in new and expanded workstreams; (iv) centralization of hiring efforts; and (iv) robust monitoring of both new and ongoing staffing developments, with readiness to take remedial measures where needed.

- **Expertise.** Acquiring the right skillsets, particularly in emerging areas or where talent is scarce, will require (i) an agile and robust recruitment, onboarding, and training infrastructure; (ii) maintaining a strong pipeline of eligible candidates; (iii) use of existing flexibility in the Fund's employment framework to meet emerging business needs, taking on board lessons from experience over time; and (iv) prioritizing quality over speed in case of supply bottlenecks.

- **Delivery.** The pace of ramp-up will need to be consistent with absorption capacity for the Fund and the membership, as well as the time needed to ensure effective coordination with other IFIs. To mitigate these risks, the Fund will (i) closely monitor field-based ramp up, security issues and leveraging opportunities to collaborate with partners; and (ii) report regularly within the context of strategy implementation on implementation, including as relates to coordination with other IFIs to confirm maintenance of a focus only in areas where the Fund is best placed to deliver.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

"The Executive Board endorses the scope and modalities for a structural budget augmentation set out in EBAP/21/52 and summarized in paragraph 9 of EBAP/21/52 and asked staff to prepare budgets for the three cycles beginning with the FY 23-25 medium-term budget on the basis of the proposals in the paper for annual augmentations during FY 23 to FY 25."

Annex I. Climate Strategy[1]

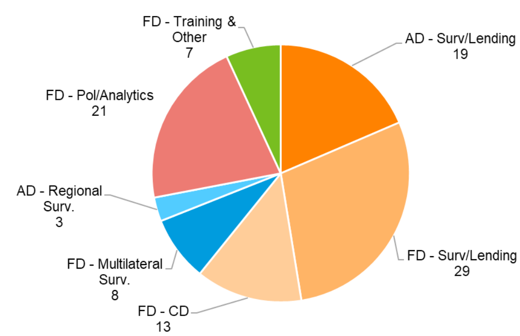
The Fund's strategy to assist members in addressing climate change was discussed by the Executive Board on July 16, 2021. The paper provided a stocktaking of the Fund's activities to date, then detailed proposed engagement in collaboration with other institutions, as well as the budgetary and human resource management implications. The overall scale of deliverables and associated resourcing have been adjusted to reflect Board input.

Overview. Climate change has emerged as one the most critical macroeconomic and financial policy challenges facing the Fund's membership in the coming period. By contributing to a higher frequency and intensity of natural disasters, climate change is already imposing large economic and social cost on many economies. In the period ahead, climate change will affect macroeconomic and financial stability through numerous other transmission mechanisms, including fiscal positions, asset prices, trade flows, and real interest and exchange rates. While the relative importance of these mechanisms will differ, no country can expect to be spared. Climate change mitigation is a global public good that will require an unprecedented level of cross-country policy coordination.

Driven by demands of the membership, the IMF has begun to increase engagement on climate-related issues in recent years, with heavy emphasis on flagship reports and policy papers and more targeted discussion of climate change-related policy challenges in bilateral country reports. The IMF has also experimented with new formats, such as the Climate Change Policy Assessments conducted on a pilot basis with the World Bank. The ad-hoc approach has reached its limits, however, and a more systematic and strategic integration of climate change into the IMF's activities is needed.

1. Steady-State Deliverables and Related Resourcing: The strategy calls for:

Climate - by Output/Department Type
(Percent of Dollar Resources)



- **Country Operations** (Roughly 60 percent of dollar resources)
  - **Surveillance and Lending** (About 50 percent)
    - **Article IV consultations** would systematically cover climate-related policies where climate change triggers macro-critical policy challenges. Coverage in about 45 Article IV consultations per year is targeted. This implies that mitigation policies of the 20 largest emitters of greenhouse gases would be covered on average every three years, and adaptation/resilience for the 60 most climate

[1] Prepared by the Climate Strategy Team led by Kristina Kostial and Johannes Wiegand, with support from Vimal Thakoor.

vulnerable countries every four years. Coverage of managing the transition to a low-carbon economy would be needs-based rather than universal, requiring strict prioritization of country cases and resources. Initial work is underway to incorporate RST-related work into the broader climate agenda. Review would safeguard the evenhandedness of the Fund's policy advice, including as regards mitigation policies of large emitters.

    - **FSAPs.** Exposure to climate risk and policy options to manage such risk would become an integral part in two thirds of FSAPs (about 8 per year, out of a total of 12-13 FSAPs conducted annually).

  - **CD** (Just under 15 percent):

    - **Single-country CD** would be scaled up from currently limited levels to serve large emerging demand, with about 25 countries receiving CD on specific climate-topics per year. CD would cover a wide spectrum of themes, including fiscal and financial sector issues, inclusion of climate modelling into macroframeworks, and legal and financial integrity issues. In parallel and beyond the augmentation, a current base of about $2 million, additional CD activities of about $6 million, are expected to be funded by donor support.

    - **CMAPs**. About 5 countries would be supported through the new Climate Macroeconomic Assessment Program (CMAP). CMAPs would assist countries in integrating climate risks in macroeconomic policy framework by assessing the impact of climate-related policies on long-term growth, climate financing needs, distribution effects, and long-term decarbonization plans, and would serve as inputs for Article IV consultations with climate vulnerable members.

    - **External training** would be bolstered through adapting existing course materials to include flexible climate change modules, including one full-fledged climate-related macroeconomic course that would be delivered 4 times a year across the Fund's training centers, drawing upon the internal staff training program.

- **Multilateral and regional surveillance** (About 10 percent). Flagships would include high-impact climate-related chapters about once or twice a year. Climate work in regional reports would be significantly expanded, and Area Department regional units will help to link Fund-wide climate work with country work in their department. A new series of staff climate notes will support dissemination of climate-related analysis to member countries.

- **Policy & Related Analytics** (About 20 percent). IMF policy will need to be developed, and over time reviewed and updated, in many areas—from transition risk for oil exporters to financial stability implications of climate risk—and guidance will need to be prepared to ensure the evenhanded implementation of these policies (about one paper per year). This would be complemented by how-to notes. Models, toolkits and templates will be developed to support bilateral surveillance, FSAPs, multilateral surveillance, and CD. Debt sustainability analyses will be expanded to incorporate climate risk and the cost of climate related policies. These resources also cover the Fund's liaison activities in international fora and bilaterally on policy matters.

- **Support functions** (Just over 5 percent)
  - **Staff Training.** A "Climate 101" course would ensure that all Fund economists become conversant in basic climate issues, with this course would be offered 4 times per year. For staff working on countries facing specific climate issues, a "Climate Bootcamp" would be offered 2 times per year. To promote continuous learning as staff experience accumulates, staff would organize about 5 peer-to-peer learning events per year and establish a venue for collaboration where staff can share lessons from their climate change work in surveillance, lending, and CD activities.
  - **Data.** Support for maintaining and upgrading the climate data dashboard would be needed. This would be complemented by forward-looking, granular, sectorized and geo-spatial data on physical and transition risks.
- **Summary.** Overall, the revised strategy implies an additional $27 million in the steady state. This recognizes existing resources.

2. **Phasing**. Overall resources will be slightly backloaded over the three years, as highlighted in Table 1 of the main report. The pace of upscaling would reflect market conditions and the Fund's own absorption capacity:

- **Year one** would see Fund staff focus on policy and support work, including developing and launching training, to build the foundations for a rapid scaling up of climate expertise within the institution. In areas where expertise already exists—for example, climate change mitigation—bilateral work would scale up.
- **In year two,** the focus would shift to ramping up direct country support.
- **In year three**, the scaling up would be completed. Staffing would benefit from review of early experience. Stabilization and ongoing strengthening of engagement within the new resource envelope would be ongoing.

3. **Organization:** The ramp-up of climate work would build on existing structures, strengthening the climate teams in four functional departments—FAD, MCM, RES, and SPR—to support country teams in the conduct of Article IV consultations, FSAPs, CD, and policy development, with support from LEG and other functional departments. STA would continue to build out data related resources and area departments would scale up to support integration of climate work in regional and bilateral engagement.

- **Recruitment.** About two-thirds of the additional FTEs would be fungible macroeconomists, with the composition varying across departments as noted in the main report. For new fungible economists, prior knowledge of climate issues would be ideal but will be complemented with training, given limitations in the supply of climate macroeconomists on the market. Climate/operational experts (the latter particularly for CD activities) and legal experts would be housed in functional departments. Following the first year, experiences with hiring would be reviewed and lessons incorporated.

4. Risks. Key risks include the feasibility of hiring macroeconomists with climate expertise within the planned timeframe and integrating new hires into staff, including any necessary climate-specific training, to support timely contributions to the Fund's work. Mitigation measures include HRD, strategy team, and departmental coordination in building pipelines, including through existing networks, and early investment in the training curriculum by ICD and relevant functional departments. Ramping up climate work will also require robust cross-departmental work processes—including in the context of functional departments supporting bilateral area department work or review—building on and reinforcing existing mechanisms. The cross-departmental climate advisory group will have a key role in planning and overseeing the implementation of these processes.

5. Reporting. Staff will update the Board regularly on the implementation of the climate strategy. Resource mobilization under IMF02 would be initiated in parallel with the ramping up over three years. Ongoing climate initiatives will continue, including the IMF's participation in the COP26 conference in the fall, issuance of guidance on climate change in bilateral surveillance, and the development of the CCPA. The interim CSR, planned for FY 24, will include an assessment progress integrating macro-structural issues, including climate.

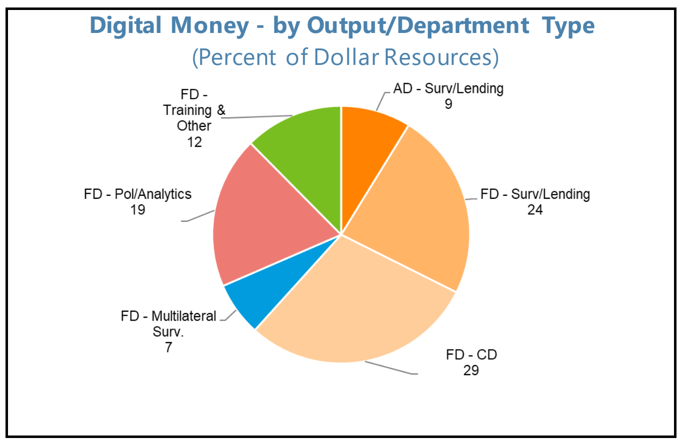
Annex II. Digital Money Strategy[1]

The Fund's strategy on digital money was presented to the Board in an informal meeting on April 2, 2021, emphasizing new policy questions, and a formal meeting on July 7, 2021, to discuss operationalization. The overall scale of deliverables and associated resourcing have been adjusted to reflect Board input.

1. Overview. New digital forms of money, issued by the public and private sectors, are rapidly emerging. Their adoption raises significant opportunities and challenges for economic and financial stability and integrity, as well as the efficiency and inclusion of financial systems and the international monetary system. Some countries will be affected by domestic developments and others by spillovers. These transformations lie at the heart of the Fund's mandate. The Fund must therefore move expeditiously to support its members, some of which risk being sidelined by a digital divide. To do so, the Fund must widen and deepen its work on digital money across its core functions, in close collaboration with other institutions, in particular, the Bank for International Settlement.

2. Steady-State Deliverables and Related Resourcing:

- **Country operations** (Just above 60 percent of dollar resources)
    - **Surveillance/Lending** (About 30 percent). The planned ramp up would support participation in about 25 Article IVs in steady state, and targeted coverage in 12 FSAPs annually.
    - **CD** (About 30 percent). The increase in resources would allow the Fund to support about 35 countries on topics such as central bank digital currencies, cyber security, legal frameworks, financial integrity, payment strategies, fiscal policy, and financial statistics as relate to digital money. This would be complemented by regional training events and peer learning (about 5 per year). In the steady state, an equivalent ramp up would be targeted to be funded through IMF02 and to be led out of RCDCs.



[1] Prepared by the Digital Money Strategy Team led by Tommaso Mancini Griffoli.

- **Multilateral surveillance** (About 7 percent). The Fund has been able to contribute to G7 and G20 efforts to establish recommendations for stablecoin regulation and enhance cross border payments, by staffing related working groups. The augmentation will allow for more proactive representation and organization of related workshops (roughly 4 per year). Digital money issues will also be incorporated into multilateral surveillance products each year.

- **Policy & related analytics** (About 20 percent). The augmentation would allow the Fund to ramp-up work on the analytical and methodological foundations of Fund policy advice and multilateral surveillance. Output would be in the form of about 4 cross-departmental policy papers per year, as well as related reference notes and toolkits to support bilateral country operations. Tools, models, and frameworks would also need regular and targeted updating. Furthermore, a structure to support information sharing and coordination across departments and coordinate ties to other organizations would be strengthened to facilitate smooth coordination and collaboration.

- **Support functions** (Just over 10 percent). These resources would allow the Fund to provide a publicly available data hub to policymakers and standard setters for digital money, such as rates of adoption, usage, costs, and cross border flows—filling an important data gap (as recently recognized by the G20 in the context of the cross-border payments roadmap). Also, the Fund would provide 4 sessions of internal training per year.

- **Summary.** Overall, the strategy implies an additional staff and contractual positions in the steady state. This recognizes existing resources throughout the Fund. One-off investments to reach steady state were excluded from the estimates and special care was taken not to double count (for instance, models developed for AIV surveillance but also relevant for FSAP missions). Moreover, synergies were sought with (i) existing macro-financial expertise, e.g., to design models for bank stress-testing in response to disintermediation risks (ii) existing expertise in conventional financial market infrastructure, e.g., evaluating the stability and efficiency of payment systems, (iii) existing expertise in financial statistics to update methodologies for properly covering digital money, and (iv) other new workstreams, including foundational work in fragile states to build institutions, capacity among the climate team to assess the carbon footprint of digital money initiatives and propose policies to contain these, as well as the use of digital payments to enhance delivery of social transfers to reduce income inequality.

3. **Phasing.** Hiring would occur over the next three years, with backloading in recognition of the need for some time to recruit effectively. The ramp-up overall will be phased differently for the various components of the work.

- **Year One.** The initial investment will focus on building the analytical foundations to engage with countries on digital money, with more modest ramp up in surveillance and capacity development.

- **Year Two and Three**. Growth in surveillance and CD will advance, building on increasingly stronger analytical foundations. The strategy sees capacity development with growth in both Fund financed and donor financed activities as noted above.

4. Organization. To support the smooth implementation of the digital money strategy, a Fund-wide coordination group has been established (supported by a dedicated online platform), and an external advisory group will be created and regularly consulted. A technology learning environment will also be developed joint with the World Bank. An active seminar series will also be developed.

- **Recruitment.** Delivering on the digital money strategy will require a mix of fungible macroeconomists and experts (including payment system specialists; technology and digital risk experts; lawyers; data specialists, and statisticians). A mix of contractual and staff appointments would provide flexibility to adapt resources as technology and policy challenges evolve. Opportunities to enlarge and galvanize the pool of potential hires would be sought, such as rotations of staff coming from other organizations or central banks.

- **Training.** Internal training would be provided in the form of regular courses, workshops, and seminars to help bring economists up to speed on policies and tools of common relevance to country groupings, and mainstream the analysis of digital money, based on a solid understanding of the strengths and limits of the underlying technologies. Special care would also be given to information sharing and coordination of the workstreams related to digital money.

5. Risks. The lessons from the ramp up in macroprudential policy advice and mainstreaming macrofinancial surveillance point to the need for concerted efforts to share knowledge widely among departments; hire talent to accelerate the build-up of expertise; invest early to close the knowledge gap; learn from country engagements and efficiently spread lessons; learn continuously including through unstructured "brainstorming" across departments, as outlined in the 2021 CSR.

6. Reporting. Staff plans to report progress to the Executive Board once per year, approximately coinciding with the budget cycle.

Annex III. Macrofinancial Surveillance Strategy[1]

The Fund's strategy to enhance macrofinancial surveillance was presented to the Board as part of the 2021 CSR.

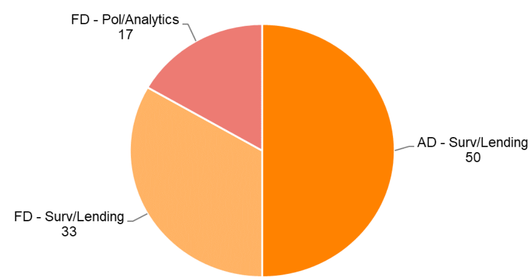
1. Overview. The CSR found progress as well as areas for improvement in integrating macrofinancial analysis into Article IV consultations, as summarized in the overview and detailed in a background paper. The assessment, focused on the depth and integration of systemic risk analysis and macroprudential policy advice in Article IV consultations, found that limitations in macrofinancial expertise compounded by competing priorities in surveillance had slowed progress. It called for additional staff with macrofinancial skill, echoing the conclusions from the IEO's evaluation of the Fund's financial surveillance, which also highlighted resource constraints as slowing the pace of buildup of necessary macrofinancial expertise. Directors agreed on the need to deepen macrofinancial analysis and further integrate it into bilateral surveillance. They called for additional efforts in the areas of systemic risks analysis to better anchor macroprudential policy advice and underscored the need to expand macrofinancial talent at the Fund, particularly in country teams.

2. Steady-state Deliverables and Related Resourcing Needs.

- **Country operations** (Over 80 percent of dollar resources). The CSR found that about half of Article IV staff reports in the covered period had gaps related to the depth and integration of systemic risk analysis and macroprudential policy advice. The incremental resources would fill this gap, combined with further training of existing staff.
- **Policy and related analysis** (About 20 percent). The remaining resources would be devoted to deepening macrofinancial policy advice and analysis, including to expand the toolkit for macrofinancial analysis, training, and offering additional support through the internal review process.

Macrofinancial Surveillance—by Output/Department Type

(Percent of Dollar Resources)



3. Risks. The proposed pace of hiring is contingent on finding suitable candidates with adequate macrofinancial talent willing to join the Fund and work on bilateral surveillance. Recruitment can largely draw on the Economist Program and mid-career pipeline. Building on the analysis underlying the 2021 CSR, the new staff will be allocated to the country teams where gaps in

[1] Prepared by Martin Čihák, Fabián Valencia (both SPR), Miguel Savastano, Montfort Mlachila, and Naomi Griffin (all MCM).

macrofinancial analysis are highest. Onboarding and training will facilitate wider skills transmission as the staff are rotated to area departments.

4. Next steps. In addition to regular budget updates, staff will report on progress in the context of the interim Surveillance Review expected for FY 24.

Annex IV. Fragile and Conflict-Affected States Strategy[1]

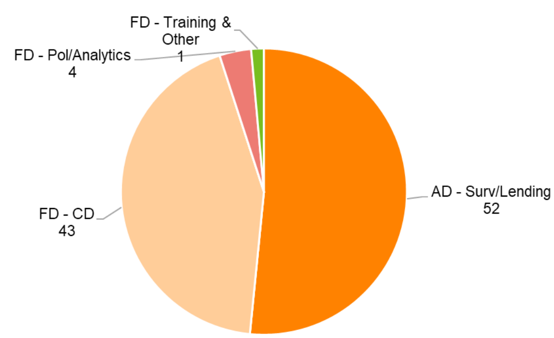
The FCS Strategy, discussed by the Board on July 6, 2021 and October 22, 2021, will equip the Fund with a renewed vision for its engagement with FCS. It draws on recent experience on the ground, the 2018 IEO report on fragile states and the subsequent Management Implementation Plan, and recent briefings with the Board and other stakeholders. The overall scale of deliverables and associated resourcing have been adjusted to reflect Board input.

1. Overview. Through long-term engagement and work with partners, the Fund will enhance its effectiveness in supporting FCS to achieve macroeconomic stability, exit from fragility and strengthen resilience (including by incorporating into country-level strategies strong recognition of the significant vulnerability of these countries to climate change and natural disasters), and attain strong, sustainable growth, a vision anchored in the Fund's core mandate. The FCS strategy strengthens the Fund's commitment to working with development partners, recognizing each institution's comparative advantages and the need for complementarity to maximize impact.

2. Key Steady-State Deliverables and Related Resourcing.

- **Country Operations** (100 percent of dollar resources). **Country Operations** (95 percent of dollar resources). The strategy is grounded in the view that enhanced country operations are the most important lever for the Fund to help FCS achieve better economic outcomes.

Fragile and Conflict-Affected States – by Output/Department Type
(Percent of Dollar Resources)



  - **Surveillance and Lending** (About 52 percent). To strengthen the Fund's field presence, we will add Resident Representative posts in FCS—expanding coverage to 60 percent of FCS—and local economists to equip each office with 2 local economists. This will facilitate a more continuous dialogue with country authorities and help develop, manage, and leverage complementarities between the Fund and relevant external partners. Area Department teams at HQ would receive an estimated 10 additional resources, recognizing the need to support heavy CD users to ensure integration of CD and surveillance/lending.

  - **CD** (43 percent). Ten additional long-term advisors either in RCDCs or in-country will help tailor and increase responsiveness to FCS-specific CD needs. The resources will support

[1] Prepared by the FCS Strategy team, led by Franck Bousquet and including Björn Rother and Boileau Yeyinou Loko.

engagement across all FCS members in core CD areas (domestic revenue mobilization, expenditure reviews, public financial management, monetary and exchange rate policy and operations, financial market development, statistics, country-specific macroframeworks, forecasting and policy analysis). The field-based CD providers will be supported by additional backstopping at HQ, important to ensure quality of CD field delivery. In parallel, additional funding through IMF02 is expected to fund additional CD experts in RCDCs or directly to FCS together, along with related HQ-based backstopping.

- **Policy and Analytical Support**. Incremental shifts in the existing resource base will target reinforcing functional departments' support to FCS teams on governance reforms, critical to overcome fragility. Additional policy and analytical support resources will focus on implementation of the FCS strategy and analysis of the drivers of fragility (including climate change and natural disasters) to facilitate the sharing of experience and build, over time, analytical frameworks that can be consistently deployed by country teams. This function is critical to cooperation with other external partners such as the World Bank, other members of the UN family, as well as non-traditional partners. Incremental shifts in the existing resource base will target reinforcing functional departments' support to FCS teams on governance reforms, critical to overcome fragility.

- **Training**. The strategy recognizes the importance of enhanced staff training through incremental investments in an FCS-related curriculum.

- **FTE Summary.** An overall increase would bring total personnel working on FCS (about a quarter of the membership) to about 260 staff and contractuals, and about 70 local economists.

- **RCDC administrative expenses.** To further support enhanced CD delivery in the field, the strategy envisages an envelope of US$3.0 million per annum (in steady state) to strengthen the stability of funding for RCDC administrative expenses.

3. **Phasing**. The FCS strategy would be backloaded in recognition of the time needed for effective planning and recruiting, allowing for recalibrating hiring plans as a function of experience and the evolving security situation (below).

- **Year One.** Initial hiring will include centralized policy and analytical support to lay the foundations for the growth of FCS engagement, including work on an FCS-focused training curriculum. Recruitment for field-based positions and HQ-based country teams would be initiated in parallel through the Economist Program and the mid-career pipeline. Local economist recruitment will tap into the available pools of local talent.

- **Years Two and Three.** Recruitment accelerates as the FCS strategy is rolled out.

4. **Risks.** To deliver in a cost-effective manner, the strategy reflects a strong reliance on local economist positions and continued leveraging of IMF02 resources. A key risk involves the sensitivity of the Fund's engagement with FCS to security conditions. Phased implementation and allowance for alternative locations for staffing will allow for reassessment based on early experience.

5. Reporting. The strategy will be formally presented to the Board for approval by the end of calendar year 2021, integrating policy recommendations emanating from informal consultations with the Board on the FCS strategy and the lending toolkit in October. The Board will be regularly updated on progress through dedicated briefings during the implementation period.

Annex V. Inclusion and Gender Work[1]

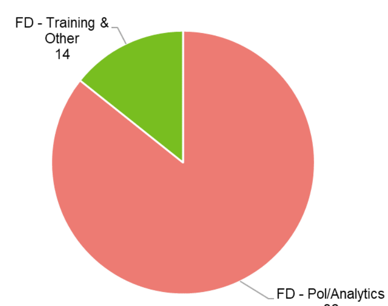
The proposed workplan on inclusion and gender was discussed by the Executive Board on July 12, 2021. Current plans focus on incremental strengthening of the coordination framework and analytical foundations for this work, including to support mainstreaming over time.

1. Overview. The workplan, supported by incremental resources, focuses on how to leverage the existing resource base to enhance the Fund's ability to address the increased demand from members for advice in these areas in the context of the pandemic as taking into consideration long-term economic trends. The Fund will continue to focus on macro-critical aspect of these issues.

The Fund will continue to collaborate closely with partners, at strategic and operational levels, to leverage their work, which typically focuses on micro and sectoral aspects of inclusion policies (e.g., design of social registries, deployment of mobile payment systems). Strengthening collaboration with key partners, including the World Bank and regional development banks, ILO, WFP, UN Women, bilateral development institutions, and academia is key for deepening Fund's engagement in an efficient manner.

2. Deliverables. A central coordination unit would serve as the main vehicle to build out this work. Envisaged efforts will build on synergies with other workstreams, in particular on the distributional impact of climate change, digitalization, and technological change.

Inclusion and Gender - by Output/Department Type
(Percent of Dollar Resources)



- **Policy and analytical work** (Just over 85 percent of dollar resources) will be located in a central unit. The unit will focus on developing policy, analysis, and tools to support country teams and enhance internal and external coordination to further leverage existing resources on inequality issues. Early work will include development of a gender strategy. The unit will facilitate the sharing of knowledge and expertise on inequality and gender issues, identify emerging issues, and forge internal and external collaboration.

- **Training** (Just less than 15 percent). About 3 new internal training courses, with new or updated content, would be offered per year to allow current and new staff to acquire the relevant skills to provide policy analysis and advice on inequality and gender as envisaged in the strategy.

[1] Prepared with input from the Inclusion and Gender team, led by Guillaume Chabert and Ratna Sahay, and including Stefania Fabrizio and Geremia Paloma (both SPR), and Rishi Goyal (WHD).

- **Summary.** Total resources would increase by about $2 million, about 3 percent of the overall augmentation. The increased resources would be centered in functional departments and would complement the $36 million in existing resources for these issues.

3. Phasing. The resourcing is frontloaded, recognizing that the targeted scale allows for more effective early use.

- **Year One.** The central unit will develop stronger internal and external coordination and work on models and toolkits for country teams, with an initial focus on gender, as well as an internal training course on gender.

- **Years Two and Three.** Resources will be used flexibly over time to cover a broad range of inclusion and gender issues.

4. Risks. A key risk is that demands from the membership—not least for designing smart fiscal consolidations that protect the vulnerable and not undermine social stability—exceed the Fund's ability to respond given the targeted resource base. The central unit can help prioritize engagements to reduce this risk. A second risk relates to the ability to attract the right staff with the necessary skills. Relying on established recruitment channels in close coordination with HRD and internal training and possibly slowing the pace of the work plan, are the key mitigating mechanisms.

5. Next steps. The Board will discuss a proposal for the Fund's work on gender in Q4 of this fiscal year. Staff will update the Board on progress annually during the implementation phase of the proposed enhanced engagement strategy, thereafter, updates will also be provided as part of surveillance or program reviews.

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