TCD IMF TASK FORCE ON CLIMATE, DEVELOPMENT AND THE INTERNATIONAL MONETARY FUND

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Achieving Catalytic Impact with the Resilience and Sustainability Trust

V20

Intergovernmental Group of Twenty Four G-24

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Bridgetown, Barbados.
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About the Task Force on Climate, Development and the International Monetary Fund

The Task Force on Climate, Development and the International Monetary Fund is a consortium of experts from around the world utilizing rigorous, empirical research to advance a development-centered approach to climate change at the IMF. The Task Force believes it is imperative that the global community support climate resilience and transitions to a low-carbon economy in a just manner. As the only multilateral, rules-based institution charged with promoting the stability of the international financial and monetary system, the IMF has a vital role to play in supporting a globally coordinated response.

MEMBER ORGANIZATIONS

- Intergovernmental Group of Twenty-Four (G24)
- Vulnerable Group of Twenty (V20) Ministers of Finance
- African Center for Economic Transformation
- African Economic Research Consortium
- Boston University Global Development Policy Center
- Centre for Policy Dialogue
- Centre for Social and Economic Progress
- Financial Futures Center
- Macro & Green Finance Lab, National School of Development, Peking University
- United Nations Economic Commission for Latin America and the Caribbean

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EXECUTIVE SUMMARY

The Resilience and Sustainability Trust (RST) at the International Monetary Fund (IMF) fills a major gap in both the climate finance and balance of payments architectures. However, the RST will lack effectiveness without significant reform and design of the instrument. When viewed against the resource mobilization challenges that emerging market and developing economies face, it is especially important for the RST to support catalytic change in a manner that reinforces country-owned plans and strategies.

The IMF established the RST in April 2022, and it became operational in October 2022. The RST is funded through re-channeled Special Drawing Rights (SDRs), the Fund's reserve asset. The RST finances the Resilience and Sustainability Facility (RSF), and when a country borrows, it enters an RSF arrangement with designated reform measures agreed with the IMF.

As the RST offers long-term, low-cost financing towards climate change and pandemic preparedness, it is an important and welcome addition to the IMF's lending toolkit. Its long-term, low-cost nature is intended to allow borrowers to undertake meaningful policy reforms that would build resilience to macro-critical shocks in the future. Eligibility to the RST is broad but a concurrent IMF program is required for access. Since the time of its launch, the IMF has witnessed a very high demand for RSF arrangements. The IMF also plans to release an interim review of the initial experience of countries under RSF arrangements during the 2024 IMF/World Bank Group Spring Meetings in April 2024, and to undertake a more comprehensive RSF review in time for the Annual Meetings in October 2026, at the latest.

This policy brief from the Task Force on Climate, Development and the IMF – a consortium of experts primarily from the Global South utilizing empirical, rigorous research to advance a development-centered approach to climate at the IMF – seeks to improve the RST's design by taking stock of the early experiences of RST programs. This policy brief is anchored in the experiences of Bangladesh, Barbados and Jamaica with wider consultations undertaken by Task Force members.

The RST is an important example of how the international community can re-channel SDRs towards the achievement of development and climate change goals. As the IMF reviews the RST, it has the opportunity to improve the effectiveness of the instrument. More broadly, early experiences of the RST offer instructive insights on the opportunities and challenges of using re-channeled SDRs.

Key Findings

1. The RST was able to achieve rapid capitalization at $42.3 billion. Given the design of the RST with its deposit and reserve accounts, usable resources amount to $25 billion (March 2024), with undrawn commitments standing at $5.6 billion. Given the pace of commitments, the RST will require further SDR re-channeling.

2. RSF reform measures are yet to fully reflect the ambitious climate and development goals that countries have articulated in their national plans and strategies.

3. RSF arrangements have not yet catalyzed finance, especially from the private sector. Countries implementing RSF arrangements continue to witness significant climate finance gaps. However, given the fungibility of finance and the lack of precise performance indicators, RSF arrangements are yet to demonstrate their catalytic role.

4. While the demand for RSF arrangements is already high, the demand would have been even higher if countries were not required to have an existing IMF program.

5. The RST lacks the necessary institutionalized collaborations with multilateral development banks and the human resources to support an ambitious development and climate change agenda.

Key Policy Recommendations

- **Resources.** Given the strong interest in RSF arrangements, governments need to equip the RST with more resources to meet the strong demand. New pledges will be essential to ensure the sustainability of the RST. The IMF must also have the necessary human resources to support effective program design. Furthermore, the size of the RST should be calibrated against the size of climate finance needs. The RST's terms should be affordable, and given the sharp rise in the SDR rate, the interest charge should be capped.

- **Concurrent programs.** The IMF should not require a concurrent IMF program to access the RST. As the very purpose of the RST is to build resilience to prospective balance of payments shocks, countries that do not currently have IMF programs should also have access to the RST.

- **Program design.** RSF reform measures should add momentum behind ambitious climate and development policies. Reform measures should help countries address the most salient risks and harness opportunities from the low-carbon transition. At the national level, the IMF should intensify engagement with a variety of stakeholders.

- **A catalytic role.** RSF arrangements should focus on catalyzing finance to achieve maximum impact. RSF arrangements should help leverage finance from the private sector. Close coordination between the IMF and development finance institutions is required to ensure that the climate finance gap can be closed.

- **Collaboration.** The IMF should institutionalize its collaboration with the World Bank on diagnostics that support the RSF arrangements, such as Country Climate Development Reports, to develop high quality reform measures as well as lending operations to further mobilize finance.

INTRODUCTION

In April 2022, the International Monetary Fund (IMF) established the Resilience and Sustainability Trust (RST) as its first new lending facility designed to provide longer-term concessional financing to low- and middle-income countries. It is intended to help these countries tackle key structural challenges such as climate change and pandemic preparedness, while contributing to strengthening their prospective balance of payments stability (IMF 2022a). The RST is funded through voluntary contributions by Group of 20 (G20) countries of their rechanneled 2021 historic allocation of Special Drawing Rights (SDRs). In October 2022, the RST became operational. The RST finances the Resilience and Sustainability Facility (RSF), and when a country borrows, it enters an RSF arrangement with designated reform measures agreed with the IMF.

Based on defined per capita income and population thresholds, some 143 countries – or three-quarters of the IMF's 190 members – are eligible to receive financing through an RSF arrangement. This eligibility criteria includes all low-income countries, all developing and vulnerable small states, and lower middle-income countries. To qualify for an RSF arrangement, eligible countries would need to have a package of high-quality reform measures (conditionality) related to qualifying longer-term structural challenges, a concurrent on-track financing or non-financing IMF-supported program with "upper credit tranche" quality policies and at least 18 months remaining in the program at the time of approval of the RSF arrangement, as well as sustainable debt and adequate capacity to repay the Fund (Pazarbasioglu and Ramakrishnan 2022). Access under the RSF is limited to 150 percent of a country's IMF quota or up to SDR 1 billion, whichever is smaller. RSF loans have a long maturity of 20 years with a grace period of 10 and a half years during which no principal is repaid and are provided on highly concessional terms, especially to the IMF's poorest member countries.

As of March 2024, the RST has been able to successfully receive pledges amounting to SDR 31.9 billion ($42.3 billion). By early March 2023, the IMF's Executive Board had in record time approved RSF arrangements for five pilot countries – Costa Rica, Barbados, Rwanda, Bangladesh and Jamaica – alongside concurrent IMF-supported programs (see Table 1). At the end of 2023, the number of RSF programs had grown to 16, with all these arrangements focusing exclusively on reducing potential risks to prospective balance of payments stability likely to arise from climate change, not pandemic preparedness.[1] Once in a "steady state," the Fund estimates that there could be 33 active RSF programs in an average year (IMF 2022a). The IMF plans to release an interim review of the initial experience of countries under RSF arrangements during the 2024 IMF/World Bank Group Spring Meetings in late April 2024, and to undertake a more comprehensive RSF review in time for the Annual Meetings in October 2026, at the latest.

1 Gupta and Brown (2023) offer three plausible reasons why these early RSF arrangements do not include measures to prepare for future pandemics. First, country authorities believe that with COVID-19 receding, the next pandemic might be farther into the future relative to the immediacy of the climate emergency. Second, both IMF staff and government officials do not have sufficient expertise about the policies needed for pandemic preparedness. Finally, the IMF, World Bank and the World Health Organization (WHO) are yet to develop guidance on preparing for future pandemics that could form part of the policy measures in an RSF-supported program.

TABLE 1: IMF RSF ARRANGEMENTS IN FIVE PILOT COUNTRIES

Date	Country	Concurrent Program	RSF	
			Amount (USD million)	% of Quota
Nov 14, 2022	Costa Rica	Extended Fund Facility (EFF)	725	150
Dec 7, 2022	Barbados	36-month Extended Fund Facility (EFF)	189	150
Dec 12, 2022	Rwanda	36-month Policy Coordination Instrument (PCI)	319	150
Jan 30, 2023	Bangladesh	42-month Extended Credit Facility (ECF)/Extended Fund Facility (EFF)	1,400	94
Mar 2, 2023	Jamaica	24-month Precautionary & Liquidity Line (PLL)	764	150

Source: Compiled by authors.

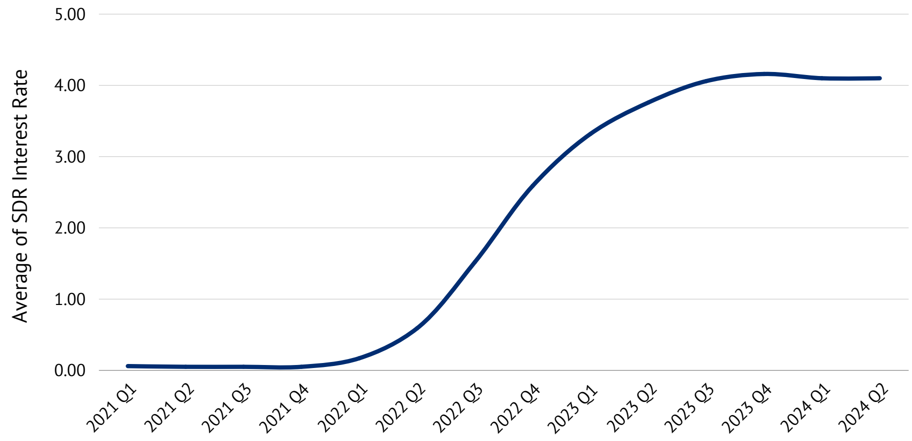
In 2021, the Task Force on Climate, Development and the IMF published an initial policy brief (Task Force 2021) on the potential modalities of the RST. There, the Task Force identified three overarching objectives for a climate resilient and just transition: the RST should enable countries to respond to climate shocks; catalyze low-cost financing for poorer, climate vulnerable countries; and enhance the ability of emerging market and developing countries to mobilize longer-term financing. We published a second policy brief in 2022 and offered five design features to make the RST an important, transformational part of the global financial architecture (Task Force 2022). The RST should have broad eligibility criteria; offer concessional terms; prioritize country ownership and avoid conditionalities; ensure collaborative governance; and build for scale.

Assessing the IMF Board approved RST design against the recommendations of the Task Force reveals opportunities for improving both the design of the RST as well as RSF arrangements. These five areas are:

Resources. The RST is capitalized at approximately $40 billion. The actual usable resources amount stands at $25 billion given the buffers and reserves that are built into the RST design (with undrawn commitments at $5.6 billion). Given the current trajectory of commitments amounting to $5 billion a year, the RST will require an urgent replenishment within the next five years. Furthermore, the sheer size of development and climate change needs – estimated to be $3 trillion for emerging market and developing economies (EMDEs) excluding China – suggests that a much larger fund will be required. Beyond financial resources, the RST will need to be supported with human resources for high quality program design and institutionalization of climate change into the IMF's work.

Furthermore, at the time of its inception, one of the most compelling propositions of the RST was the low cost of borrowing. The cost of borrowing is tied to the SDR rate. While countries eligible for the Poverty Reduction and Growth Trust (PRGT) are also eligible for the most concessional terms at a 55-basis point margin without service charges with a cap at 2.25 percent, non-PRGT eligible countries have seen the cost of borrowing increase with the increase in the SDR rate. Figure 1 shows how the SDR rate has escalated over the last two years, thereby amplifying RST borrowing costs.

FIGURE 1: SDR INTEREST RATE



Source: Authors' calculation based on IMF data; SDRi quarterly averages are presented.

Concurrent programs. As mentioned, 143 countries are technically eligible for RST support. However, an RSF arrangement further requires a concurrent IMF program which can be financing or non-financing. Therefore, this additional requirement rules out many countries that are likely to face macro-critical climate shocks in the future but do not currently have an active IMF program.

Program design. RSF reform measures should add momentum behind ambitious climate and development policies. Reform measures should help countries address the most salient risks and harness opportunities from the low-carbon transition. At the national level, the IMF should intensify engagement with a variety of stakeholders.

A catalytic role. RSF arrangements should focus on catalyzing finance to achieve maximum impact. RSF arrangements should help leverage finance from the private sector. Close coordination between the IMF and development finance institutions is required to ensure that the climate finance gap can be closed.

Collaboration with the World Bank. The IMF has collaborated with the World Bank on the RST especially on matters pertaining to the design of RSF reform measures. As the Task Force recommended in its earlier briefs, institutionalized cooperation between the World Bank and the IMF is necessary for two reasons. First, the World Bank can bring to bear its considerable expertise on development and climate change goals to support. The IMF and the World Bank should pursue close cooperation in climate and development policy diagnostics as well as RST operations. The World Bank's Country Climate Development Reports (CCDRs) provide in-depth, sector-specific analyses of opportunities for low-carbon, climate resilient growth paths. The IMF's macroeconomic modeling expertise could be coupled with the World Bank's expertise to produce climate and development diagnostics that can help countries identity priority actions. With the IMF moving away from Climate Macroeconomic Assessment Programs, collaboration on analytics would be even more vital. Second, as the RST receives re-channeled SDRs, the World Bank could leverage the SDRs as collateral to mobilize further capital.

This policy brief draws lessons for the RST and the design of future RSF-supported programs to ensure they adapt to the specific and unique circumstances of the IMF membership. It is based on the initial, early RSF experiences of three climate vulnerable countries: one developing country in Asia (Bangladesh) and two emerging market economies in the Caribbean (Barbados and Jamaica). Bangladesh is the first country in Asia to receive financing under the RSF. Likewise, Barbados is the first country in the Caribbean to access the RSF, followed by Jamaica. We provide insights into the climate-related reform measures and potential catalytic financing role of these three RSF-supported programs, while offering some policy recommendations for improving the IMF's future RSF engagement with other member countries. These findings and recommendations seek to inform the IMF's ongoing interim review of the RSF.

CLIMATE CHANGE REFORM MEASURES IN RSF-SUPPORTED PROGRAMS

In its preliminary assessment of the IMF's efforts to incorporate climate change into its lending toolkit, the Task Force underscored the importance country ownership as an organizing principle of RSF arrangements. All parties to the Paris Agreement have nationally determined contributions which are country-owned. Others have also formulated plans suited to their specific needs and contexts. Members of the Vulnerable Group of 20 (V20) have articulated Climate Prosperity Plans. RSF support should be geared towards facilitating the implementation of these country-owned plans and strategies as well as supporting the attainment of the highest national ambitions contained in those documents.

This section below analyzes conditionalities across three dimensions: volume, focus and depth. The overarching questions that the analysis aims to answer are: do the conditionalities (reform measures) as currently designed further support the development and climate ambitions of the borrower government? And do the reform measures support an investment-led approach to low-carbon, climate resilient development?

The IMF advises its staff that structural conditionality in Fund-supported programs should be both critical and parsimonious (IMF 2019). Structural conditions should be of critical importance for achieving the goals of the member's program or for monitoring program implementation. Structural conditions should also be applied parsimoniously, that is, limited to the minimum number of conditions necessary. We assess whether this guidance has been implemented in RSF-supported programs through an analysis of the volume, focus and depth of structural conditions.

Volume of Structural Conditions

Volume is defined as the number of conditions per program year. Table 2 shows that when the number of structural conditions in RSF arrangements for Barbados and Jamaica are taken into account with their accompanying IMF programs, both countries face substantial increases in conditionalities (IMF 2022c; IMF 2023b), while there is a marginal increase for Bangladesh even though it has the highest absolute number of structural conditions (IMF 2023a). Barbados has to meet slightly more than 8 structural conditions per year when its RSF arrangement is included with its three-year Extended Fund Facility (EFF)-supported program over the 2022-2025 program period. Compared to Barbados' previous 2018-2022 EFF program, this represents an increase of 60 percent, from around 5 structural conditions per year. In the case of Jamaica, the number of structural conditions increased three-fold to almost 9 per year when its RSF arrangement is included with its concurrent three-year 2023-2025 Precautionary and Liquidity Line (PLL) arrangement, compared to an average of 3 conditions per year under the previous 2016-2019 Stand-By Arrangement (SBA). Bangladesh must meet almost 12 structural conditions per year when its RSF program is included with its four-year Extended Credit Facility (ECF)/EFF arrangement over the 2023-2026 period. This is a slight increase of around 7 percent from around 11 conditions in the first year of its previous 2012-2015 ECF program.

TABLE 2: VOLUME OF STRUCTURAL CONDITIONS UNDER RST, CONCURRENT AND PREVIOUS IMF PROGRAMS

Country	Concurrent IMF Program				Previous IMF Program	
Bangladesh	2023-2026				2012-2015	
	RSF	ECF/EFF	Total	Average	ECF	Average*
	11	36	47	11.75	11	11
Barbados	2022-2025				2018-2022	
	RSF	EFF	Total	Average	EFF	Average
	10	15	25	8.3	19	4.75
Jamaica	2023-2026				2012-2015	
	RSF	PLL	Total	Average	SBA	Average
	12	5	17	8.5	12	3

Source: Authors' calculations.
Note: * Refers to first year of ECF Program. SBA = Stand-by Arrangement

All of the reform measures under these three RSF arrangements are relevant to the circumstances of each country and consistent with the broad objectives spelled out in the authorities' various national development and climate plans. However, successfully implementing such a "laundry list" of RSF reforms together with the conditions of the concurrent IMF program could stretch both the authorities and the IMF staff's expertise. Hicklin (2023) argues that RSF conditionality needs to adapt and cautions "more will need to be done to erase the specter of unmanageable laundry lists of structural measures that accompanied IMF programs of yesteryear, or the difficulty of justifying why a particular reform merits being chosen as a condition."

Focus of Structural Conditions

We evaluate focus by categorizing structural conditions into core, shared and non-core areas of IMF responsibility. An RSF-supported program focusing on climate change is expected to concentrate on five key policy reform areas: climate mitigation, climate adaptation, climate finance, public investment management (PIM) and public financial management (PFM). The

IMF shares the responsibility for the first two areas mainly with the World Bank and latter three areas represent the IMF's core areas of expertise. Table 3 gives the number of each of these policy reform areas in the three RSF-supported programs for Bangladesh, Barbados and Jamaica. RSF reform measures in the IMF's core areas of expertise range from all of the structural conditions for Bangladesh, followed by half for Barbados and three-quarters for Jamaica. Climate finance is the largest conditionality area, followed by PFM and then climate mitigation.

TABLE 3: FOCUS OF STRUCTURAL CONDITIONS UNDER IMF RSF PROGRAMS

Country	Climate Mitigation	Climate Adaptation	Climate Finance	Public Financial Management	Public Investment Management	TOTAL
Bangladesh	0	0	6	2	3	11
Barbados	3	2	2	3	0	10
Jamaica	3	0	5	3	1	12
TOTAL	6	2	13	8	4	33

Source: Authors' calculations.

Depth of Structural Conditions

Depth is defined as the degree and durability of structural conditions, with measures separated into low-, medium- and high-depth categories. According to the IMF's 2018 Review of Program Design and Conditionality, low-depth reforms in themselves do not bring about a change but are steps toward a change that can pave the way for implementation of more critical reforms. Medium-depth reforms lead to a significant change but are one-off in nature (e.g., budget approval). Finally, high-depth reforms lead to permanent institutional changes, such as legislative changes (parliamentary approval) or conditions with long-lasting impact (e.g., privatization).

Table 4 shows that the degree and durability of structural conditions in RSF arrangements for all three countries are overwhelmingly low-depth. In the case of Bangladesh, low-depth measures account for over 90 percent of the total policy reform conditionalities. For both Barbados and Jamaica, their RSF arrangements are almost equally balanced between low- and medium-depth reform measures. Most notably, RSF arrangements for both Bangladesh and Jamaica do not have any high-depth conditionality measures, while there is only one high-depth measure in the case of Barbados.

TABLE 4: DEPTH OF STRUCTURAL CONDITIONS IN IMF RSF PROGRAMS

Country	Low	Medium	High	TOTAL
Bangladesh	10	1	0	11
Barbados	4	5	1	10
Jamaica	6	6	0	12
TOTAL	20	12	1	33

Source: Authors' calculations.

From the perspective of climate vulnerable countries, this result on depth of climate conditionality in all three RSF-supported programs draws concern. All three countries have very ambitious national plans to tackle the longer-term structural challenge of climate change, but these plans are not matched by equally ambitious RSF reform measures, especially with a longer-term focus.

For example, Barbados has set the aspirational goal to become the first fossil fuel-free island by 2030, supported by solar energy, but most of its RSF reform measures are not bold enough to support this goal or to even make a lasting impact in tackling the existential threat of climate change. In the case of the two Caribbean Small Island Development States (SIDs), weak capacity cannot be cited as a determining factor for having a preponderance of low-to medium-conditionality measures in their RSF arrangements, as both Barbados and Jamaica have developed strong track records under previous IMF-supported programs and certainly demonstrate the capacity to implement more ambitious mitigation, adaption and climate transition measures.

CATALYTIC ROLE OF RSF-SUPPORTED PROGRAMS

The cornerstone of the IMF's RSF arrangements is the overwhelming reliance on the Fund's catalytic effect to unlock external financing, particularly substantial sums of private climate flows. Since the IMF provides only a small portion of a country's external financing requirements, the Fund assumes that its "good housekeeping seal of approval" will encourage others to lend, acting as a catalyst for private capital flows. This theory has led observers to interpret IMF lending programs as "catalytic official finance." However, the evidence on whether IMF programs do have positive catalytic effects is mixed. Initial empirical work failed to find a statistically significant catalytic effect for IMF lending programs (Bird and Rowlands 2001; Vreeland 2003). Later empirical research provided evidence suggesting that under some circumstances and when considering certain types of capital flows, the IMF's catalytic effect is significant and positive (Mody and Saravia 2006; Diaz-Cassou et al. 2006; van de Veer and de Jong 2010).

Apart from the IMF, multilateral development banks (MDBs) also have scope to crowd in more private climate for EMDEs. But MDBs have only been able to attract private climate finance, on average, of 1.2 times the resources they commit themselves (IMF GFSR 2022). We believe that the above findings provide important insights for the anticipated catalytic finance nature of RSF arrangements and the IMF's tremendous dependence on private climate finance flows to fund countries' climate resilience programs.

Barbados' early RSF experience demonstrates that the signaling effect of RSF climate policy reforms to spur large-scale private climate investments faces strong headwinds. Based on its current climate programs to build resilience and support the ambitious goal of transitioning to a carbon-neutral economy, Barbados requires about $1 billion in climate funding to be undertaken through 2030 (IMF 2022c). Even though its RSF arrangement is expected to provide just $189 million, once all conditionalities are met, it is expected to play an important catalytic role for Barbados to attract and scale up an additional $810 million in green financing from other international financial institutions as well as from private capital to support the country's climate policy agenda. Within one year of being under its RSF-supported program, Barbados has attracted almost $610 million to fund its climate plans (IMF 2023c), but these flows have mainly come from MDBs such as the World Bank and the Inter-American Development Bank (IDB), as well as the Green Climate Fund (GCF) and United States Agency for International Development (USAID), to a much lesser extent (Table 5). Barbados is yet to attract any private climate finance flows. As a result, at the end of 2023, Barbados' climate funding gap stood at just under $400 million, or around 40 percent of its estimated gross climate financing needs.

TABLE 5: BARBADOS: CATALYTIC ROLE OF RSF-SUPPORTED PROGRAMS

As of end-December 2023	USD Million
Gross Climate Financing Needs to 2030	1,000
IMF's RSF	189
Multilateral Development Banks (MDBs)	400
World Bank	(100)
Inter-American Development Bank (IDB)	(300)
Multilateral Financial Institutions	15
Green Climate Fund (GCF)	(15)
International Donor Community	5
United States Agency for International Development (USAID)	(5)
Private Sector	0
Total Climate Financing Received	609
Climate Funding Gap	391
(% of gross needs)	40
TOTAL	20

Source: Authors' calculations based on IMF (2023e).

POLICY RECOMMENDATIONS

We recognize that all IMF programs are the outcome of a complex negotiating process, in which Fund staff are required to make judgments balancing country ownership and political feasibility. This inevitably influences the final design of the IMF-supported program, especially in the context of tackling climate change, which is a new area for both the IMF and national authorities. In this respect, the RSF with its focus on helping countries deal with the structural challenge of climate change while providing highly concessional financing is a welcome addition to the IMF's lending toolkit. Based on our initial assessment of the early, limited RSF experiences of Bangladesh, Barbados and Jamaica, we make the following five policy recommendations which not only suggest ways in which these current programs can be strengthened but are also relevant for other countries contemplating future RSF arrangements.

Recalibrating RST Design

RESOURCES

Climate vulnerable countries require a considerable amount of capital investment to finance their climate mitigation and adaptation actions by 2030, which are well beyond their fiscal capacities, especially for those that are also struggling with high and rising debt. These countries require substantial international (mostly concessional) financing to be unlocked and mobilized with urgency. The early experiences of the RSF also underscore the importance of accessible and affordable liquidity support. The IMF has a key role to play in helping to ensure that short-term support helps to pave the way for longer-term climate-positive transformations (Task Force 2021).

Apart from financial resources, it will also be vital to ensure that the RST has the necessary human resources to support high quality program design and to further institutionalize climate change into the IMF's work.

CONCURRENT PROGRAMS

The Task Force maintains its recommendations to not require a concurrent IMF program to access the RST. Despite the RST's broad eligibility, the additional requirement to have a concurrent program restricts access to the RST. RST access is vital for countries that do not currently have an IMF program but wish to build resilience to balance of payments shocks that may arise in the future. Further, the RST could stretch its balance sheet further by using re-channeled SDRs as collateral for further borrowing. Such a resource mobilization strategy could be pursued in partnership with the World Bank.

Improve Program Design to Support Virtuous Cycle of Ambition through High-Depth Reforms

Climate vulnerable countries are already disproportionately and tragically affected by record-breaking heatwaves, frequent flooding, longer dry seasons and the destructive effects of tropical storms and cyclones. They, therefore, need to move expeditiously to implement more durable institutional and policy changes which build climate resilience.

In all three RSF arrangements assessed here, however, the share of low-depth policy reform measures is very high. Since the main objective of RST-supported programs is to build resilience to natural disasters and climate change as well as reduce greenhouse gas emissions and transition risks, it is necessary for countries contemplating an RSF arrangement to focus on few ambitious, high-depth reforms that stand a reasonable prospect of successfully generating transformational change or having a long-lasting impact.

The IMF should carry out a thorough assessment of how prospective reform measures reinforce climate change goals and add value to the reforms being considered by host countries. The IMF should bring to bear its capabilities in helping host countries identify and understand the macro-critical dimensions of climate shocks. In its November 2023 RST Operational Guidance Note, the IMF highlights the importance of strong reform measures and only "In exceptional cases, reforms that are already planned by the authorities (…) can also be considered as RMs"

(IMF 2023d). This recognition is welcome and needs to be built upon further to fully capture the benefits of RSF arrangements.

Reform measures should reflect transition risks, climate vulnerability and the climate co-benefits of nature. Many climate vulnerable countries are endowed with a rich and globally unique biodiversity, which is under severe and increasing threat. For instance, the main threats to the biodiversity of Caribbean countries include habitat destruction and fragmentation due to increasing urbanization, conversion of lands for tourism and commercial development, and the expansion of agriculture. Invasive species, pollution and overexploitation of living resources are also major stressors to Caribbean ecosystems and biodiversity.

However, biodiversity loss is a policy reform area that has been overlooked not only in RSF arrangements for Barbados and Jamaica but also in Bangladesh. Going forward, RSF-supported programs should actively consider the rich interplay between climate and nature which offers sustainable financing mechanisms to incentivize the protection, restoration and management of valuable lands, oceans, coastal areas and inland waters ecosystems in line with the Kunming-Montréal Global Biodiversity Framework. In addition, the Network for Greening the Financial System (NGFS) has set up a task force on Biodiversity Loss and Nature-related Risks, which could inform future greening of the financial systems of climate vulnerable countries.

Country ownership needs to be strengthened by consulting with civil society and other stakeholders. Although RSF arrangements in all three countries are strongly government-owned, they lack full country ownership. There is no evidence that the national authorities consulted with civil society and other non-governmental stakeholders to inform and develop the climate policy reform areas. In these critical climate hotspots, communities can be seen as "agents of knowledge production and territorial transformation" (Ratter 2018) which have developed a wide range of cultural practices to deal with climate variability and extreme weather events, and this local knowledge can help improve the design of national climate policy reforms. In addition, consultation with civil society and other stakeholders would not only help to strengthen country ownership with respect to RSF arrangements, but also put climate policy reforms with a just and equity perspective on the table for consideration.

Equip the RST to Play a Catalytic Role

The potential of private finance to help close the climate financing gap is compelling, but the RSF's catalytic character in making this happen is still unproven. At the end of 2023, both Barbados and Jamaica had not attracted any private climate finance flows, despite having an RSF arrangement for 12 months and nine months, respectively. Bangladesh received a marginal amount of private climate financing.

This means that the IMF needs to highlight the continued salience of domestic and international public finance in closing the climate finance gap. It should be clear and transparent about the challenges of mobilizing private finance. The Fund also needs to advise these countries earlier on possible approaches to smoothing prospective balance of payments stability in the absence of higher-than-anticipated private climate financing to avoid fiscal adjustment beyond that contemplated in the concurrent IMF-supported program.

Institutionalize Collaboration with the World Bank

The IMF should formalize its collaboration with the World Bank on the RSF. Close engagement between the two institutions is required to design RSF programs that have catalytic impact. Three areas of collaboration are particularly salient: design of RSF reform measures, leveraging the RST to mobilize finance and the deployment of debt solutions. The World Bank's deep expertise on sectors and focus on investments can complement the RSF. The World Bank and the IMF have complementary strengths when it comes to climate and development policy diagnostics. Furthermore, close collaboration between the two institutions and beyond could help in the mobilization of finance through the creation of country platforms. Country platforms could help generate the political momentum that is required to mobilize finance. Likewise, the RST's resources could be used to mobilize additional finance which would enable the RST to amplify its impact.

Future RSF arrangements in highly indebted climate vulnerable countries could consider linking debt relief options such as pause clauses, debt restructuring and reprofiling, and debt swaps to investments in green resilience policies aligned to their national climate and development plans. The V20 has called for a sort of grand-scale climate-debt swap where the debts and debt servicing of developing countries are reduced on the basis of their own plans to achieve climate resilience and prosperity (V20 2021).

Additionally, the IMF put forward a new working paper on lessons and implications for the how the Brady Plan delivered on debt relief (Shenai and Bolhuis 2023), and this may rekindle interest in a Brady Plan-style mechanism to facilitate debt restructurings when countries face acute solvency challenges. Both Rambarran (2022) and Ramos et al. (2023) have developed sovereign debt and climate justice proposals which partly draw on the principles of the Brady Plan and other global policy frameworks. More recently, the Finance for Development Lab has proposed a "bridging program" to climate action that seeks to unlock net positive flows for debt distressed countries facing liquidity constraints (Diwan et. al 2024). The RST could be used to guarantee the Brady Plan-style mechanism. The plan could be contingent on countries pursuing their climate and development goals which would enable the RSF arrangements to have high impact.

CONCLUSION

The IMF should be commended for creating the RST at a critical moment of need. However, as 2030 nears and the UN 2030 Agenda for Sustainable Development remains out of reach, this climate-oriented lending tool must be designed and deployed in such a way that it doesn't undercut its own potential nor lock countries out of access.

To that end, the RST should be scaled up significantly to meet financing needs for climate and development goals; access should not include countries having a concurrent IMF program; RSF reform measures should add momentum behind ambitious climate and development policies; the RST should be designed to play a catalytic role; and collaboration with the World Bank should be institutionalized to maximize the RST's financing and development potential.

While the RST is far from a panacea for addressing climate change, it can be a powerful tool for EMDEs to catalyze climate and development goals – but only if it's designed to do so.

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