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June 2024

INTERIM REVIEW OF THE RESILIENCE AND SUSTAINABILITY TRUST AND REVIEW OF ADEQUACY OF RESOURCES

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:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 8, 2024 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on March 28, 2024, for the Executive Board's consideration on May 8, 2024.

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PRESS RELEASE

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IMF Executive Board Completed the Interim Review of the Resilience and Sustainability Trust and Review of Adequacy of Resources

FOR IMMEDIATE RELEASE

Washington, DC – May 17, 2024: The Executive Board of the International Monetary Fund (IMF) completed the interim review of the Resilience and Sustainability Trust (RST) and review of Adequacy of RST Resources on May 8, 2024.

The interim review takes stock of experience with the RST since it became operational in October 2022. Demand for the RST has been high. To date, 18 arrangements have been approved—all seeking to help countries tackle challenges stemming from climate change—and most less than a year old.

Though most arrangements are at early stages, the Executive Board approved fine-tuning of a few elements of RST design to enhance its effectiveness. These include facilitating early disbursements for reform measures completed ahead of schedule and allowing for continuity of an RSF arrangement when there is a need to switch across qualifying concurrent Upper Credit Tranche (UCT)-quality programs.

The review also provides an assessment of the adequacy of the Trust's resources and finds that increased near-term fundraising will be needed to meet strong demand. The Trust's reserves remain adequate in the baseline and under a range of risk scenarios.

A more comprehensive review of the RST is planned for 2026.

Executive Board Assessment[1]

Executive Directors welcomed the Interim Review of the Resilience and Sustainability Trust (RST) and Review of Adequacy of Resources, which takes stock of the initial experience with RST implementation, proposes fine-tuning the RST design, and assesses the resource adequacy and the financial outlook of the RST. They affirmed their support to the RST to provide long-term catalytic financing, subject to appropriate risk mitigation, to assist countries' reform efforts to reduce risks to prospective balance of payments (BoP) stability. They concurred that reforms under the RST should be grounded in countries' existing climate strategies and should address macro-critical country-specific challenges through policies in areas of the Fund's mandate and expertise. A number of Directors underscored the need for climate related reforms under RSF to focus on adaptation.

Directors positively noted the successful approval of 18 RSF arrangements so far, committing SDR 6.3 billion, and the 30-35 additional requests expected in the near term. They considered

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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that the strong demand for RST financing demonstrated the usefulness of the instrument to the membership. Observing that these arrangements have primarily focused on addressing climate change challenges, they looked forward to a forthcoming expansion of focus into pandemic preparedness and requested additional details on the Fund's role in this area as compared with the World Bank and World Health Organization. While a number of Directors called for expansion of the list of qualifying longer-term structural challenges eligible for financing under the RST, many Directors considered that such an expansion would not be feasible for quite some time. Directors encouraged staff to more closely link policy advice developed in RSF arrangements into the Fund's surveillance work. Some Directors agreed that potentially tailored solutions could be considered for small developing states that reflect their unique circumstances.

Directors underscored the importance of continued close collaboration—and progress in developing systematic approaches to collaboration—with development partners, including the World Bank and other MDBs, in formulating and evaluating Reform Measures (RMs) in RSF arrangements, developing complementary reform packages and CD provision, and bringing together key actors. This would leverage the limited Fund staff resources and expertise on climate and pandemic preparedness, avoid duplication of work, and maximize the catalytic funding impact of RSF arrangements. Directors also called for close collaboration with other partners to develop a coherent framework for assessing the catalytic effects of RSFs on financing.

Directors generally supported proposals to enhance the operational flexibility and clarity of the RSF. They concurred that the access norm would remain at 75 percent of quota, with higher access based on exceptionally high-quality reform packages. While many Directors concurred that maximum access levels may be appropriate for exceptionally high-quality reform packages, a number of other Directors stressed that deviations from the norm should remain country specific and supported by detailed justification to minimize evenhandedness concerns. Most Directors supported the proposals to bring forward the disbursement associated with (at most) one RM completed ahead of schedule per review. Directors supported the proposal to ensure continuity of the RSF arrangement when there is a need to switch across qualifying concurrent Upper Credit Tranche (UCT)-quality programs and to eliminate the possibility of dual-purpose reforms.

Directors agreed that the Trust's reserves are adequate to support its operational needs in the baseline and under a range of risk scenarios, while the interest rate cap for Group A countries remains appropriate. Directors emphasized the need for reinvigorated near-term fundraising for the Trust to meet the strong demand for RSF arrangements and ensure the RST's ability to sustain its lending activities. They encouraged further progress on a hybrid contribution modality that could pave the way for significant additional financial contributions.

Directors looked forward to the comprehensive review of the RST in FY2026. They called for a systematic and expansive evidence base, including through feedback from RSF-implementing authorities and mission chiefs, to support their deliberations. Areas to cover would include how effectively the RST is achieving its intended objectives, the appropriate size of the RST given trends in donor contributions and staff workload, access rules and limits. The review would also cover the planned reassessment of safeguards including post-RSF monitoring, the

potential inclusion of RST financing under the Fund's Exceptional Access Frameworks. Proposals to explore developing a non-disbursing RSF arrangement and to increase flexibility in requiring a concurrent qualifying UCT-quality program could also be considered.

INTERNATIONAL MONETARY FUND

March 28, 2024

INTERIM REVIEW OF THE RESILIENCE AND SUSTAINABILITY TRUST AND REVIEW OF ADEQUACY OF RESOURCES

EXECUTIVE SUMMARY

The Resilience and Sustainability Trust (RST), through its lending facility, the Resilience and Sustainability Facility (RSF), provides affordable longer-term financing to help eligible IMF members address longer-term structural challenges, thereby progressing toward strengthening their prospective balance of payments stability. This interim review takes stock of the initial experience with the RST—focusing on progress and challenges so far—and proposes fine-tuning of RST design with a view to strengthening implementation of the Trust's objectives. The paper also provides an update of the Trust's financial outlook based on updated near-term demand estimates.

During the first 17 months of operation, 18 RSF arrangements have been approved by the Executive Board with financial commitments of SDR 6.3 billion (about $8.4 billion). These RSF arrangements have so far focused on climate change-related challenges but will soon include pandemic preparedness. RSF-supported reform packages have sought to address country-specific challenges through macro-critical policies in areas of Fund expertise. An additional 30-35 eligible member countries have expressed interest in accessing the Trust's financing. Collaboration with development partners, especially multilateral development banks, has been pivotal in the rapid deployment of RSF arrangements.

To enhance the RST's effectiveness, some design modifications are proposed, including regarding the rules around early rephasing and disbursement against early completion of RMs; eliminating the possibility of dual-purpose reforms; and ensuring continuity of the RSF arrangement when there is a need to switch across qualifying concurrent Upper Credit Tranche (UCT)-quality programs. The interim review also takes stock of the application of access policies under RSF arrangements.

The review also assesses the adequacy of the Trust's resources, including an update on fundraising progress and an assessment of the Trust's financial outlook—based on updated near-term demand estimates. It finds that about SDR 7 billion ($10 billion) of reinvigorated near-term fundraising for the Trust is needed. Raising this amount would allow similar lending volumes to those underpinning the 2022 RST fundraising target. The Trust's reserves remain adequate in the baseline and under a range of risk scenarios, while the interest rate cap for Group A countries introduced in May 2023 remains appropriate.

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CONTENTS

Glossary ____ 4

INTRODUCTION ____ 5

EXPERIENCE SO FAR ____ 6

A. Strong Demand for RSF Arrangements Across the Membership ____ 6

B. RSF-Supported Reform Measures ____ 10

C. Collaboration with Development Partners ____ 19

D. Catalytic Role ____ 22

E. Time and Resources ____ 27

FINE-TUNING OPERATIONS: PROPOSED CHANGES TO THE RST DESIGN AND CONSIDERATIONS ON ACCESS AND SAFEGUARDS ____ 28

A. Early Completion of Reform Measures ____ 29

B. Dual-Purpose Reforms ____ 31

C. Back-to-Back UCT-Quality Programs ____ 32

D. Access ____ 35

E. Safeguards ____ 38

ADEQUACY OF RST RESOURCES: A SUMMARY ____ 40

ENTERPRISE RISKS ____ 41

ISSUES FOR DISCUSSION ____ 43

BOXES

1. A Look Back at RMs in Approved RSF Arrangements ____ 11

2. Small Developing States: A Need for Tailored Solutions 17
3. IMF-World Bank Collaboration in Support of RSF Arrangements 21
4. Climate Finance in the RSF Context: Experience of First Five RSF Arrangements 23

TABLES

1. Use of RST Financing 9
2. Policies That Can Help Scale Up Climate Finance: Examples from RSF Arrangements 25

FIGURES

1. Approved RSF Arrangements 7
2. RSF Arrangements by Region and Concurrent IMF Facility 9
3. Coverage of Approved RSF Reform Measures: Adaptation, Transition, and Mitigation 10
4. Reform Ambition 16
5. Depth of RSF-Supported Reform Packages 17
6. Process for Determining Access Levels 36

ANNEXES

I. Adequancy of Resources for the Resilience and Sustainability Trust 44
II. Approved RSF Arrangements 60
III. RSF Facility Survey Results 61
IV. Ex-Post Assessment of Reforms: Possible Approaches 64
V. Areas of RSF-Related Technical Support from Development Partners, Complementing Fund and World Bank Support 68

Glossary

AL	Assessment Letter
CCDR	Country Climate and Development Report
CD	Capacity Development
CPAT	Climate Policy Assessment Tool
CPD	Climate Policy Diagnostic
C-PIMA	Climate Public Investment Management Assessment
CtR	Capacity to Repay
DA	Deposit Account
DIGNAD	Debt-Investment-Growth Natural Disasters Model
EA	Exceptional Access
EMDEs	Emerging Markets and Developing Economies
EIB	European Investment Bank
G7	Group of Seven
GFSR	Global Financial Stability Report
GHG	Greenhouse Gas Emissions
GMMET	Global Macroeconomic Model for the Energy Transition
GRA	General Resources Account
LA	Loan Account
MDB	Multilateral Development Bank
NDC	Nationally Determined Contribution
ND-DDT	Natural Disasters Public Debt Dynamics Tool
PFM	Public Financial Management
PIM	Public Investment Management
PPP	Public-Private Partnership
PRGT	Poverty Reduction and Growth Trust
PS-HCC	Policy Safeguards for High Combined Credit exposure
Q-CRAFT	Quantifying Climate Risk Assessment Fiscal Tool
RA	Reserve Account
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RM	Reform Measure
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SDR	Special Drawing Right
SDRi	Special Drawing Right interest rate
SDS	Small Developing State
UCT	Upper Credit Tranche
USAID	U.S. Agency for International Development
WB	World Bank

INTRODUCTION

1. The Resilience and Sustainability Trust (RST) is an innovative addition to the IMF's lending toolkit. The RST's lending facility, the Resilience and Sustainability Facility (RSF), complements other IMF lending facilities by providing affordable longer-term financing to help eligible IMF members address longer-term structural challenges—including climate change and pandemic preparedness.[1] More broadly, in line with the Fund's mandate, RSF-supported reforms focus on macro-critical *policy reforms* rather than project lending—the latter being the main focus of the global financing landscape for these types of challenges.[2,3] Established in April 2022, the RST became operational in October 2022 following strong initial financial support from the membership. The first RSF arrangement was approved in November 2022 followed by seventeen more by March 2024—with total commitments of $8.4 billion (SDR 6.3 billion). More detailed guidance on the operationalization of the RST was issued in the November 2023 RSF Operational Guidance Note ("RSF Guidance Note").

2. This RST interim review takes stock of the initial experience—focusing on progress and challenges so far—and assesses the adequacy of the Trust's resources. The paper addresses the Executive Board's ("the Board") request for an RST interim review within 18 months of the RST's operationalization (including safeguards) and regular evaluation of resource adequacy.[4] The update of the Trust's financial outlook—based on fundraising to date and revised near-term demand estimates—finds that about $10 billion (SDR 7 billion) of reinvigorated near-term fundraising for the Trust is needed, bringing it in line with the lending envelope underpinning the 2022 RST lending target (Annex I). Demand for RSF arrangements has been strong with a large number of arrangements requesting maximum access, while a pipeline of 30-35 countries is expected to bring requests for Board consideration through 2026. Many of these countries may request two consecutive RSF arrangements with cumulative access within the maximum allowed under the RST. At the same time, while the overall fundraising target has been met, contributions containing loan resources have fallen short with only 80 percent of the lending target having been met to date. Given most RSF arrangements are less than a year old with only one or two reviews completed

[1] Specifically, the RST aims to support longer-term economic resilience and sustainability for eligible members undertaking macro critical reforms to reduce risks to prospective balance of payment stability.

[2] For example, the share of climate finance that supports policy-based financing by a group of Multilateral Development Banks (MDBs) was about 5-9 percent of total climate finance during 2017-2022 though nominal amounts have increased sharply over this period—from about $2 billion (out of $35 billion) to over $9 billion (out of $100 billion)—relative to the total envelope of MDB climate finance, which has also grown (see the 2022 Joint Report on Multilateral Development Bank's Climate Finance for the most recent data). In addition, World Bank Development Policy Financing climate co-benefits were in the ballpark of $5-7 billion per year during 2021-2023.

[3] Fund facilities do not support the financing of project loans.

[4] The Chair's Summing Up (SU/22/56) stated that "They [Executive Directors]… agreed to an interim review to take stock of the initial experience and revisit the set of qualifying structural challenges at around 18 months after its operationalization." The Board also requested regular updates on the adequacy of RST resources, which have so far taken place bi-annually.

(Annex II), it is too soon to provide a systematic assessment of whether the RST is achieving its intended objectives. A comprehensive review is tentatively planned for FY26.

3. The initial experience has identified a few elements of RST design that could be fine-tuned in this interim review. Benefitting from a facility-focused survey of authorities and IMF mission chiefs for countries with an RSF arrangement (Annex III), the proposed RST design changes focus mainly on operational issues to support effective and consistent implementation of the Trust's objectives. They include modifying the rules around early reform measure implementation, reconsidering the need for "dual-purpose" reforms, and allowing for continuity of an RSF arrangement when there is a need to switch across qualifying concurrent Upper Credit Tranche (UCT)-quality programs.[5] The interim review also takes stock of the application of access policies under RSF arrangements.

4. The rest of this paper is structured as follows. The first section summarizes key lessons from the operationalization of the RST so far—including demand for RSF arrangements, the types of reform measures being undertaken, collaboration with external partners, and the catalytic role of RSF financing. This is followed by discussions of proposed design changes to the RST Instrument, a review of safeguards, a summary of the Trust's resource adequacy, and an update of enterprise risks. A proposed decision amending the RST Instrument will be circulated separately and may be adopted by the Executive Board by a majority of the votes cast.[6]

EXPERIENCE SO FAR

The strong demand for RSF arrangements and their rapid rollout stand out. This largely reflects authorities' motivation and ownership of reforms, collaboration across stakeholders, and flexibility under the RST to tailor RSF arrangements to country-specific capacity levels and challenges. The agility of Fund staff to gain expertise in new areas, to rapidly expand offerings of capacity development (including technical assistance), and to support tailored reform measures for each country in the context of constrained resources are also playing an important role in the rapid rollout of the RST. While it is too early to fully evaluate the effectiveness and impact of RSF-supported reform packages, Annex IV outlines some preliminary views on approaches that could be applied to this end.

A. Strong Demand for RSF Arrangements Across the Membership

5. The demand for RSF arrangements from the Fund's membership has been very high. During the first 17 months of operation, 18 RSF arrangements have been approved by the Executive Board—with total commitments of SDR 6.3 billion of which SDR 1 billion has already been disbursed

[5] Qualifying UCT-quality programs are detailed in the IMF Lending factsheet.

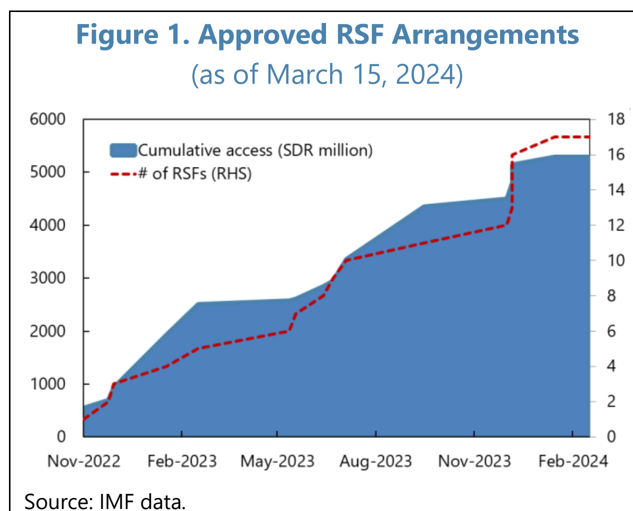
[6] None of the proposed changes require consent from contributors to the RST in accordance with the terms of the RST Instrument.

(Figure 1, Annex II).[7] Another 30-35 eligible countries have expressed interest in having one in the near term.[8] The majority of approved RSF arrangements have maximum access (the lower of 150 percent of quota or the cap of SDR 1 billion, Annex II). Only one third of RSF arrangements have access at the norm of 75 percent of quota and these countries have expressed interest in requesting a successor RSF arrangement for an amount that would bring their cumulative access to the maximum allowed under the RST.

6. RSF arrangements have, so far, focused on climate change-related challenges but will soon include pandemic preparedness. Broadening coverage to other qualifying longer-term structural challenges will require further consideration.[9]

- The April 2022 RST Board paper identified two qualifying longer-term structural challenges eligible for financing under the RST: climate change and pandemic preparedness. To date, all RSF-supported reform packages have targeted climate change-related challenges. Some members have expressed interest in RSF arrangements focused on pandemic preparedness. Staff are close to finalizing the coordination framework with the World Bank and the World Health Organization necessary to support broad operationalization of this aspect of the RSF.

Figure 1. Approved RSF Arrangements (as of March 15, 2024)



Source: IMF data.

- Broadening the set of qualifying longer-term structural challenges eligible for financing under the RST to other areas is not feasible at this time but remains under assessment. The process of expanding into new qualifying longer-term structural challenges involves a multifaceted approach that combines extensive internal capacity building, collaboration with expert institutions, policy development and implementation support (including capacity development), and monitoring and evaluation mechanisms. This will take time in light of the considerable resources required to build staff capacity in support of high-quality and impactful reform

[7] Disbursements on total commitments remain small as there is no disbursement associated with approval of an RSF arrangement. Disbursements are made upon completion of RSF arrangement reviews, where completion of RMs are evaluated. By the end of an RSF arrangement, if all RMs are completed, the total commitments at the time of RSF approval will have been disbursed.

[8] This estimate is based upon input received from surveys of demand for RSF arrangements and direct feedback from country authorities to IMF country teams, covering interest in both climate change- and pandemic preparedness-focused RSF arrangements.

[9] Any new proposed qualifying longer-term structural challenge requires i) a decision of the Executive Board adopted by a majority of votes casts; and ii) the concurrence of contributors to the RST representing 70 percent of the total RST commitments under the RST's Loan Account (RST Instrument, ¶1) that are in effect when the concurrence is sought.

measures in the relevant structural areas. The Executive Board's May 2023 guidance was to take a gradual approach to RST mobilization with an emphasis on developing strong reform packages.[10] Any future expansion of the list of eligible longer-term structural challenges would be informed by lessons from the still early phases of the RST rollout, including from the upcoming parallel operations of climate change- and pandemic preparedness-focused RSF arrangements. Staff will provide an update during the comprehensive RST review.

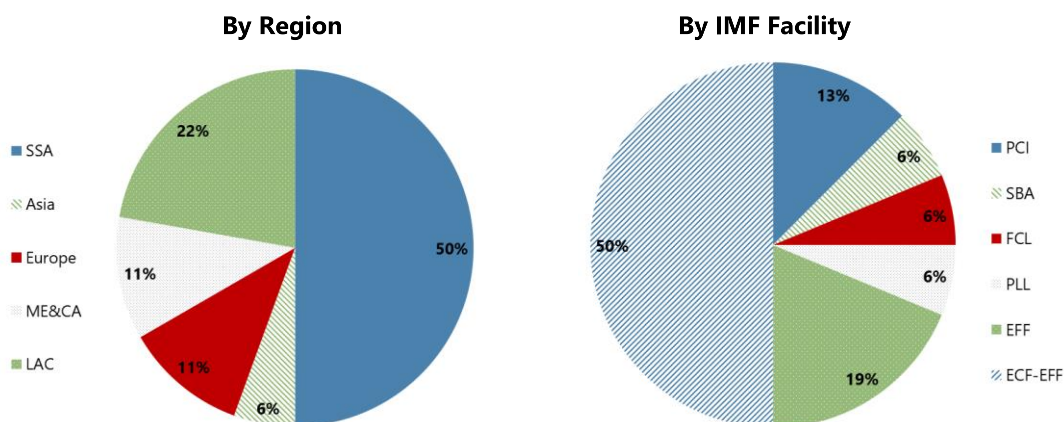
7. The climate change focus of the RSF has been welcomed by the Fund's membership, with approved RSF arrangements spanning a diverse group of countries. There are active RSF arrangements across all geographic regions, with representation from low-income countries, fragile states, emerging and frontier market economies, small states, and more populous countries. Reflecting this diversity, RSF arrangements are paired with a range of qualifying concurrent UCT-quality instruments (Figure 2). "Pilot" RSF arrangements were approved for member countries with vulnerability to climate change, a track record of robust climate policies and strong implementation capacity, and where adequate diagnostics helped identify relevant reform measures.[11,12] Countries with approved RSF arrangements represent a broad spectrum of climate vulnerability and capacity. However, in almost all cases the financing provided by the RST is being used to increase policy space for fiscal spending and reforms associated with qualifying longer-term structural challenges. Cabo Verde, Costa Rica, and Rwanda are applying some or all of the RST financing toward augmenting longer-term buffers that strengthen the member's ability to face shocks linked with qualifying structural challenges (Table 1).

[10] May 2023 Informal-to-Engage Board briefing.

[11] "Pilot" RSF arrangements consist of those for Costa Rica, Barbados, Rwanda, Bangladesh, and Jamaica.

[12] 143 countries are eligible for financing through the RST. Qualification further requires: (i) a package of high-quality policy measures consistent with the purposes of the Trust, (ii) a concurrent IMF program with UCT-quality policies with at least 18 months remaining at the time of the RSF arrangement's approval, and (iii) sustainable debt and adequate capacity to repay the Fund. For full details on eligibility and qualification criteria see *Proposal to Establish a Resilience and Sustainability Trust* (IMF Policy Paper No. 2022/013), pp. 18-21.

Figure 2. RSF Arrangements by Region and Concurrent IMF Facility
(as of March 15, 2024)



Source: IMF data
Note: LAC = Latin America and the Caribbean; ME&CA = Middle East and Central Asia; SSA = Sub-Saharan Africa; ECF = Extended Credit Facility; EFF = Extended Fund Facility; PCI = Policy Coordination Instrument; PLL = Precautionary and Liquidity Line; FCL = Flexible Credit Line; SBA = Stand-by Arrangement.

Table 1. Use of RST Financing[1]

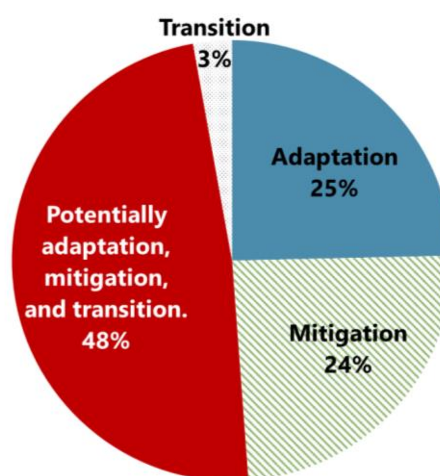
<table>
<tr><th>Country</th><th>Qualifying Use</th></tr>
<tr><td>Costa Rica</td><td>Increasing medium-term policy space (80 percent); augmenting buffers (20 percent)</td></tr>
<tr><td>Rwanda</td><td>Increasing medium-term policy space (70 percent); augmenting buffers (30 percent)</td></tr>
<tr><td>Bangladesh</td><td rowspan="15">Increasing medium-term policy space</td></tr>
<tr><td>Benin</td></tr>
<tr><td>Barbados</td></tr>
<tr><td>Cameroon</td></tr>
<tr><td>Cote d'Ivoire</td></tr>
<tr><td>Jamaica</td></tr>
<tr><td>Kenya</td></tr>
<tr><td>Kosovo</td></tr>
<tr><td>Mauritania</td></tr>
<tr><td>Moldova</td></tr>
<tr><td>Morocco</td></tr>
<tr><td>Niger</td></tr>
<tr><td>Paraguay</td></tr>
<tr><td>Senegal</td></tr>
<tr><td>Seychelles</td></tr>
<tr><td>Cabo Verde</td><td>Augmenting buffers</td></tr>
</table>

Sources: IMF Staff.
[1] Based on the definition of qualifying use in the April 2022 RST Board Paper, ¶8.

B. RSF-Supported Reform Measures

8. Reform measures (RMs) supported by RSF arrangements—benefitting from authorities' strong ownership—have targeted a mix of areas spanning climate change adaptation, transition, and mitigation (Figure 3). In general, most members with RSF arrangements are vulnerable to the effects of climate change despite having contributed little to global greenhouse gas emissions. Accordingly, the authorities (spanning a wide range of ministries and agencies in a given country) have emphasized the importance of building economic resilience in the face of climate change risks. RSF-supported reforms seek to support prospective balance of payments stability directly through adaptation measures and indirectly through certain mitigation measures such as phasing out of fossil fuel subsidies which create fiscal space for investment in resilient infrastructure, including green electricity generation (Figure 3). Many RMs also simultaneously cover adaptation, transition, and mitigation. For instance, a public financial management (PFM) reform such as incorporating climate change considerations into Public Investment Management frameworks will potentially impact both adaptation and mitigation; and, for fossil fuel exporters, such a reform will also contribute to managing the prospective balance of payments impact of the global transition to low-carbon economies.

Figure 3. Coverage of Approved RSF Reform Measures: Adaptation, Transition, and Mitigation



Source: IMF Staff estimates.

9. RSF-supported reform packages have sought to address country-specific challenges through policies in areas of Fund expertise (Box 1). There has been significant emphasis on macro-critical policy and institutional reforms, where RMs have been customized to the nature of climate challenges, capacity, and level of development. Key reform areas include integrating climate change considerations into public investment management and public private partnership (PPP) frameworks; green public financial management and planning/budget cycles (e.g., budget preparation, execution, reporting, and auditing processes); carbon pricing and subsidy reforms; expansion of social safety nets; risk assessments and management (e.g., macro-fiscal, financial, and disaster risks); energy transition (e.g., renewables and energy efficiency); and improving financial sector data, definition, and disclosures, developing robust supervisory frameworks for climate risks, as well as mobilization of climate finance. With the support of development partners, RMs have also been tailored to address specific types of climate change challenges a country faces by targeting sector-specific vulnerabilities (e.g., water scarcity, electricity market reforms, transportation).

10. A range of diagnostic tools and resources have been drawn on to support the identification of RMs. Staff have leveraged surveillance reports (e.g., Article IV staff reports, selected issues paper, and Financial Sector Stability Assessments) and diagnostic assessments such

as the IMF's Climate Policy Diagnostic (CPD) and Climate Public Investment Management Assessment (C-PIMA), as well as the World Bank's Country Climate and Development Report (CCDR).[13] New analytical tools are also being developed (with financial support from partners) to help improve quantification of the impact of climate change and climate policies.[14] The resulting analysis has informed work in recent requests for RSF arrangements. Importantly, reflecting high levels of ownership, RMs have also been shaped by authorities' own diagnostics and plans.

Box 1. A Look Back at RMs in Approved RSF Arrangements

RSF arrangements are supporting a range of macro-critical climate policy reforms, including sectoral measures when warranted. The 18 climate change-related RSF arrangements that have been approved by the Board to date encompass 211 reform measures spanning various climate-related areas and issues. Key factors in shaping the RMs (and the overall reform package) for a country were the findings of climate diagnostics, the landscape of climate policies and frameworks in each country, past or ongoing efforts of development partners, the assessed additionality of RMs, countries' implementation capacity and institutional strength, and possibilities for development partner collaboration (especially for sectoral reforms).

75 percent of RMs in approved RSF arrangements comprise green PFM, financial sector, and fiscal policy reforms (Box 1 Figure 1.):

- **Green PFM—referring to institutional arrangements facilitating implementation of climate change-sensitive fiscal policies—have been emphasized across most RSF arrangements.** Over 90 percent of green PFM RMs focus on the initial three (out of five) stages of the PFM cycle (Box 1 Figure 1., bottom right panel). Specifically, 20 percent have focused on the legal framework, 30 percent on strategic planning and fiscal framework, and 43 percent on budget preparation. The concentration on the early stages of the PFM cycle reflects the nascency of green PFM practices in most countries. Where implementation capacity is relatively weak, these reforms may be considered ambitious RMs as part of a high-quality RSF-supported reform package. However, in countries with stronger implementation capacity, governance frameworks and institutions, green PFM measures should seek to cover the entire PFM cycle—extending from the first three stages of the PFM cycle to the next stages, namely budget execution, accounting, and reporting and control and audit—as well as functions beyond the scope of the budget such as state-owned enterprises.
- **Green fiscal policies also feature in approved RSF arrangements** (Box 1 Figure 1., top left panel). Fossil fuel subsidy reforms, carbon pricing (mainly taxation), and water and electricity tariff reforms—generally accompanied by enhanced social safety nets—have gained prominence in recent RSF arrangements. Given the socio-political challenges typically associated with these reforms, country ownership was a critical factor in RM design (Box 1 Figure 1., top left panel and Box 1 Figure 2.). However, carbon taxation reforms can be further deepened as some of the RMs deal with diagnostics

[13] The CPD is a broad climate policy diagnostic that can be used to inform the design of reform measures as well as institutions building, including by applying Climate Policy Assessment Tool (CPAT).

[14] This includes Quantifying Climate Risk Assessment Fiscal Tool (Q-CRAFT) for the analysis of fiscal risks from climate change; the extension of the Public Debt Dynamics Tool that includes the effects of natural disasters (ND-DDT) and the Debt-Investment-Growth and Natural Disasters model (DIGNAD) that quantifies the macroeconomic benefits of investing in resilient infrastructure amidst natural disasters; IMF-ENV and GMMET to study the impact of climate policies; and CPAT to assess the impact of climate mitigation efforts.

Box 1. A Look Back at RMs in Approved RSF Arrangements (concluded)

or planning instead of implementation. Other areas of climate change-oriented fiscal policy measures include feebates and congestion pricing.

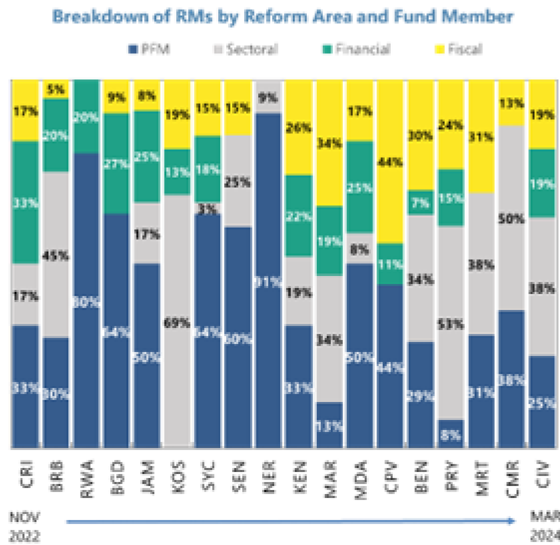
- **Emphasis has also been placed on improving the financial system's resilience to physical and transition risks, attracting financing for climate solutions, and accelerating transition planning.** Key reforms include supporting (i) climate risk analysis and prudential frameworks; (ii) improvements in data quality, coverage, and collection; (iii) adoption of taxonomies to align investments to climate goals; (iv) transparent reporting of climate risks aligned with global standards; and (v) financial institutions' development of transition plans for progressive decarbonization. The majority (about 60 percent) of financial sector RMs have, so far, focused on areas (ii)-(iv). Mainstreaming climate risk analysis and prudential frameworks is less common owing to data modelling and inter-agency coordination challenges (21 percent)—mainly covered in the Barbados and Seychelles RSF arrangements. Costa Rica plans to issue guidelines to banks to incorporate climate risks into their credit portfolios. Meanwhile, Jamaica is establishing frameworks for green bonds issuance and trading (Box 4).

The remaining RMs are sectoral (25 percent of RMs), targeting the unique set of climate change challenges each country faces and a given sector's macro criticality.[1] So far, nearly half of these sectoral RMs have focused on the power sector. Examples include laws and regulations to promote investments in renewable energy and technical requisites for interconnection, licenses, and other conditions (Paraguay), and completing the legal framework for energy efficiency (including specifying labeling and energy efficiency standards, Morocco and Paraguay). In agriculture, water and land use (21 percent of sectoral RMs) and transport (7 percent of sectoral RMs), examples span mandating groundwater and surface water monitoring (Benin) and implementing a strategy for greener public transport (Paraguay and Senegal). The Fund largely lacks the necessary expertise to design specific sectoral reforms. Consequently, the development of these RMs benefitted from guidance and technical assistance from multilateral development banks and other development partners—while ensuring RM completion can be independently verified by Fund staff. The focus on sectoral RMs has grown in recent RSF arrangements, reflecting the close coordination of the Fund with these partners as well as authorities' priorities.

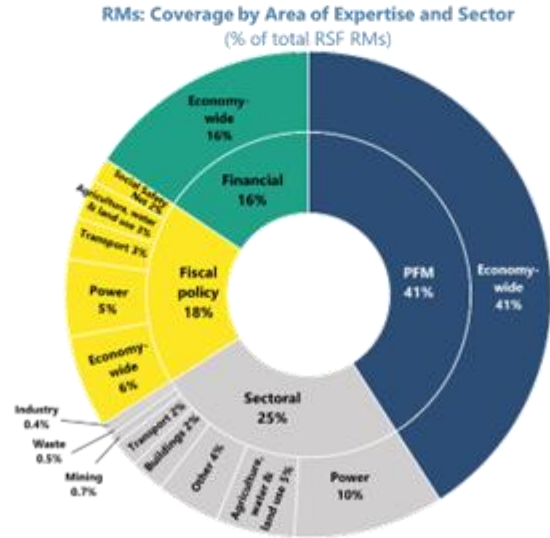
[1] According to the RSF Guidance Note, critical reforms are those that are key to reducing risks to prospective balance of payments stability stemming from qualifying longer-term challenges.

Box 1. Figure 1. Coverage of RSF-Supported Reform Measures

Recent RSF arrangements have shown a stronger sectoral and fiscal policy focus.

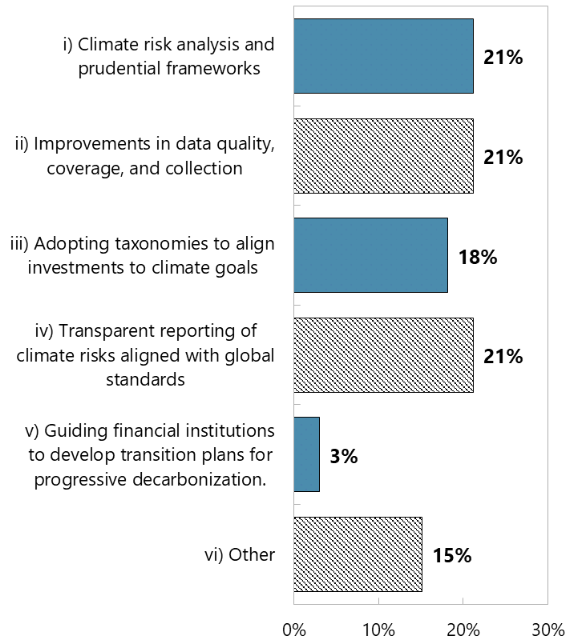


RMs have focused on green PFM, financial sector, and fiscal policy reforms.



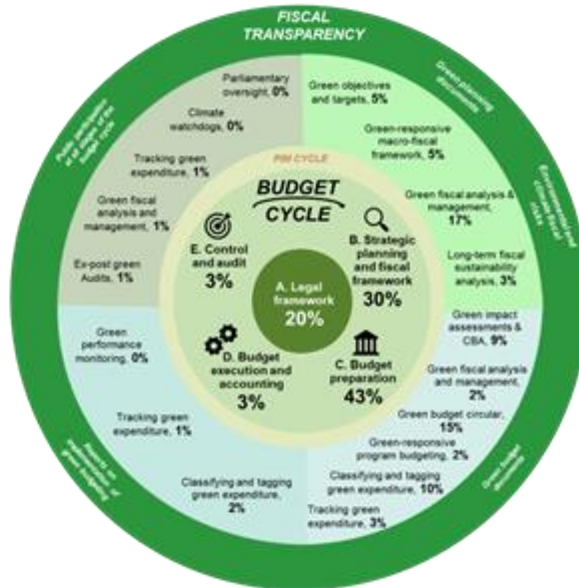
Financial sector reforms have focused largely on data, definitions, and disclosures (60 percent).

Coverage of Financial RMs in RSF Approved Programs
(% of financial RMs)



Most PFM RMs cover initial PFM cycle steps given green PFM practices are still nascent in most countries.

PFM RMs: Coverage of the PFM Cycle in RSF Approved Programs
(% of PFM RMs)

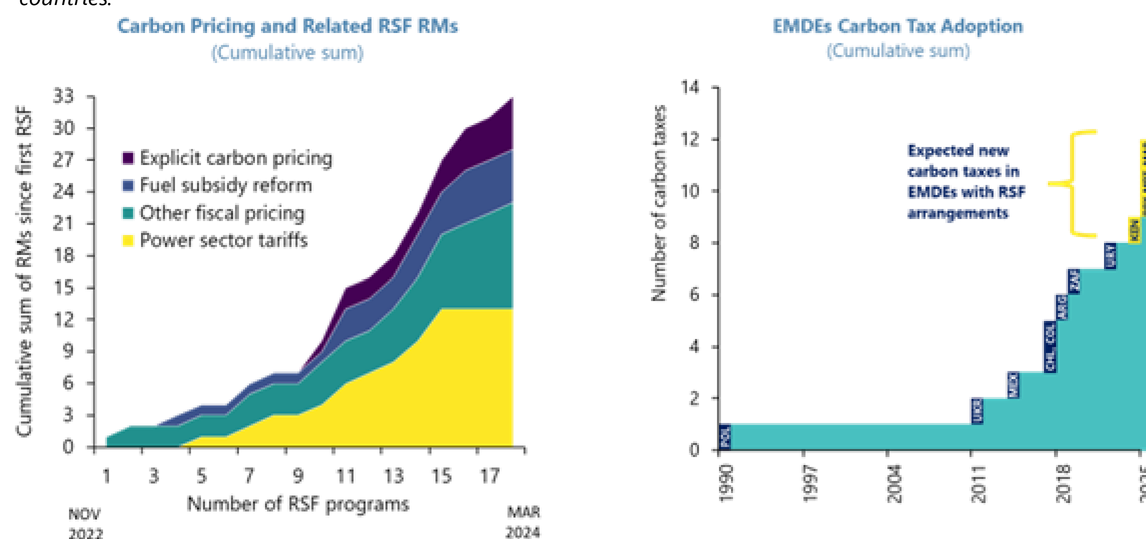


Source: IMF staff estimates.
Notes: All percentages may not add up to 100 due to rounding, Bottom right figure is based on Gonguet, Fabien, Claude Wendling, Ozlem Aydin, and Bryn Battersby. 2021. "Climate-Sensitive Management of Public Finances—Green PFM." IMF Staff Climate Note 2021/002.

Box 1. Figure 2. Coverage of RSF-Supported Reform Measures

Carbon pricing policies are gaining prominence, highlighting the mitigation ambition of member countries.

RSF-supported reform measures included adoption of carbon taxation in four EMDEs.



Sources: World Bank's Carbon Pricing Dashboard (as of March 15, 2024) and IMF staff calculations.
Note: The figure on the right excludes subnational carbon taxes implemented in Mexico.

11. Key considerations for RM design are outlined in the RSF Guidance Note. It explains that reforms should be (i) critical, in the sense of reducing key risks to prospective balance of payments stability from qualifying longer-term structural challenges (ii) ambitious in the sense that they would be difficult to achieve within the same timeline without an RSF arrangement, and (iii) deep enough to lead to significant change, ideally through permanent institutional or systemic changes—for example by closing critical policy, legal, data and institutional gaps.[15] Quality is measured on the basis of these three criteria and the RSF Guidance Note provides an illustrative list of relevant reform measures, which are being refined as staff gains more experience.[16] The RSF Guidance Note also emphasizes that any RMs should be tailored to country-specific challenges and circumstances.

Reform Criticality

12. The characterization of RM criticality has varied by country, reflecting differences in climate change-related longer-term balance of payments risks and the country's starting point in terms of capacity and experience with climate change-related policy reforms.

[15] Complementary reforms which, while still important, do not meet this standard can be discussed in the program documentation.

[16] The RSF Guidance Note (¶22) defines a strong (or high-quality) reform measure as "a single policy action or a set of closely related policy actions that make significant progress towards reducing risks to prospective BoP stability from qualifying longer-term structural challenges."

- The heterogeneity of climate change-related balance of payments risks facing countries with RSF arrangements makes cross-country comparisons difficult. This is particularly the case for sectoral reforms (e.g., energy, water, land use). This heterogeneity has underscored the importance of grounding RMs in sound diagnostics (¶10).

- The starting points of countries also vary greatly. There are large divergences in capacity to develop and implement reforms, which are tied to the strength of institutions, governance frameworks, and coordination across various ministries and agencies within a country. In countries with particularly weak capacity, such as fragile states or some small developing states (SDS), implementing climate change-related reforms is extremely challenging and requires extensive capacity development (Box 2)—sometimes complicated by extensive ongoing reform programs in other areas or a complex political economy. The extent and quality of climate change-related reforms that were initiated prior to undertaking an RSF-supported reform package also differs greatly across countries (e.g., national climate plans, a track record of implementing climate policies, and supportive institutional structures).

- Consequently, a RM that is deemed high-quality in the context of lower capacity and fewer previously implemented climate change-related reforms may not be deemed so in a higher capacity country with a strong track record of implementing relevant reforms. Conversely, lower capacity countries may lack the foundational elements required to implement more complex RMs. These considerations should also be embedded in the diagnostics and accounted for during any attempt to compare RMs across RSF arrangements.

Reform Ambition

13. RMs have been ambitious but, at times, may have been constrained by the duration of the RSF arrangement—as suggested by survey results (Annex III).

- A majority of surveyed mission chiefs and country authorities agreed that the RMs in their RSF arrangement were ambitious relative to their country's implementation capacity and development needs. Despite this, and the fact that many RMs require a significant amount of coordination across government, high reform implementation rates suggest strong ownership (Figure 4). However, most authorities were of the view that the impact of the RSF arrangement would be improved with a longer duration. About half of mission chiefs agreed (through informal feedback) that, in some cases, the ambition of RSF-supported reform packages could have been greater if more time had been available.

- The duration of RSF arrangements has been, on average, shorter than other IMF lending instruments which target structural challenges.[17] Controlling for capacity and even RM quality, a country with a 36-month RSF arrangement (compared to a country with an 18-month RSF

[17] As of March 2024, the average duration of RSF arrangements (at the time the arrangement was approved) was 2.2 years. In contrast, average duration of stand-alone ECF and EFF arrangements (at the time an arrangement was approved) was 3.1 years.

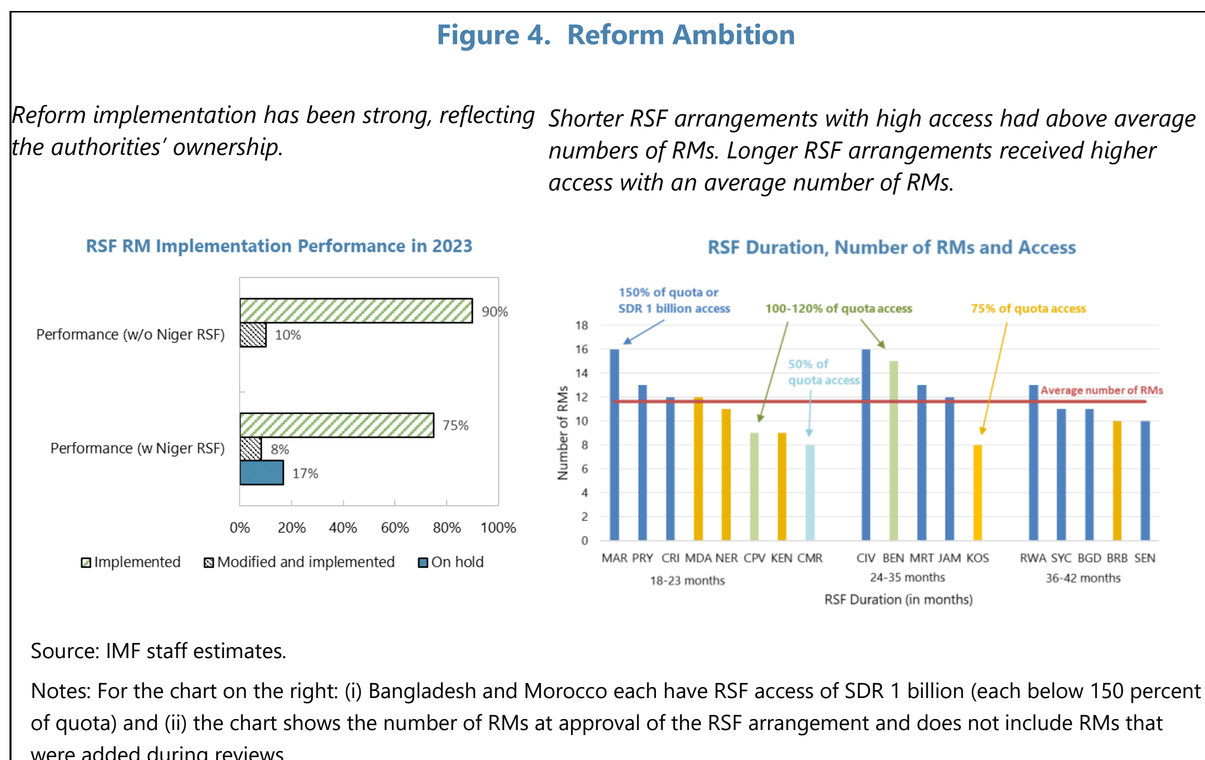
arrangement) can potentially implement a greater number of reforms. Longer arrangements also provide time to design and implement more difficult RMs, including those with several prerequisite steps—though the heterogeneity in risks and starting points limit comparisons of reform ambition across countries (¶12). Moreover, longer duration RSF arrangements could provide more flexibility for rephasing in the event of implementation delays with RMs—the chances of which often rise with reform ambition. There have been cases where a RM was modified to ensure completion prior to expiration of the RSF arrangement.[18]

- Shorter duration RSF arrangements with higher access levels typically have an above average number of RMs (Figure 4).

Figure 4. Reform Ambition

Reform implementation has been strong, reflecting the authorities' ownership.

Shorter RSF arrangements with high access had above average numbers of RMs. Longer RSF arrangements received higher access with an average number of RMs.



Source: IMF staff estimates.

Notes: For the chart on the right: (i) Bangladesh and Morocco each have RSF access of SDR 1 billion (each below 150 percent of quota) and (ii) the chart shows the number of RMs at approval of the RSF arrangement and does not include RMs that were added during reviews.

Reform Depth

14. The share of high-depth RMs has been rising. Most RMs have involved lasting institutional changes, such as new legislation and regulations or broadened access to critical data (*high depth reforms*) and key intermediate and one-off steps towards deeper reforms, such as publishing reports or guidelines (*medium depth*). There are also a limited number of RMs focusing

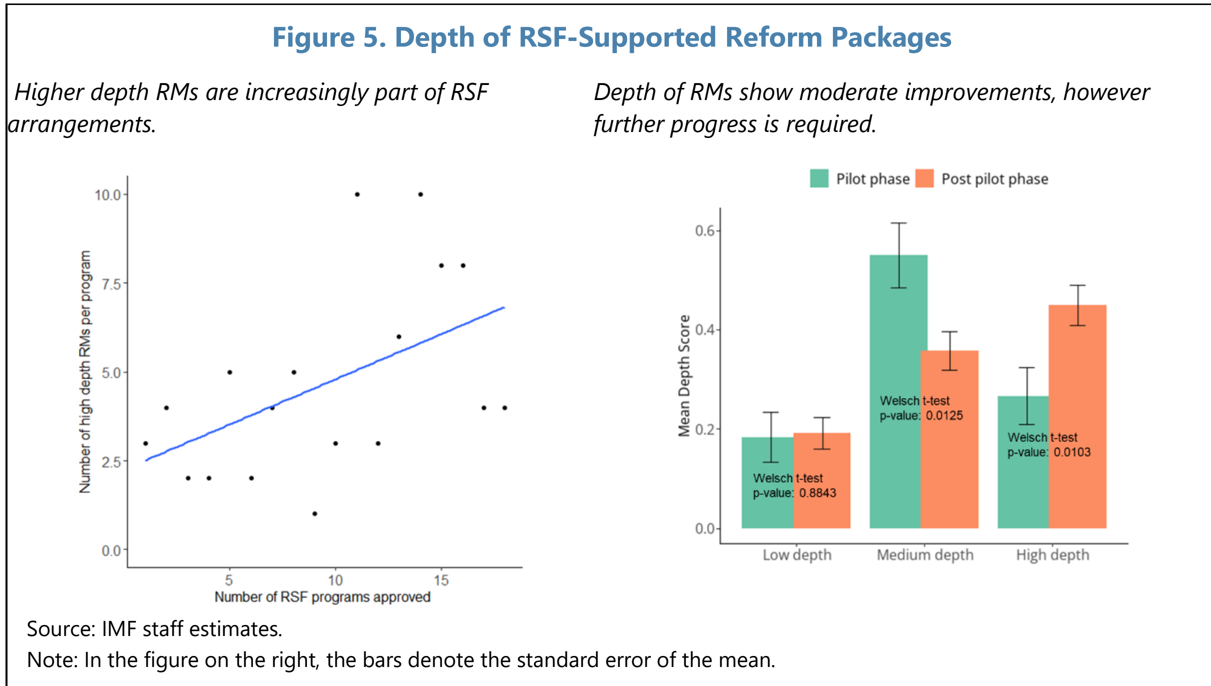
[18] For example, under Costa Rica's RSF arrangement, RM12 on incorporating climate risks in stress testing was modified to instead require finalization of the stress test methodology, which would then be applied after the RSF arrangement expires. The modification was due to potential delays introduced by an ongoing legal process determining the central bank's right to access micro data on banks' credit portfolios. This example highlights the importance of building capacity in data collection, collaboration mechanisms among multiple government agencies, and the existence of a standard stress testing framework as key prerequisites to conducting climate risk stress tests.

on studies, data and diagnostics that represent steps towards a policy change (*low depth*). As staff and authorities gained experience, the proportion of high depth RMs relative to medium-depth ones has grown (Figure 5) in comparison to the "pilot" RSF arrangements (¶7). Of the RMs implemented so far, 40 percent are high-depth and 41 percent are medium-depth.

Figure 5. Depth of RSF-Supported Reform Packages

Higher depth RMs are increasingly part of RSF arrangements.

Depth of RMs show moderate improvements, however further progress is required.



Source: IMF staff estimates.

Note: In the figure on the right, the bars denote the standard error of the mean.

Box 2. Small Developing States: A Need for Tailored Solutions

Small developing states (SDS) face disproportionate risks from climate change, particularly natural disasters. [1] Their unique vulnerability lies in the devastating impact of natural disasters—inflicting widespread damages and causing large population displacement. Over 1960-2020, SDS experienced a higher share of more severe natural disasters. SDS accounted for 55 percent of global natural disasters causing 20-30 percent of GDP damage and accounted for a staggering 70 percent of natural disasters causing damage exceeding 30 percent of GDP. Since 2000, six of the world's ten largest natural disasters (by population impact) occurred in SDS, with 4 exceeding 90 percent of the population. The SDS economies are less diversified (largely depend on tourism and commodities trade). This adds to the large fiscal costs of recovery and reconstruction, putting debt sustainability at risk. IMF research shows that, on average, a severe natural disaster is likely to increase government expenditure by 14–21 percent of GDP over a three-year period cumulatively in a sample of twelve small Pacific Island states (Nishizawa, Roger, and Zhang, 2019). Based on IMF Debt Sustainability Assessments, 65 percent of SDS were assessed to be at high risk of or in debt distress in 2020.

Given the vulnerabilities of SDS, the Fund has devoted considerable resources to SDS-related work. SDS constitute 0.2 percent of the global population, 0.13 percent of global GDP, and 0.39 percent of the IMF's quota. However, almost 9 percent of Fund resources are dedicated to work on SDS—40 percent of this is devoted to surveillance, another 40 percent to capacity development, and a further 20 percent to lending.

Box 2. Small Developing States: A Need for Tailored Solutions (concluded)

The IMF's emergency financing instruments (RFI and RCF) are well-suited to deal with urgent balance of payments needs arising from natural disasters and SDS have used them frequently. This is, in part, due to the absence of ex-post conditionality in RFI and RCF financing. However, SDS demand for RSF arrangements is limited owing to:[2]

- SDS capacity constraints to implement reforms restricts RSF utilization. These nations also tend to be reluctant to request UCT-quality programs, a requisite for an RSF arrangement.
- The RSF's emphasis on macro-critical policy reforms, while valuable in many contexts, might not be the most immediate need for SDS facing the brunt of natural disasters. SDS often require more direct support for infrastructure repair and disaster risk management, with rapid financing of urgent balance of payments needs, as is available under emergency financing.
- RSF financing pales in comparison to the immense challenges faced by SDS arising from natural disasters and the RSF-supported reform package may not catalyze the type of financing SDS require (see bullet above). This raises concerns about the RSF's ability to make a truly transformative impact in SDS.

While the three SDS with RSF arrangements have had a positive experience, there is a desire to raise the access cap and for more flexibility in reform design.

- Survey results indicate that the authorities of Barbados and Seychelles appreciated the comprehensive consultations on climate issues, advice on broader economic reforms, and additional capacity development support that comes with the RSF arrangements. They also agreed that discussions surrounding RSF arrangements facilitated consensus building among domestic stakeholders and external partners. Seychelles' authorities viewed 18 months as too short for meaningful climate reforms considering implementation and human capacity constraints.
- There are also views that higher RSF access levels for SDS—such as access in percent of quota combined with a minimal nominal SDR amount—could trigger greater RSF use. Current SDS access to the RSF measured in nominal SDRs is small relative to their needs due to their small IMF quotas. This proposal could be considered in the context of the comprehensive RST review. However, it requires careful analysis in relation to other Fund facilities, evenhandedness, and consideration for SDS' absorptive capacity. Capacity constraints already hinder many SDS from spending the grant and concessional financing they receive. This is often due to general capacity constraints such as lack of human resources to effectively implement reforms or coordinate the financing received.

A broader, more tailored approach than the RSF may be needed to effectively address the unique challenges faced by SDS in building resilience to natural disasters. This would require more targeted capacity development (including through Regional Capacity Development Centers) to expand the authorities' ability to coordinate financing and technical assistance and to build early warning systems and develop Disaster Risk Management and Financing frameworks. Reviewing the efficacy of the Fund's wider range of instruments and exploring the possibility of UCT-quality programs with more targeted conditionality that is aligned with SDS capacity as the requisite for RSF arrangements could be considered.

[1] There are 34 SDS in total including 27 islands, 5 coastal states, 2 landlocked countries; and of these, there are 15 microstates.

[2] To date, three SDS have requested an RSF arrangement (Barbados, Seychelles, and Cabo Verde) and all three were approved.

C. Collaboration with Development Partners

15. Intensive collaboration with development partners played a critical role in the relatively rapid rollout of RSF arrangements. The quality of RM design and implementation have greatly benefited from outside expert stakeholders supplementing Fund staff's expertise—ranging from partners' climate change diagnostics (¶10) to amplified coordination of capacity development (including technical assistance) related to sectoral reforms deemed macro critical but where the Fund lacked expertise.[19] According to the survey results, Fund mission chiefs and the authorities agree that RSF-supported reform measures emerge as a result of comprehensive consultations between multiple stakeholders. Beyond the design of RMs, the Fund also made contributions towards facilitating the climate finance dialogue across stakeholders (¶20). From the perspective of surveyed country authorities and most mission chiefs, the process of designing, developing, and implementing RSF-supported reform packages has facilitated discourse and consensus-building among domestic stakeholders and external partners. RSF-spurred capacity development also bolstered the authorities' reform momentum, and in turn, likely reduced the risk of policy reversal.

16. Key partners include multilateral development banks (MDBs), especially the World Bank.

- For all RSF arrangements, the traditional close coordination across the World Bank and the Fund in multiple macro critical areas was quickly extended to climate change issues (Box 3).[20] This includes the World Bank's provision of an informational Assessment Letter (AL)—accompanying the presentation of requests for RSF arrangements to the IMF Executive Board—on the authorities' broader climate policies. An update of the AL is provided at the time of a review of the RSF arrangement to reflect key changes in circumstances.

- Collaboration with regional MDBs (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank) and other institutions such as the European Investment Bank and the United Nations Development Programme has also intensified (Annex V). While the modalities of working with these institutions have varied greatly by country, the regional MDBs have played a prominent role in advising on RM design and capacity development to member countries in support of RM implementation. For example, the Inter-American Development Bank's involvement has been largely akin to that of the World Bank in the cases of Barbados, Costa Rica, and Jamaica.

17. RSF-supported reform packages have sought to complement those of development partners. To ensure that the policy advice and capacity development of each institution builds on

[19] Typically, RMs include policy reforms in cross-cutting macro/fiscal areas (e.g., climate PFM/PIM, supervisory frameworks for climate risks, carbon pricing and subsidy reforms) and, where macro critical, sectoral areas such as agriculture, water management, electricity markets. The World Bank's and other development partners' operations focus on reforms in these and other sectors such as energy, transport, natural disaster risk management, and coastal erosion from both policy and project angles.

[20] Joint Statement of the IMF Managing Director and of the World Bank President, September 7, 2023.

the others' in helping country authorities develop and implement their strategies to tackle climate change, Fund staff have engaged in extensive discussions with development partners to understand their country-specific climate change objectives, relative expertise, and upcoming work. This helps harmonize the level of support, coordinate on key reform principles, avoid competing interests across institutions, and facilitate building on the capacity development provided by other institutions.[21] In line with the RSF Guidance Note, program documentation is expected to include a RM matrix table linking RMs to key challenges, diagnostics, capacity development, and outcomes; and requests for RSF arrangements should include a table mapping the climate policy space to the role of other development partners. Many IMF staff reports on RSF arrangements include annexes on the parallel work of other institutions, including how RSF-supported reform measures complement the efforts of other partners and vice versa.

18. The Fund's collaboration with development partners, especially MDBs, should continue to be strengthened.

- New requests for RSF arrangements should systematically prioritize engagement with development partners throughout the RSF arrangement's design and implementation process—especially the World Bank and other institutions with specialized expertise. This facilitates drawing on partners' available diagnostic assessments to identify policy gaps and successful implementation of RMs. Where early engagement occurred, it has been very helpful in developing impactful RMs. Early coordination on support (especially capacity development) for RM implementation will continue to be important in avoiding duplication of work across partners, finding synergies, and deepening collaboration incentives and modalities (the latter two areas were indicated as a challenge by most RSF mission chiefs, Annex III).

- Institutional flexibility on the form of collaboration should be maintained or enhanced as the type and extent of collaboration varies greatly across RSF arrangements. The ongoing development of formal collaboration frameworks with key partners should not constrain this flexibility but rather provide the scaffolding for bottom-up working-level collaboration.

19. Against this backdrop and in line with their respective mandates, the Fund and the World Bank, are seeking to further enhance their collaboration. Moving forward, the two institutions will bolster their coordination with a view to ensuring that their financial resources for climate action are used in a manner that enhances their collective impact and effectiveness. The two institutions are considering new approaches at the country level to accelerate climate action and help countries address climate challenges. This involves strong collaboration in supporting country authorities as they develop and implement country-driven programs of reforms and financing to tackle the pressing challenges of climate.

[21] The Fund is fully responsible for the establishment and monitoring of all conditions attached to the use of its resources, which cannot be subject to the rules or decisions of other organizations (i.e., no cross-conditionality).

Box 3. IMF-World Bank Collaboration in Support of RSF Arrangements

Across RSF arrangements, Fund and World Bank staff coordinated closely aiming to present a consistent position to the authorities—especially on priority areas, critical reforms and their sequencing—and to avoid overlapping conditionality with new or ongoing World Bank operations. This builds on a shared understanding of diagnostics, for instance through Fund staff engagement with World Bank staff during CCDR preparation. The Fund and the World Bank have also been coordinating technical assistance in support of RM implementation. The World Bank's extensive country-level climate work—including policy advice, reforms, and financing for sectoral-level investments—is expected to reinforce the impact of RSF-supported reform packages.

The World Bank's country work has provided substantial analytical support in the design of RMs. For example, half of the RMs for Jamaica's RSF arrangement relied on World Bank support. In some cases, joint reform matrices were prepared (guided by diagnostics from both institutions, ¶10) and shared across key stakeholders (Bangladesh). In other cases, such as Mauritania, institutions tried to find synergies in their respective reform matrices, policy advice, and capacity development to jointly support the authorities' climate agenda:

- Kenya. The World Bank's work on expansion of the social safety net could play a role in protecting vulnerable households from the impact of new carbon taxes designed as part of the RSF reform measures. The World Bank also supported the development of regulations to facilitate the RM on open access in the electricity market.
- Benin. The design of a RM to integrate information on climate risks into the Social Registry leveraged work under the World Bank's Social Safety Net Program for Results. The "climate-proof" social registry (and related WB technical support) allows for targeted support to compensate vulnerable populations from natural disasters as well as implications of the RM on fossil fuel subsidy reform. Separately, implementation of the RM to enhance the climate financial information architecture is being guided by the joint IMF-World Bank "Activating Alignment" report.
- Senegal. Implementation of the RM on adopting the authorities' Country Development Strategy is being supported by World Bank advice on how to reduce GHG emissions in agriculture, steps to reduce flaring and venting in the oil and gas (as already indicated in the new environmental code), and measures to address coastal erosion.
- Mauritania. With World Bank support, the RM on institutionalizing the government's main cash transfers program to strengthen resilience against key climate shock (mainly droughts) will make climate-related cash transfers permanent. The RM supporting electricity sector liberalization (currently under monopoly) is built on long-standing World Bank policy engagement and technical assistance.
- Jamaica. World Bank-supported reforms targeting the transition to a low-carbon economy and fiscal and financial resilience to climate change complement reform measures under the RSF arrangement (accompanied by a concurrent PLL arrangement). Collaboration with the World Bank and the Inter-American Development Bank was critical to designing RMs—aiming at building physical and fiscal resilience, strengthening the transition to renewables, and greening the financial sector—and providing extensive capacity development for RM implementation.

  Costa Rica. Technical support from the World Bank and the Inter-American Development Bank was critical to integrating climate change risk into fiscal planning, aiming to improve tracking of climate-related spending in the budget and financial reporting. The two institutions also provided capacity

Box 3. IMF-World Bank Collaboration in Support of RSF Arrangements (concluded)

development in strengthening public investment and infrastructure resilience and supported decarbonization efforts through initial diagnostics.

- Paraguay. The World Bank provided staff with invaluable support from the earliest stages of RM design through to Board approval of the RSF arrangement. Their previous engagement in most of the reform areas—including green public finances, financial sector climate risks management, the electricity sector, electromobility, and the conservation of forests—was instrumental to building high-quality RMs and is expected to play a critical role in supporting RM implementation.

In the context of the RSF, the Fund also partners with the World Bank and other stakeholders (Box 4) to contribute to the climate finance dialogue.

Sources: IMF staff reports.

D. Catalytic Role

20. Complementing development partners' efforts, RSF arrangements can help attract additional climate finance by supporting macro-critical policy reforms and contributing to the climate finance dialogue across stakeholders. Estimates of emerging market and developing economies' (EMDEs) financing needs for climate action vary widely—often projected to be trillions of dollars per year over the next decade.[22] Regardless of the exact amount, climate financing needs for most EMDEs far exceed their access to financing—this is especially true for the RSF-eligible countries. In this regard, rising levels of climate finance and related capacity development provided by the World Bank, other MDBs, and multilateral institutions over past decades has been critical. Nevertheless, the needs remain high, and these countries face significant barriers to scaling up climate financing—which can include structural issues (independent of climate change challenges), macroeconomic vulnerabilities such as high public debt levels, lack of climate policies and viable climate projects, data gaps, and an opaque regulatory environment.[23]

- The resources available under RSF financing are not expected to directly meet the RSF-eligible countries' large climate financing needs. However, the RSF adds to existing climate-related policy financing, where the share of policy-based lending for climate action has been low relative to project-based lending.[24] RSF arrangements can help alleviate the barriers discussed above through policy reforms and capacity development (supported by the Fund and other partners, ¶15-18)—creating a more enabling environment for attracting climate financing (including climate-related private investment).

- For countries with market access and "pilot" RSF arrangements, the Fund has helped the authorities convene climate finance country roundtables (also on a pilot basis) in close partnership with major stakeholders—the World Bank, regional MDBs, and other public and

[22] GFSR, October 2023, Chapter 3.

[23] GFSR, October 2022, Chapter 2.

[24] G7 Reform Partnerships also now contribute to policy financing. Please see footnote 2 for more details on MDB climate change-related policy lending.

private actors—focusing on macro-critical climate policy issues that help scale up financing (Box 4). These discussions provided a unifying umbrella for the identification of (i) the main barriers to increased climate financing (ii) complementary reforms, capacity development needs, and comparative expertise and (iii) developing programmatic approaches (e.g., frameworks for developing financing vehicles) for crowding in additional financing. The Fund's unique macroeconomic perspective allows these types of discussions to be embedded in a coherent macroeconomic framework. While the authorities value this perspective from the Fund and the critical contributions of other stakeholders, a key lesson learned from these initial roundtables is the importance of the authorities leading the process. The Fund and the World Bank are working together to support authorities in this effort by strengthening the framework for collaboration among all partners.

Box 4. Climate Finance in the RSF Context: Experience of First Five RSF Arrangements

In the context of RSF arrangements, the Fund has helped national authorities convene roundtables in partnership with multilateral development banks (MDBs), private institutional investors, and national development financial institutions to identify and explore solutions to climate finance needs in countries with an RSF arrangement. This complements past efforts by development partners in this area. The following are some highlights from the "pilot" RSF arrangements.

Rwanda

Rwanda has adopted a new programmatic approach to supporting climate investments through its Climate Finance Partnership. The RSF arrangement complements the efforts of multiple development partners who have committed to scale up climate financing with budget support, technical assistance, and long-term low-cost loans. The Government of Rwanda also supports scaling up of climate finance by lending to the private sector at affordable interest rates. Some highlights include:

- $100 million of additional budget financing from the Agence Française de Développement and the Italian Cooperation system with the support of Cassa Depositi e Prestiti building on RSF-supported reform packages.
- The Government of Rwanda's contribution of $40 million to Ireme Invest (a green investment facility), facilitated leveraging $100 million from the EIB and other partners, as well as potential investments of $130 million from the private sector.
- $44 million (EUR 40 million) in bilateral deals signed.

Bangladesh

Following approval of the RSF arrangement, international financial institutions, bilateral donors, and the private sector announced a collaborative approach with the Government of Bangladesh to support a package of measures aimed at enhancing the country's climate preparedness. In addition to extensive climate change-related financial support provided by the World Bank and other partners in past years, some key recent elements comprise:

- The Bangladeshi Government-led launch of the Bangladesh Climate and Development Platform and establishing a Project Preparation Facility under the platform to generate a robust pipeline of climate projects, integrated within a financing strategy.
- Lending of $1.85 billion, including the support by the Asian Development Bank, World Bank, Government of Korea, and Asian Infrastructure Investment Bank.

Box 4. Climate Finance in the RSF Context: Experience of First Five RSF Arrangements (continued)

- $320 million in project lending from the Agence Française de Développement.
- The Green Climate Fund/European Union-European Investment Bank financing to private sector projects (renewable energy facility), potentially bringing in an additional $750 million in the future.

Costa Rica

The RSF arrangement complements the Government of Costa Rica's engagement with multilateral partners over the past few years to crowd in climate investment. Some recent highlights include:

- The Inter-American Development Bank and the authorities are coordinating the establishment of a Project Preparation Facility with the potential to raise up to $1.2 billion in private sector resources for projects by 2030.
- The European Investment Bank (in coordination with the European Union) established a long term regional financing facility to provide climate-related loans at concessional rates.
- The World Bank has been actively engaged in supporting climate finance, including through supporting climate adaptation initiatives, technical assistance on green bond issuance, financing for reducing emissions from deforestation and forest degradation (REDD+), and initiatives by the International Finance Corporation to support the private sector. This is in addition to years of development policy financing.
- Together with the United Nations Development Programme, the authorities are developing a sovereign thematic bond strategy to raise financing from private investors through the issuance of sustainability-linked bonds and other instruments.

Barbados

Building on climate policy reforms, including those supported by the RSF arrangement, the authorities have launched a set of initiatives to attract and facilitate private climate finance, including:

- A Blue Green Investment Bank is being created to scale up private climate investment projects, with government infusing $10 million of equity, and with additional support by the Green Climate Fund and USAID.
- Additional support from development finance institutions, including grants from the European Union and the Green Climate Fund.
- Discussions on debt-for-climate swaps to fund the upgrade of a sewage treatment plant, with support from the Inter-American Development Bank and the European Union, building on the success of 2022 Blue Bond issued with the support of the Inter-American Development Bank and the Nature Conservancy.

Jamaica

The authorities have launched a three-pronged approach to increase climate financing:

- A project preparation facility, led by the Inter-American Development Bank and with participation from other development partners, to develop a pipeline of bankable projects required to scale up private investments.
- A Green Financing Facility by the authorities in cooperation with the Green Climate Fund and the European Investment Bank, and participation of the United Kingdom government, to provide credit and capacity development to finance local climate projects.

Box 4. Climate Finance in the RSF Context: Experience of First Five RSF Arrangements (concluded)

- Long-term low-cost debt instruments to support climate resilient investment, in particular loans by the European Investment Bank as a part of Caribbean Investment Facility to finance projects in water and waste treatment infrastructure, flood and coastal protection, and others.
- Developing a framework for green bond issuance in Jamaica.

Sources: Latest IMF country staff reports and joint press releases.

21. Against this backdrop, RSF arrangements have targeted specific macro-critical policy areas to help overcome barriers to scaling up climate finance (Table 2). A large majority of surveyed country authorities and mission chiefs agreed that having an RSF arrangement in place helps attract additional public and private financing (Annex III).

- *Strengthening institutional coordination and signaling broad-based commitment to climate action.* This involves integrating climate considerations into core policy frameworks and creating a centralized coordination authority for climate action covering strong institutional oversight, publishing regular progress reports, and advancing transparency and risk management practices.
- *Introducing price-based and regulatory incentives to unlock private climate finance.* These measures span a broad range, including phasing out fossil fuel subsidies, pricing carbon and other resources, removing bottlenecks at the sectoral level (e.g., for renewable energy generation), and incorporating climate-related financial risks into prudential frameworks.
- *Adapting public investment and blended finance towards climate goals.* Some of the avenues to achieving this are integrating climate considerations into public financial management (PFM) and public investment management (PIM) frameworks and aligning private sector investment incentives with climate objectives.
- *Developing a strong climate information architecture to inform investment decisions.* Some areas for consideration here are providing timely, reliable, granular, and comparable data and analysis of climate risks, adopting climate and green taxonomies, and harmonizing disclosure requirements.

Table 2. Policies That Can Help Scale Up Climate Finance: Examples from RSF Arrangements

Strengthening institutional coordination and signaling broad-based commitment to climate action	
Jamaica	Establishing a Natural Disaster Risk Financing Policy and a natural disaster fund; quantifying climate risks in the Fiscal Risk Statement
Moldova	Establishing a National Commission on Climate Change.
Morocco	Adopting the National Climate Finance Strategy which estimates financing needed to meet the country's climate mitigation and adaptation targets; and related financing plans that also improve climate risk management in the financial sector.
Rwanda	Updating the national investment strategy to integrate the climate agenda; adopting the new National Disaster Risk Reduction and Management Policy.

Table 2. Policies That Can Help Scale Up Climate Finance: Examples from RSF Arrangements (concluded)	
Seychelles	Integrating climate objectives in the National Development Strategy.
Bangladesh, Cameroon, and Seychelles	Adopting national disaster risk financing strategy.
Introducing price-based and regulatory incentives to unlock private climate finance	
Barbados	Closing regulatory gaps in energy storage and extending tax holiday for electric vehicles.
Costa Rica	Improved management of socioenvironmental risks by regulated financial entities.
Jamaica	Introducing incentives for renewable investment, energy efficiency guidelines and an electric vehicle policy, and a monitoring and reporting framework in the financial system.
Kenya	Adopting priority fiscal incentives in agriculture, water, and land management sector; implementing carbon pricing (carbon tax or increase fossil fuel excise tax).
Paraguay	Comprehensive reform to preserve and expand its fully renewable energy matrix, including tariff reform.
Kosovo and Paraguay	Establishing a law on renewable energy and other regulatory acts to enable auctions for renewable electricity generation.
Bangladesh and Mauritania	Introducing a formula-based price adjustment mechanism for petroleum products.
Barbados and Paraguay	Incorporating climate effects in banking system stress-testing.
Mauritania and Morocco	Introducing ministerial decrees to reinforce the protection of groundwater resources.
Paraguay and Mauritania	Introducing carbon taxes.
Adapting public investment and blended finance towards climate goals	
Barbados	Including a fiscal risk statement discussing climate change risks in the budget, and developing a sustainable/green public procurement framework and guidelines for implementing green/climate budget tagging
Cabo Verde	Updating building codes to reflect climate risks.
Moldova	Including climate change impact and vulnerability assessment in the project appraisal and project selection methodologies, and developing and implementing the sustainable finance strategy and action plan
Seychelles	Adopting a national climate finance mobilization strategy, and developing a pipeline of appraised climate-related projects
Bangladesh and Jamaica	Adopting a methodology to assess climate impact assessment and project selection criteria (including on climate); modifying the policy and institutional framework for PPP projects
Benin, Cameroon, Paraguay, and Senegal	Amending legal frameworks to integrate climate considerations into each step of project development.
Developing a strong climate information architecture to inform investment decisions.	
Costa Rica	Establishing an integrated data repository to capture climate-related financial sector risks
Jamaica	Developing a framework for green bond issuance—defining taxonomies, and monitoring and disclosure frameworks
Kenya	Adopting a green finance taxonomy and the framework for climate-related disclosures for the banking system.
Paraguay	Adopting an emissions' monitoring, reporting, and verification system in forestry.

22. The requirement of a qualifying concurrent UCT-quality program is essential to support macroeconomic and financial stability and help improve the investment climate. Strong macroeconomic fundamentals and institutional quality and capacity, which the Fund's UCT-quality programs aim to support, enhance the prospects for accessing climate finance at a

reasonable cost. UCT-quality programs are also supporting reforms which, while not explicitly focused on climate, are strongly complementary, for example strengthening governance and transparency, improving public financial management, developing local debt and FX markets, or increasing the quality of financial sector regulations.

E. Time and Resources

23. Developing and agreeing on a package of high-quality RSF-supported reform measures takes significantly longer periods than reaching understandings on the more standard UCT-supported programs. Survey results support this view, with a large majority of authorities agreeing that more preparation and consultation time is required for RSF arrangements (Annex III).[25] Moving from diagnostics to designing specific reform measures requires a granular understanding of the issues, including at the sectoral level. While the increasing availability and range of diagnostic tools discussed above is helpful, developing country-specific RMs requires digging deeper. Mission chiefs report intensive engagement with country authorities and development partners to map the landscape of climate policies/support in the country into impactful RMs (¶15-18). One key aspect is that the range of Fund staff's counterparts is markedly broader than for UCT-quality programs, which typically center around discussions with the Ministry of Finance and the Central Bank. The result is a more intensive and time-consuming process—although convening partners to increase climate finance is much less resource intensive (¶20).[26]

24. Notwithstanding the steep learning curve that comes with engaging on a new instrument in a new area of expertise, key factors behind the resource-intensity of RSF arrangements include:

- Criticality of functional departments' involvement in diagnostics and designing high-quality RMs. Functional departments' climate expertise (especially the array of FAD expertise across public financial management to climate sectoral issues) is critical for diagnosing vulnerabilities and RM design and the review process.[27] These climate experts are also called upon to actively participate in RSF discussions with the authorities. Close collaboration with partners (¶15-18) in developing and implementing RMs also requires both functional and area department staff time.

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[25] The RSF Guidance Note recommends that staff set aside a minimum of 6 months before projected program approval.

[26] The cost of the convening role to increase climate finance is about $50,000-$100,000 per country, as borne from the experience in the five pilot countries. FY24 RST costs are tentatively projected at $13.6 million, including $5.1 million in trust administration and $8.5 million in operational costs, incorporating related overheads. A final estimate for FY24 RST spending will be included in the FY24 budget outturn report in summer 2024.

[27] Examples include technical assistance covering 57 C-PIMAs, 8 CPDs, 2 Climate Macroeconomic Assessment Programs, 9 Green PFM missions, 9 Q-CRAFTs, 2 Domestic Revenue Mobilization missions, and the support of climate economists with fiscal expertise in 22 countries.

- Ongoing functional departments' support for monitoring and implementation of RMs. This includes climate-related capacity development provided by the Fund—which has grown over the past two years relative to other priority areas—as well as HQ-based reviews and assistance.

- Area departments are ultimately responsible for designing and agreeing with the authorities on RSF arrangements—bringing together inputs from functional departments—and carrying out reviews of RSF arrangements. This is challenging as it requires simultaneously developing climate expertise (which is not yet widespread across Fund staff) and managing complex UCT-quality programs.[28] Experience has shown that the Fund country team for each RSF arrangement requires extensive involvement of the area department country team members as well as at least one person with specialized climate expertise (often from FAD).

- Developing RSF guidance and policies and ensuring consistency of their application. This requires significant functional department staff time and is even more resource intensive given complex new operational issues emerging as RSF arrangements are carried out over time. In addition, a substantial amount of staff resources is devoted to outreach about RSF arrangements and policies.

25. Time and resource constraints limit the number of RSF arrangements that can be developed simultaneously. Careful advance resource planning, efficiency gains, and continuous buildup of climate expertise and mainstreaming of climate knowledge will help alleviate these constraints. Nevertheless, the average workload per RSF arrangement is unlikely to substantially decline. The overall workload is steadily rising with the number of RSF arrangements (with review work and new capacity development needs adding to the work on new arrangements) and new cycles of pressure points will emerge once RSF arrangements focused on pandemic preparedness are operationalized.

FINE-TUNING OPERATIONS: PROPOSED CHANGES TO THE RST DESIGN AND CONSIDERATIONS ON ACCESS AND SAFEGUARDS

Operational experience with RSF arrangements so far has highlighted the need for some targeted changes to RST design some of which will require adjustments to the RST instrument. These targeted changes include clarifying the rules around early rephasing and disbursement against early completion of RMs and eliminating the possibility of dual-purpose reforms. Moreover, continuing the RSF arrangement when transitioning from one concurrent qualifying UCT-quality program to another could be permitted, while maintaining the critical safeguard of a UCT-quality program accompanying

[28] In RSF arrangements, approval of the arrangement includes RMs for the full duration of the arrangement. This is in sharp contrast to other Fund-supported arrangements where conditionality is set for the 12-month period ahead (relative to the date of Board discussion).

the RSF arrangement for its duration. Experience with the application of access policies is also examined.

A. Early Completion of Reform Measures

26. Early disbursement for a RM completed ahead of its availability date is not possible, absent a Board-approved rephasing. Similar to most other Fund arrangements, RM target dates are initially specified when the Board approves the RSF arrangement.[29] These dates are intended to be indicative, reflecting the inherent uncertainty around implementation of reforms in new policy areas. While RMs that have not been completed by the targeted availability date are not considered delayed and can be completed at any time during the RSF arrangement, it is also possible to rephase disbursements to a later date as part of an RSF arrangement review, subject to some constraints—key amongst which is the access cap of 50 percent of quota per review under the RSF arrangement. Conversely, the authorities may request that certain RMs be brought forward, i.e., rephased to an earlier availability date, subject to some constraints. In particular, if a RM is completed ahead of the scheduled availability date, absent a rephasing bringing forward the availability date for the RM, the member would need to wait until the review following the original availability date for the disbursement.

27. Staff see merit in revisiting these disbursement rules. One potential outcome of the current rules is that there could be a lengthy delay between RM completion and the associated disbursement, which runs counter to the RSF's objective of encouraging reform implementation and could even incentivize authorities to delay reforms.[30] Secondly, on the rare occasion where a country has completed a RM ahead of its target date but the concurrent UCT-supported program goes off track, the disbursement associated with the completed RM would be precluded until the UCT-quality program can be brought back on track.[31,32]

28. However, any adjustments to these rules need to be balanced against other policy considerations. The current rules help contain the risk of front-loading RSF-supported reform measures to receive more favorable financing up front—potentially undermining completion of the concurrent UCT-quality program ("facility shopping"). This risk is partially mitigated by the access

[29] Each RM is linked to an availability date which is the earliest date on which the Board can review the implementation of the RM and the associated disbursement can be made. RSF disbursement availability dates normally mirror those of the accompanying UCT-quality program.

[30] Disbursements for successful RM completion can also be delayed because of delays in completing a review under the concurrent UCT-quality program.

[31] The April 2022 RST Board paper explains that safeguards in the RST include the "concurrence of RST financing with an on-track UCT program" and "to ensure that RST disbursements only occur when the UCT program is on track, delays in completing reviews under the UCT arrangement would also delay RSF reviews, and therefore delay the attendant disbursements, even when reform measures are implemented on time."

[32] If the concurrent UCT-supported program remains off-track and is subsequently terminated/cancelled, the disbursement associated with the RM that was completed early would be "lost."

cap of 50 percent of quota per review under the RSF arrangement.[33] Allowing disbursement on early RM completion could also result in rushing the completion of reform measures at the expense of quality and ownership—also increasing the risk of RSF financing being applied to meet short-term balance of payments financing needs. Re-sequencing of the overall reform package (e.g., heavy front-loading of RMs) could also put pressure on already resource-constrained CD delivery departments.

29. Only two cases of disbursement related to early RM completion have arisen so far. During the first review under Rwanda's RSF arrangement, the Board approved the authorities' request to bring forward a disbursement associated with a RM from the second review to the first review.[34, 35] Following that, during the second review under Rwanda's RSF arrangement, the Board approved the authorities' request to bring forward the disbursement associated with a RM from the third to the second RSF review.[36] This was combined with an enhanced RSF-supported reform package, reflecting the authorities' commitment to the climate agenda and growth in capacity to implement reforms. Other key elements of this enhancement included bringing forward the availability dates of three RMs (originally scheduled for the fifth review) to the third and fourth reviews and adding two new RMs to the third and fourth reviews.[37]

Recommendation

30. Staff propose an approach that balances the above considerations. Specifically that countries under an RSF arrangement could request early rephasing and disbursement for at most one RM completed ahead of schedule per review (provided there is sufficient time to evaluate the RM's completion prior to the Board date and subject to the access under the RSF arrangement being capped at 50 percent of quota per review).[38] Disbursements under RSF arrangements would

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[33] RSF disbursements greater than 50 percent of quota can still occur in the case of delayed RM completion. This restriction is less likely to be binding for programs with access at the norm (75 percent of quota).

[34] To remain consistent with the April 2022 RST Board paper, immediately before beginning the scheduled Board discussion of the first RSF review, the Board approved a rephasing proposal that allowed disbursement for the RM that was completed early. Rephasing in the first review was achieved by uniformly distributing the remaining RSF access between the remaining RMs—keeping total disbursements for the review below the maximum 50 percent of quota per review rule.

[35] https://www.imf.org/en/Publications/CR/Issues/2023/06/06/Rwanda-First-Reviews-Under-the-Policy-Coordination-Instrument-and-the-Arrangement-Under-the-534297

[36] https://www.imf.org/en/Publications/CR/Issues/2023/12/18/Rwanda-2023-Article-IV-Consultation-Second-Reviews-Under-the-Policy-Coordination-Instrument-542581

[37] Similar to the first RSF review, immediately before beginning the scheduled Board discussion of the second RSF review, the Board approved a rephasing proposal permitting disbursement for the RM that was completed early as well as bringing forward other RMs—with a uniform distribution of the remaining RSF access between the remaining RMs and that brought forward from the third RSF review—keeping total disbursements for the review below the maximum 50 percent of quota per review rule.

[38] This would not be possible if there is only one RM remaining under the RSF arrangement, to help limit the risk of facility shopping discussed in ¶28.

continue to require completion of the concurrent UCT-quality program's reviews.[39] In addition, the staff report must reaffirm that the remaining RM package is at least as strong and phasing remains appropriate (subject to any other re-phasing requests). This proposal would introduce some scope to recognize and incentivize strong RM performance without undermining the safeguards built into the framework.

B. Dual-Purpose Reforms

31. Staff is of the view that the need for "dual-purpose" reforms should be re-examined. Dual-purpose reforms are reforms that are included as conditionality under both the RSF arrangement (e.g., as a RM) and the concurrent UCT-quality program (e.g., as a structural benchmark) when a single reform is critical to the objectives of both the UCT-quality program and the RSF arrangement. For example, reducing costly energy subsidies may be necessary to meet the UCT-quality program's fiscal objectives while also helping reduce prospective balance of payments risks related to climate change and the global energy transition. From the onset, the occurrences of such dual-purpose reforms were expected to be rare as there is a general expectation that RMs under RSF arrangements would be separate but complementary to conditionality under the concurrent UCT-quality program.[40]

32. The advantage of a dual-purpose reform is the signaling effect. The profile of the reform is raised, reflecting its criticality in helping address both near-term macroeconomic imbalances and longer-term structural challenges. Moreover, there is greater incentive for authorities to complete a dual-purpose reform since, under the RSF arrangement, RMs are directly tied to a disbursement whereas structural conditionality under UCT-quality programs is not linked to disbursements in the same way.[41]

33. In practice, dual-purpose reforms present challenges. By their nature, dual-purpose reforms are measures that are identical in both the RSF arrangement and UCT-quality program. This presents two issues. First, doubts are raised over the additionality of the RMs included in the RSF arrangement—i.e., that RMs should spur additional reform efforts by the authorities compared to a no-RSF scenario—relative to the UCT-quality program's conditionality. Eliminating dual-purpose reforms would allow the RSF arrangement to focus on additional ambitious reforms, which could include strongly complementary (but not identical) measures to conditionality under the UCT-quality program. Second, a dual-purpose reform may inject confusion into the UCT-quality program's review process. Specifically, delayed structural conditionality doesn't necessarily delay disbursements

[39] The RSF disbursement would still take place at the time of the completion of a review under the RSF arrangement and the concurrent UCT-quality program.

[40] There has been only one dual-purpose RM so far: RM2 in Bangladesh's RSF arrangement on the adoption of a formula-based price adjustment mechanism for petroleum products. This was also a structural benchmark under the UCT-quality program.

[41] Disbursements associated with UCT-quality programs are tied to near-term balance of payments needs and performance under a broader range of conditionality, including prior actions, structural benchmarks, and quantitative performance criteria.

under UCT-quality programs—compensating measures or new understandings support the assessment that the program continues to be on-track to meet its objectives.[42] In contrast, RMs must be completed to release the associated disbursement, though there is flexibility in the timing of its completion (i.e., it can be rescheduled to a future review).

Recommendation

34. On balance, staff proposes to eliminate dual-purpose reforms under RSF arrangements. The RSF Guidance Note would also be revised to further encourage complementarities across reforms under the RSF arrangement and UCT-quality program. To illustrate, consider the example of energy subsidies discussed above. Conditionality under the UCT-quality program could focus on reducing the near-term fiscal costs of energy subsidies while the RM could support rollout of a sustainable medium-term energy transition plan.

C. Back-to-Back UCT-Quality Programs

35. UCT-quality programs provide a critical anchor and safeguards to RSF arrangements but complications can arise when there is a need to transition across UCT-quality programs.

- The qualifying concurrent UCT-quality program provides important policy safeguards that contribute to mitigating credit risk associated with RST financing and maintaining the reserve asset nature of RST contributions, a critical requirement for many RST contributors.
- Nevertheless, early experience with RSF arrangements has identified potential complications when a country transitions from one qualifying concurrent UCT-quality program to another after approval of the RSF arrangement. In that situation if the ongoing UCT-quality program is terminated or if the member country notifies its decision to cancel the ongoing UCT-quality program, the concurrent RSF arrangement is automatically terminated.[43] This results in at least two significant consequences:
    - Disbursements for RMs completed prior to the termination/cancellation of the concurrent UCT-quality program which were anticipated to be assessed and become available at the next review of the UCT-quality program will be forfeited (as disbursements under RSF arrangements can only take place at the time of a successful review of the UCT-quality program). Since the RMs have already been completed, these reforms cannot be applied as RMs in any subsequent new RSF arrangements; and
    - Uncertainties around RMs that were not yet completed when the concurrent UCT-quality program was terminated/cancelled. If not yet completed by the time a new RSF

[42] If needed, there is also flexibility to convert the delayed structural benchmark into a prior action for the current review of the UCT-quality program.

[43] The RST Instrument provides that if the concurrent UCT-quality instrument terminates, expires, or is cancelled, the RSF arrangement will automatically terminate at the same time.

arrangement is approved, these reforms could become RMs in this new arrangement. However, since the first disbursement under an RSF arrangement occurs at the first review under the arrangement and not when the RSF arrangement is approved, the wait for this disbursement could be longer than if the initial RSF arrangement had been allowed to continue.[44]

- Consequently, implementation of the authorities' broader RSF-supported reform agenda aimed at reducing risks to the member's prospective balance of payments stability stemming from a qualifying longer-term structural challenge could be delayed. To circumvent this unfavorable situation, a country with an RSF arrangement could be reluctant to request a successor UCT-quality program, even when it would otherwise be desirable to do so.

36. These potential complications—identified during the 2023 Policy Coordination Instrument (PCI) Review—had not been anticipated at the time the RST was established.[45] While these complications have not yet arisen in practice and may only occur infrequently in the future, the PCI review highlighted the situation where a PCI user may find itself in need of a Fund arrangement if it is faced with a shock or even mildly worse-than-expected outcomes resulting in the emergence of a balance of payments need. In which case, the member country's cancellation of the PCI (or if it is automatically terminated due to the approval of an arrangement other than an SBA or SCF) results in immediate termination of that country's RSF arrangement. This would be the case even if (i) the PCI is otherwise on track and/or (ii) a new Fund arrangement is approved at the same time the PCI is cancelled.[46]

Recommendation

37. To address the above concerns, staff proposes that an RSF arrangement may continue when a country transitions from one concurrent qualifying UCT-quality program to another, in limited circumstances.[47] The key necessary criteria would be:

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[44] Unavailability of RST disbursements due to the termination/cancellation of the concurrent UCT-quality program should not be problematic from a balance of payments perspective, as RSF arrangements are not meant to provide urgent balance of payments financing.

[45] *Review of the Policy Coordination Instrument and Proposal to Eliminate the Policy Support Instrument*, Policy Paper No. 2023/040 (2023).

[46] Approval of an SBA or SCF arrangement does not require that a member cancels an ongoing PCI, which partially mitigates the problems mentioned above. However, if the member decides to cancel the PCI later, or if the PCI later expires while the SBA or SCF arrangements are still ongoing, the RSF arrangement would still be automatically terminated.

[47] In the context of concurrent PCI and SBA or SCF arrangements, the modifications would include allowing for the SBA or SCF arrangement to become the accompanying UCT-quality program if the PCI is cancelled. Similarly, in other situations where there is more than one qualifying UCT-quality program accompanying an RSF arrangement (e.g., where a presumed blender has a SBA/SCF or a ECF/EFF), if one accompanying UCT-quality program is cancelled, these modifications would clarify that the RSF arrangement will continue, as there will still be a remaining UCT-quality program accompanying the RSF arrangement. Such situations are likely to be very rare (e.g., it will be unlikely that a presumed blender will cancel a SCF/ECF while maintaining the RSF and SBA/EFF).

- Termination/cancellation of the existing concurrent UCT-quality program would coincide with approval of a new qualifying concurrent UCT-quality program (i.e., at the same Board meeting). This would ensure that a qualifying UCT-quality program—irrespective of the type of UCT-quality program—is providing the necessary safeguards for the RSF arrangement. Automatic termination of RSF arrangements would continue when there is a gap in time between termination/cancellation of the existing concurrent UCT-quality program and approval of a new qualifying UCT-quality program.
- The staff report for the member's request for approval of a new qualifying concurrent UCT-quality program with continuation of the ongoing RSF arrangement will provide an explicit assessment that the following conditions are in place: (i) prior to the change in circumstances that led to requesting a new qualifying concurrent UCT-quality program, performance under the existing UCT-quality program had been satisfactory; (ii) the last review under the existing UCT-quality program was completed no more than 10 months before the date of the Board meeting on the approval of a new qualifying UCT-quality program; (iii) the criteria for approving an RSF arrangement remain satisfied at the time of approving the second qualifying UCT-quality program; and (iv) the priorities and reform measures under the RSF arrangement remain generally appropriate (or appropriate modifications are made) and conditions remain in place for successful completion of outstanding RMs.[48]

38. The existing RSF arrangement may still need to be adjusted to better align with the new qualifying UCT-quality program that will run concurrently. For example, consideration may need to be given to extending the remaining duration of the RSF arrangement to match the duration of the new concurrent UCT-quality program. Availability dates of disbursements under the RSF arrangement may need to be adjusted to align with reviews under the new concurrent UCT-quality program—RMs would still need to be phased to limit RST access to 50 percent of quota per review.[49]

39. The proposed modification is intended to provide an option rather than an obligation. That is, a country is not obliged to continue the RSF arrangement if the concurrent UCT-quality program is terminated/cancelled, even when it meets the conditions to retain the existing RSF arrangement set forth above. Operational considerations (¶38) may also make terminating the existing RSF arrangement and approving a new one more desirable, despite the additional time and resources involved in reaching understandings on a new RSF arrangement. Back-to-back UCT-quality programs are generally not envisaged ex ante.[50] That being said, in practice, consecutive

[48] Where the switch to another concurrent UCT-quality instrument—with continuation of the RSF arrangement—results from a member's decision to cancel its ongoing UCT quality program, the request for approval of the new UCT quality program would include the member's notification of its cancellation decision with effect at the time of approval of the new UCT-quality program.

[49] If the RSF arrangement continues, disbursements for RMs that have already been completed and for which the availability date has passed could be disbursed upon Board approval of the new qualifying UCT-quality program (the "new concurrent UCT quality program").

[50] For example, in GRA arrangements the policy measures that need to be taken to resolve a member's balance of payments problem should be undertaken during the program period. Consequently, if the first GRA arrangement

(continued)

back-to-back UCT-quality programs do occur, for example, in countries where the balance of payments needs are protracted, a shock materializes, or other circumstances change unexpectedly. In particular, for PRGT-eligible countries facing protracted balance of payments needs, the potential for a successor arrangement is sometimes recognized at the approval of the current arrangement.[51]

D. Access

40. Access to RST resources through the RSF allows for a continuum of access up to a cap. The availability of financing under an RSF arrangement is based on a package of RMs that are expected to help the member make significant progress toward strengthening its prospective balance of payments stability.[52] Access is guided by a norm of 75 percent of quota and capped at the lower of 150 percent of quota or SDR 1 billion. The norm is a guide—neither a ceiling nor a floor—and access could deviate from the norm depending on (i) direct balance of payments needs associated with RM implementation, (ii) strength and ambition of the RSF-supported reform package (i.e., the quality of the package which, in accordance with the RSF Guidance Note is assessed based on RM criticality, ambition, and depth), and (iii) capacity to repay the Fund.[53]

41. In practice, and as anticipated in the April 2022 RST Board paper, determining access levels along this continuum in a consistent manner across countries has proven challenging.

- Conditional on capacity to repay and debt sustainability, access beyond the norm has mostly been guided by the quality of the RSF-supported reform package rather than any direct balance of payments needs associated with RM implementation—to date, no staff reports for RSF arrangements have cited this criterion as a rationale for access.
- Experience has shown that the distinction between high-quality packages of reforms (e.g., meriting access at 75 percent of quota and assuming capacity to repay) and exceptionally high-quality packages of reforms (e.g., meriting access at 150 percent of quota or the cap of SDR 1 billion and assuming capacity to repay) can be made relatively clearly. In particular, staff make recommendations on access across the high- and exceptionally high-quality reform packages by assessing the potential for the RSF-supported reform package to reduce risks to a country's prospective balance of payments stability. Operationally, the criteria outlined in the RSF Guidance Note (criticality, ambition, and depth; Figure 6) aid this process.
- However, a precise fine-tuning of access levels along a continuum based on the quality of the RSF-supported reform package (e.g., differentiating between access of 75 versus 100 percent of

already addressed the balance of payments issue, a second back-to-back GRA arrangement will not be necessary. Nevertheless, the first GRA program could potentially be followed by a PCI or by a precautionary arrangement in case of potential balance of payments needs.

[51] However, where there are post-program financing gaps, financing to close such gaps should exclude optimistic gap-closing financing items and financing assumptions on a Fund successor arrangement (*2023 Staff Guidance Note on the Implementation of the IMF Strategy for Fragile and Conflict-Afflicted States,* Annex III).

[52] For GRA and PRGT arrangements, the Fund's access policy calibrates access based on the member's balance of payments needs, strength of the policies, track record in past use of Fund resources, and capacity to repay the Fund.

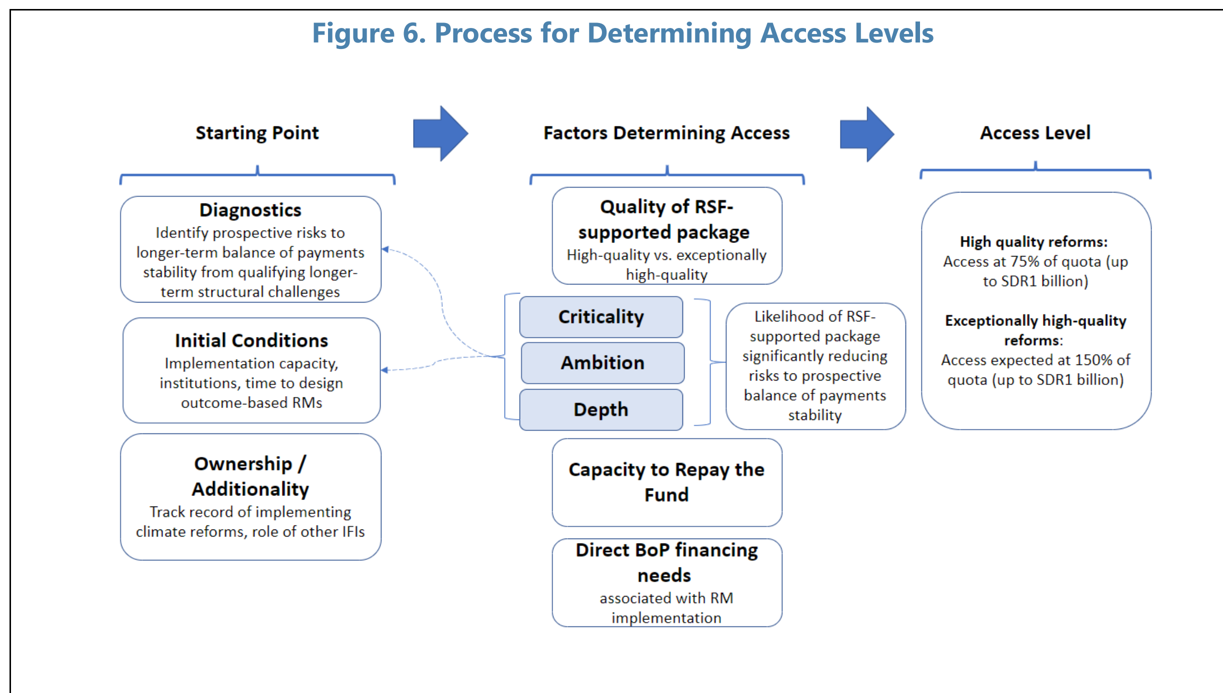
[53] This includes assessments of debt sustainability, debt carrying capacity, and the composition of debt.

quota) has been very difficult. It is not feasible, as a practical matter, to modify access incrementally by adding or subtracting RMs to the reform package. This difficulty is an extension of the challenge of "pricing" RMs that was explicitly acknowledged at the time the Trust was approved and which is reflected in other RST design elements.[54]

42. The key challenges in fine-tuning access lie in:

- Unlike in UCT-quality programs, there is (i) a lack of sufficient precedents and/or a clear anchor for fine-tuning access levels (such as quantifiable balance of payments financing needs) and (ii) higher uncertainty (i.e., larger confidence intervals) around specific projections of the impact of RSF-supported reform packages on prospective balance of payments stability.
- Significant uncertainty in quantifying the effects of a longer-term structural reform—targeting long run and/or slow-moving challenges—on macroeconomic variables and, subsequently, on a member's prospective balance of payments stability.
- Heterogeneity of climate change-related long-term balance of payments risks and of a country's starting point in terms of implementation capacity and past experience with climate-change reforms (¶12-14).

Figure 6. Process for Determining Access Levels



[54] The difficulty in precisely assessing the prospective balance of payments stability implications (i.e., both medium-term costs and long-term benefits) of RSF-supported reforms formed part of the rationale for introducing an access norm and is reflected in the presumption of equal phasing of disbursements for each completed RM. *Proposal to Establish a Resilience and Sustainability Trust*, ¶47 and ¶56.

Recommendation

43. In light of the experience so far, staff proposes the following with regard to access under the RSF:

- 75 percent of quota will remain the norm to guide decisions on access. The norm will continue to guide access for members that meet the qualification criteria for RSF arrangements, including a package of high-quality reform measures addressing qualifying longer-term structural challenges.[55] Recognizing that RSF arrangements support longer-term reforms that may take time to implement, it is expected that many countries will request access at 75 percent of quota and then may request a successor RSF arrangement also at 75 percent of quota. This approach may be especially helpful for fragile states where the institutional and governance frameworks needed to implement RSF-supported reforms are not as well developed as in other countries.

- Deviations from access at 75 percent of quota would continue to be guided by the strength and ambition of reforms and the member's capacity to repay.[56] Operationally, the quality of the package of RSF-supported reforms will continue to be assessed based on RM criticality, ambition, and depth (as outlined in the RSF Guidance Note). In view of the challenges (outlined in ¶41-42) in calibrating access along the full continuum of access levels, for most cases where reform packages are found to be of exceptionally high quality, access could be expected to be proposed at the maximum of 150 percent of quota (or SDR 1 billion, whichever is lower). However, each case would ultimately be assessed on its own merits taking into account the criteria for deviations from the norm under the RST Instrument.

- Similar considerations would apply in situations where augmentation of access is requested by a member. Augmentations of access up to 75 percent of quota could be approved for a reform package that is enhanced such that it is assessed to be a high-quality package (assessing reforms since the start of the existing arrangement through to the time the augmented RSF arrangement ends). If the reform package is enhanced such that it is assessed to be an

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[55] The April 2022 RST Board paper, ¶39 (see also Section II, Paragraph 1(b) RST Instrument) states "To qualify for an RSF arrangement, eligible members would need to have: (i) *a package of high-quality reform measures* addressing qualifying longer-term structural challenges; (ii) a concurrent UCT program with at least 18 months remaining prior to its expiry; and (iii) sustainable debt and adequate capacity to repay. Specifically: (I) *Relevant policy and reform package*: Financing under an RSF arrangement would be based on a set of policies and reforms that are expected to help the member make significant progress toward strengthening the member's prospective BoP stability by reducing macro-critical risks related to qualifying longer-term structural challenges. A guidance note would elaborate on how to design and assess the strength of the package of structural reforms…"

[56] The April 2022 RST Board paper, ¶47 states (see also Section II, Paragraph 2(b) RST Instrument) "Deviations from the access norm may be considered depending on: (i) any direct short- to medium-term BoP needs associated with the implementation of corresponding RSF-supported reforms, (ii) strength and ambition of the package of RST supported reforms; and (iii) capacity to repay the Fund, taking into account the member's debt sustainability, debt carrying capacity, and composition of debt (in particular the prevalence of de facto senior obligations, especially in cases of elevated debt vulnerabilities)."

exceptionally high-quality RSF-supported reform package, total access under the arrangement (after the augmentation) could be more than 75 percent of quota and up to 150 percent of quota (or SDR 1 billion, if lower). All augmentations of access will always consider the member's capacity to repay the Fund, taking into account debt sustainability, debt carrying capacity and composition of debt.

- Revisions to access rules and limits may be considered at the time of the comprehensive RST review once more experience has been gained with a broader set of countries.

E. Safeguards

Access Safeguards

44. At the time of RST approval, it was determined that the Exceptional Access (EA) Frameworks and the Policy Safeguards for High Combined Credit Exposure (PS-HCC) would not apply to financing provided under RSF arrangements.[57] This decision reflected the fact that the RST is fundamentally different from the GRA or PRGT with a focus on prospective stability (as opposed to filling residual balance of payments gaps) and longer grace and repayment periods resulting in modest debt service schedules compared to those of GRA- or PRGT-financing. It also has its own built-in safeguards discussed below. This decision was also considered to be helpful in reducing the risk of "facility shopping" between the GRA and the RST, as the RST has more favorable financing terms.

45. To ensure that the RST retained strong safeguards despite being excluded from the calculations in determining the applicability of EA and PS-HCC, the Board introduced various safeguard requirements for all RSF financing requests, including:[58]

- Debt sustainability and capacity to repay (CtR) are required to qualify for an RSF arrangement and are accounted for when determining the level of access provided, as with other Fund financing.

- Additional debt and CtR safeguards for lending are required to account for the nature and terms of lending, borrowers' debt profiles, and to mitigate excessive accumulation of de facto senior debt. Financing requests and augmentations need to include analysis and discussion of (i) the composition of public debt, including the share of de facto senior debt, (ii) debt risk analysis up to 20 years, and (iii) an extended CtR analysis that covers the RSF repayment period.

- Access determination rules that explicitly account for CtR and debt vulnerabilities.

- Access is capped at moderate levels.

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[57] Though most Executive Directors agreed with this view, some would have preferred to have these additional safeguards (*Press Release: IMF Executive Board Approves Establishment of the Resilience and Sustainability Trust*, PR22/119).

[58] *Proposal to Establish a Resilience and Sustainability Trust*, *No. 2022/013* (2022).

46. To date, there has been only one case where cumulative access across instruments would have exceeded the exceptional access threshold had RST financing been included in these frameworks. In December 2023, the Board approved Benin's request for an RSF arrangement, which would see Benin's total outstanding credit from the Fund peak at 656.2 percent of quota in 2025—above the current PS-HCC threshold of 600 percent of quota. Despite this high level of outstanding credit, Benin's capacity to repay was assessed as adequate and Benin remained at only moderate risk of debt distress. Notably, credit outstanding in terms of GDP is projected to be relatively small compared to peer countries.

47. Given the limited challenges that this decision has presented to date, no change is proposed at this stage. However, staff will continue to monitor access issues closely, including any impact from the 16th general review of quotas when it comes into effect, and will make further recommendations as needed at the time of the comprehensive RST review.

Concurrent Qualifying UCT-Quality Program

48. While there are important and strong justifications for requiring a concurrent qualifying UCT-quality program for the entire duration of an RSF arrangement, the merits of some flexibility could be considered in the future.

- As noted in the April 2022 RST Board paper (¶20), the concurrent UCT-quality program is required to (i) provide adequate policy safeguards that contribute to mitigating the credit risk associated with RST financing and maintaining the reserve asset status of RST contributions, a key requirement for central banks of many potential contributors, (ii) mitigate the risk of facility shopping, whereby the RST's longer and cheaper financing could be (mis)used to finance BoP problems normally addressed under GRA/PRGT programs, and (iii) support a stable macroeconomic environment in the borrowing country which is a necessary condition to pursue long-term reforms and support a catalytic role for the RST.

- Nevertheless, there is a case for some more flexibility around the current strict interpretation of the policy to ensure the RST supports strong longer-term reforms with adequate timeframes. Given that the timing and length of the concurrent UCT arrangement is not always well-aligned with the timing of climate reforms, it could be considered to allow an RSF arrangement to continue for a short period beyond the end date of a concurrent qualifying UCT-quality arrangement, which would allow the country to continue implementing key longer-term reforms in an adequate time frame. Any changes to the policies would need to carefully balance the risks, and ensure that some more flexibility is accompanied by adequate safeguards, which are also crucial for securing RST resources.

- For the time being, the proposal to facilitate the back-to-back UCT-quality programs (¶35-39), including non-disbursing qualifying UCT-quality programs, will offer increased flexibility and make it operationally easier to extend an RSF arrangement beyond the end date of a given concurrent qualifying UCT-quality arrangement.

49. The development of modalities for a non-disbursing, advisory engagement with country authorities on climate-focused reforms, with a signaling purpose, analogous to the Policy Coordination Instrument—a "non-disbursing RSF arrangement"—could also be explored at the time of the comprehensive RST review. These modalities would also be aimed at providing policy support to strengthen member's resilience and sustainability and contribute to the member's prospective BOP stability and could allow for longer durations (e.g., beyond the typical duration of a UCT-quality program). This would help address concerns over too little time allotted for implementation of RSF-supported reforms. It could appeal to countries that wish to signal strong climate policies but are reluctant to seek Fund financing due to stigma. Staff could explore the design modalities of this engagement to monitor climate policies, possibly under the broader umbrella of the RST, at the comprehensive review.

ADEQUACY OF RST RESOURCES: A SUMMARY

50. This interim review presents an update of the adequacy of RST resources. The first assessment was discussed by the Board in April 2023.[59] Since then, progress towards the SDR 33 billion fundraising target has been strong with 21 countries having pledged SDR 31.9 billion in total RST resources to date. Of that amount, however, SDR 26.3 billion are pledged contribution packages with loan resources which, once effective, would allow for a commitment capacity of just SDR 16.7 billion, compared to the SDR 22 billion commitment capacity underpinning the 2022 RST fundraising target. Over 95 percent of pledges are now effective contributions. Several of the countries with approved RSF arrangements have been benefitting from the interest rate cap of 2¼ percent applicable to the most vulnerable RST-eligible countries (Group A) which was approved by the Board in May 2023.

51. Given high demand, additional contributions of around SDR 7 billion are needed in the short term, and potentially more over the medium term. In addition to the RSF arrangements approved to date, with most countries receiving maximum access or the cap of SDR 1 billion, 30-35 countries have expressed interest in an arrangement, most of which are expected to cumulatively request maximum access through one or two RSF arrangements. Similarly, most countries with existing RSF arrangements are also expected to request successor arrangements where borrowing space exists under the RST access limits policy. Given high demand for RST support, it will be important to secure at least another SDR 7 billion in additional contributions in the near term to ensure that RST lending operations can be supported through end-2026.[60] Staff urges potential contributors to make timely pledges and to work toward making resources available to the RST as soon as possible to ensure the continued operations of the Trust. While recognizing that there may be limits to SDR channeling, economically stronger countries are also encouraged to scale up the ambition to channel SDRs beyond the original RST ask of 15-20 percent of the 2021 SDR allocation

[59] See the 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts.

[60] This assumes contributions comes in the form of contribution packages that contain loan resources.

to help meet the strong demand for RST financing.[61] To support fundraising efforts, staff are exploring a hybrid contribution modality that allows a potential contributor to pledge resources to the Loan Account and Deposit Account in conjunction with another party contributing to the Reserve Account. Such a 'hybrid' contribution option could pave the way for significant additional pledges among new and existing contributors. Beyond this immediate pipeline, demand for RSF arrangements is likely to remain strong in the medium term. Staff will review the medium-term demand estimates in the context of the comprehensive RST review in FY26, which will also consider access policies. On this basis, it may be necessary to set a new fundraising target, which may well exceed the near-term funding needs of about SDR 7 billion.

52. An updated assessment of RST reserve adequacy indicates that reserves would remain adequate under plausible assumptions. Under the scenario in which pledged resources are provided as planned, reserves are assessed to be adequate in the baseline as well as under a battery of adverse scenarios. In light of this assessment, staff deems the interest rate cap for Group A countries to remain appropriate. Periodic or ad-hoc RST reviews will provide an opportunity to adopt corrective measures if needed to ensure the continued adequacy of reserves. Annex I provides an in-depth discussion of RST resources and an assessment of their adequacy.

ENTERPRISE RISKS

This section provides an update to reflect the evolution of selected risks, based on the experience so far. This includes identification of some new risks, largely related to the proposed changes in RST design (¶30, 34, 37).

53. Potential enterprise risks continue to span four key areas. The Board paper establishing the RST identified potential operational, financial, business and reputational enterprise risks.[62] Most of these risks—and the associated mitigation measures proposed at the time—remain valid.

54. Operational risks identified at the time the RST was established remain relevant and new risks have emerged, all requiring continued mitigation. Key risks related to program design include the potential duplication of other International Financial Institutions' (IFIs) work, delays in implementation of reforms under the concurrent UCT-quality program owing to large and frontloaded access to RST financing, and challenges associated with expanding structural conditionality to new areas, including designing and monitoring programs and mission creep (¶23-25). In the context of the proposed modifications to the RST instrument, new operational risks related to program design and performance have been identified in association with (i) operationalizing the continuity of an RSF across UCT-quality programs to ensure Fund policies and procedures are correctly followed (¶37) and (ii) potentially lower incentives to complete a RM from

[61] While some members have raised their SDR channeling above the 15-20 percent original target, there may be limited willingness to do so from a broader group of contributors, as holding additional SDRs could impact the liquidity and strategic composition of central bank reserves.

[62] Proposal to Establish a Resilience and Sustainability Trust, Section IX.

the elimination of dual-purpose reforms (¶34). Separately, countries could still reverse their RMs after receiving a disbursement or negate them with other policies.

- Mitigation measures for risks identified at the time of the RST's approval are still appropriate.[63] Some of the additional operational risks identified from the above proposals are expected to have a low likelihood. For example, as already noted the use of dual-purpose reforms has been rare, and their elimination is not expected to change the trajectory of RM completion rates. The risk of policy or procedural errors in continuing an RSF across UCT-quality programs is also low given these cases are likely infrequent and the likelihood of this risk will decrease as staff become more familiar with RSF operations over time. Increased depth of reforms will help mitigate risks of policy reversal. Additionally, the RSF Guidance Note will be updated to provide additional guidance for teams and reviewers in both areas.

55. The human resource risks (a sub-category of operational risks) previously identified also remain relevant. These risks stem from inadequate resourcing that could strain overextended staff, including non-fungible experts and fungible staff trying to quickly gain climate expertise, in the face of strong RSF demand. Consequently, these staff could experience burnout. These risks continue to be relevant, as outlined above (¶23-25). Strong RSF demand also has implications for the Fund's capacity development resources, and climate-related work could crowd out non-climate capacity development in regions with high numbers of RSF arrangements. However, the proposed modifications to the RST instrument are not expected to have an additional impact on HR risks.

- Previously envisaged ongoing mitigation measures continue to be implemented. Efforts to track and quantify costs of RSF development will help ensure adequate resourcing. Internal capacity building on both RSF operations and in areas such as climate change aim to lessen the "learning curve," build experience, and limit future pressures on staff—though it is not a substitute for identifying sufficient internal resources to meet RSF demand. Capacity development and area departments will need to work together to resolve ensuing trade-offs in allocating resources as part of the medium-term work plan process.

56. Previously identified financial risks remain relevant though manageable. These risks include fundraising risks; credit risk through erosion in members' repayment capacity and lack of diversity in RSF borrowers; liquidity risks through pressure on the Voluntary Trading Arrangements (VTA) market from high demand; and investment risks (e.g., a severe market shock could deplete RST Reserve Account investments). Notably, though progress on the 2022 fundraising target has been strong, fundraising has to be reinvigorated to meet strong near-term demand. In addition, the borrower income groups have so far been diversified (Annex II, Figure 2) and seem likely to continue to be so, and the VTA market has expanded with 3 new arrangements put in place since RST approval. On the other hand, borrowers' repayment capacity has likely weakened relative to the time of RST approval given the sharp increase in the SDRi and global borrowing rates. For a subset of RST eligible countries, i.e., Group A PRGT eligible countries that are not presumed blenders, the

[63] Proposal to Establish a Resilience and Sustainability Trust, Table 1. RST Enterprise Risks and Mitigation.

implementation of an interest rate cap of 2¼ percent in May 2023 has provided some relief, while still enabling adequate RST reserve accumulation. The proposed modifications to the RST instrument are unlikely to have a significant impact on financial risks.

- Mitigation measures identified at the time of RST approval remain relevant, though some have been implemented (e.g., expansion of VTAs, interest rate cap). As expected at the time of the Trust establishment in 2022, fundraising will need to continue in parallel with its operations given the novelty of the trust and the strong demand for its financing. As noted above, additional safeguard measures will also be considered at the time of the comprehensive RST review in FY26, integrating the experience with RSF arrangements up to that point.

57. Previously identified business and reputational risks have evolved. Key risks included low demand, high demand with insufficient contributions, and reversal of RMs after implementation and related disbursement. Insufficient demand is no longer a concern, given that demand has been robust and the pipeline remains strong. On the other hand, the risk that strong demand could eventually challenge available Trust resources has increased. If loan resources fall short of demand, access to the RST would risk becoming on a first-come, first-served basis, undermining evenhanded treatment of eligible members, and posing reputational risks for the Fund. As noted above, though progress on the 2022 fundraising target has been strong, it has not been completed. Meanwhile, the above proposals are not expected to meaningfully increase or decrease reputational risks, though evenhandedness concerns regarding access will need to continue to be monitored.

- Efforts to mitigate these risks continue. A recent demand survey has helped supplement RSF demand estimates (Annex I).[64] Reinvigorated fundraising will be critical to meeting near term demand; and medium term demand and any associated proposals for revisions to the fundraising target will be examined in the context the comprehensive review planned for FY26. There are sufficient RST resources to meet existing demand through in 2024 and part of 2025, but additional fundraising is required to meet demand beyond that point and discussions with new potential contributors are ongoing. A strong communication strategy will also be critical, including to mitigate any risks related to Fund objectivity and credibility. Safeguards, including post-RSF monitoring, will be reassessed at the time of the comprehensive RST review once staff gain more experience with RSFs over the life of an arrangement.

ISSUES FOR DISCUSSION

58. Do you agree with this stock-take of the initial experience with RSF arrangements?

59. Do you agree with the proposed changes in RST design?

[64] Staff conducted a survey of RST-eligible countries' authorities in early 2024 to gauge their interest in an RSF. To date, the response rate (below 25 percent) is too low to inform the demand projections but suggest at least six countries are interested in an RSF arrangement, beyond those captured in the near-term demand pipeline. Staff will provide an oral update at the Board discussion if new information becomes available.

Annex I. Adequacy of Resources for the Resilience and Sustainability Trust[1]

This Annex presents an update of staff's assessment of the adequacy of RST loan resources and reserves.[2] The assessment concludes that given high demand, additional contributions of around SDR 7 billion are needed in the short term, and potentially more over the medium term. An updated assessment of RST reserve adequacy indicates that the level of reserves during the period in which there are RSF loans outstanding would remain adequate both under the baseline and a number of adverse scenarios. In light of this assessment, staff deems the interest rate cap for Group A countries to remain appropriate. Periodic or ad hoc RST reviews will provide an opportunity to adopt corrective measures, if needed, to ensure the continued adequacy of reserves in the face of potential risks materializing.

A. RST Fundraising

1. A fundraising target of SDR 33 billion was set at the time of the establishment of the RST in April 2022. Contribution packages that provide resources to all three of the RST's accounts – the Loan Account (LA), the Reserve Account (RA), and the Deposit Account (DA) – would help meet the fundraising target.[3,4] Specifically, out of the SDR 33 billion target, SDR 27.5 billion in loan resources for the LA was intended to cover estimated demand of SDR 22 billion from eligible countries along with a liquidity buffer to ensure the encashability of loan claims.[5] The associated contributions to the RA and DA (combined target of SDR 6 billion) were intended to provide initial reserves, which are expected to grow over time through net income from lending operations and investment returns on RA and DA resources.[6]

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[1] Annex prepared by Alex Massara with contributions from Phil de Imus, Ivetta Hakobyan, Dan Nyberg, Iza Rutkowska under the supervision of Linda Kaltani (all FIN).

[2] The 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts was discussed by the Executive Board on April 6, 2023.

[3] The LA is the RST's conduit for lending operations, while the RA is its principal financial buffer to manage credit and liquidity risks and to cover administrative costs. The DA helps build RST net reserves over time and serves as a backstop to the RA in case of extreme tail-risk events. See Annex 1 Figure 1 for an illustration of the RST's flow of funds. Annex 1, Tables 6-8 provide details on the already provided contributions to the three RST accounts.

[4] As specified in Section III, Paragraph 1(b) of the RST Instrument, each LA contributor is required to sign a contribution package with three parts—the LA contribution (borrowing agreement), an RA contribution, and a DA contribution. Contributions to the RA and DA would be a minimum of 2 percent and 20 percent, respectively, of a contributor's commitment to the LA. The RST may also receive 'standalone' contributions to the RA and/or DA without a contribution to the LA, with a preferred minimum maturity of 10 years (see paragraphs 88-89 in 2022 RST establishment paper Proposal To Establish A Resilience and Sustainability Trust). Such standalone contributions help strengthen reserve buildup but do not provide loans and are, as such, additional to the contribution packages intended to meet the SDR 33 billion target.

[5] For additional details on the liquidity buffer see Box 6 of the 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts.

[6] These RA and DA resources are invested in liquid, high-quality assets in accordance with guidelines approved by the Executive Board. For additional information, please see Annex V. Table 1 in the 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts.

2. **The fundraising campaign kicked off immediately after the Board approved the establishment of the RST.** The Managing Director reached out to 35 potential contributors with strong external positions that participate in VTAs, urging them to pledge at least 15 to 20 percent of their 2021 SDR allocation to ensure fair burden sharing.

3. **Good progress has been made to secure pledges.** As of mid-March 2024, 21 countries have pledged SDR 31.9 billion in total RST resources (see Annex I, Table 1). Of this amount, SDR 26.3 billion from 18 countries are pledged contribution packages providing LA, RA, and DA resources (about 80 percent of the initial target for loan resources), and SDR 5.6 billion are pledged standalone contributions to the RA and/or the DA from three countries.[7,8] Two of the pledging countries had not been included in the initial fundraising campaign, thus expanding the group of contributors.

4. **A total of SDR 31 billion of pledged contributions is now effective, with the respective resources received and available in the RST.** Effective contribution agreements include SDR 25.4 billion in contribution packages from 16 countries, and SDR 5.6 billion in standalone contributions from three countries (see Annex I, Table 2). RA and DA resources received have been invested in accordance with the investment strategy approved by the Board with a view to generating income over the medium term for further reserve accumulation. The financial activities of the RST, including its resources, are published in the *Fund's Quarterly Report on IMF Finances* and in the annual *IMF Financial Statements*. Once existing pledges are finalized with two remaining contributors, usable loan resources will stand at SDR 16.7 billion, or about SDR 5.3 billion short of the original SDR 22 billion lending target.

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[7] Gross reserves are the sum of balances in the RA and DA, and net reserves are the RA balances plus cumulative excess DA investment returns (i.e., gross reserves net of contributors' claims on the DA)

[8] For additional details on the financial architecture of the RST, see Section V of the 2022 Proposal to Establish a Resilience and Sustainability Trust.

Annex I. Table 1. RST: Status of Pledges

(In SDR billion; as of March 15, 2024)

	Country	Pledges[1]	SDR allocation in 2021	Pledges as share of 2021 SDR allocation	Status
Contribution package with loan resources[2]					
1	Australia	0.9	6.3	15%	Signed and RA/DA disbursed
2	Belgium	0.7	6.1	11%	Signed and RA/DA disbursed
3	Canada	1.4	10.6	13%	Signed and RA/DA disbursed
4	China	6.0	29.2	21%	Signed and RA/DA disbursed
5	France	3.1	19.3	16%	Signed and RA/DA disbursed
6	Italy	1.9	14.4	13%	Signed and RA/DA disbursed
7	Japan	5.0	29.5	17%	Signed and RA/DA disbursed
8	Korea	0.9	8.2	11%	Signed and RA/DA disbursed
9	Lithuania	0.085	0.4	20%	Signed and RA/DA disbursed
10	Luxembourg	0.253	1.3	20%	Signed and RA/DA disbursed
11	Malta	0.025	0.2	15%	Signed and RA/DA disbursed
12	Netherlands	1.2	8.4	15%	Signed and RA/DA disbursed
13	Oman	0.039	0.5	7%	Signed and RA/DA disbursed
14	Qatar	0.05	0.7	7%	Signed and RA/DA disbursed
15	Singapore	0.7	3.7	20%	
16	Spain	1.4	9.1	16%	Signed and RA/DA disbursed
17	United Kingdom	2.5	19.3	13%	Signed and RA/DA disbursed
18	Jnited Arab Emirate	0.2	2.2	7%	
	Subtotal	**26.3**		**14%**	
Standalone contributions[2]					
19	Estonia	0.025	0.2	11%	Signed and DA disbursed[3]
20	Germany	5.1	25.5	20%	Signed and RA/DA disbursed
21	Switzerland	0.5	5.5	9%	Signed and DA disbursed[3]
	Subtotal	**5.6**		**13%**	
	Grand total	**31.9**		**15%**	

Source: Country authorities; IMF staff estimates.

[1] The table reports the amounts pledged or contributed. When pledges are reported, this table shows the amount as pledged by each country. In most of such cases, the pledge amount excludes the reserve account contribution, but at 2 percent of the loan contribution, its impact on the total amount is small. For some countries, pledges are subject to domestic procedures, including budgetary approvals.

[2] A 'contribution package' includes contributions to all the loan, deposit, and reserve accounts of the RST. A 'standalone contribution' refers to contributions to the deposit and/or reserve accounts, with possibly shorter maturities (e.g., 10 years).

[3] Contributor provided resources to the deposit account only.

Annex I. Table 2. RST: Resources Received from Effective Contribution Agreements[1]
(In SDR billion; as of March 15, 2024)

	Total	of which:		
		Loan Account	Deposit Account	Reserve Account
Contributions received	**31.0**	**20.8**	**9.3**	**0.9**
of which: contribution packages with loan resources	*25.4*	*20.8*	*4.2*	*0.4*
Australia	0.9	0.8	0.2	0.02
Belgium	0.7	0.5	0.1	0.01
Canada	1.4	1.1	0.2	0.02
China	6.0	4.9	1.0	0.1
France	3.1	2.5	0.5	0.1
Italy	1.9	1.6	0.3	0.03
Japan	5.0	4.1	0.8	0.1
Korea	0.9	0.7	0.1	0.01
Lithuania	0.1	0.1	0.01	0.001
Luxembourg	0.3	0.2	0.04	0.004
Malta	0.02	0.02	0.004	0.0004
Netherlands	1.2	1.0	0.2	0.020
Oman	0.04	0.03	0.01	0.001
Qatar	0.05	0.04	0.01	0.001
Spain	1.4	1.2	0.2	0.02
United Kingdom	2.5	2.0	0.4	0.04
of which: standalone contributions	*5.6*	-	*5.1*	*0.5*
Estonia	0.025	-	0.025	-
Germany	5.06	-	4.58	0.48
Switzerland	0.50	-	0.50	-

Source: IMF Finance Department.

[1] A ‘contribution package’ includes contributions to all three RST accounts (LA, RA, DA). A ‘standalone contribution’ refers to contributions to the DA and/or RA, normally with a maturity of 10 years. A contribution agreement is effective once it has been signed by the respective country and countersigned by the IMF’s Managing Director and any other conditions for effectiveness specified in the relevant agreement are met. An effective contribution package is reported as received once its DA and RA contributions have been disbursed to the RST, because a contributor’s LA commitment becomes available for drawing only after the associated RA and DA contributions are disbursed to ensure that necessary reserves are available at the time of drawing of loan resources. An effective standalone contribution is reported as received once it is disbursed.

5. Accounting for effective contributions and the resources committed under existing Board-approved RSF arrangements, the RST's commitment capacity to provide RSF loans currently stands at SDR 9.7 billion. To date, effective contributions include loan resources of SDR 20.8 billion, of which usable loan resources for RSF lending commitments amount to SDR 15.9 billion, reflecting a liquidity buffer to ensure the encashability of LA claims (Annex I, Table 3). The current liquidity buffer amounts to 24 percent of total loan resources. This ratio will continue declining toward a floor of 20 percent as additional loan contributions are received. Of the RST's usable loan resources, SDR 6.3 billion have been committed for existing Board-approved RSF arrangements, leaving SDR 9.7 billion as the RST's remaining commitment capacity.

Annex I. Table 3. RST: Loan Resources and Commitment Capacity
(In SDR billion; as of March 15, 2024)

Total loan resources	20.8
Liquidity buffer	4.9
Usable loan resources	15.9
RSF commitments	6.3
Commitment capacity	9.7
Memo:	
Target loan resources	27.4

Source: IMF Finance Department.

Notes. The liquidity buffer is calculated as 20 percent of the total loan resources or the largest LA contribution if the 20 percent is not sufficient to encash this contribution. See also Box 6 of the 2023 adequacy paper (SM/23/73).

6. Looking ahead, contribution agreements for the remaining pledges are expected to be finalized during 2024. Once effective, these remaining pledges are expected to provide an additional SDR 0.9 billion in total resources, of which about SDR 0.7 billion will be in the form of new loan resources. Given this, usable resources for lending purposes will reach SDR 16.7 billion, and the liquidity buffer would decline modestly to 23 percent of loan resources. A shortfall of SDR 5.3 billion relative to the SDR 22 billion in commitment capacity underpinning the 2022 RST fundraising target would remain. In terms of prospective pledges, at least one additional country is expected to announce a pledge shortly, while a few other countries are considering making one.

7. Staff are currently analyzing how possible amendments to the RST might catalyze additional loan resources. Under the RST Instrument, any contributor who provides resources to the LA must also provide resources to the DA and RA in the 100:20:2 ratio. Given that for many Fund members contributions to the RA require budgetary resources, this requirement often limits potential contributors' ability to provide LA resources. Staff have become aware of a potential contributor that has indicated that it wishes to contribute to the LA and DA in conjunction with a party potentially interested in making a contribution to the RA. Such a 'hybrid' contribution option could pave the way for additional pledges among new and existing contributors. Staff are currently gathering additional information about this proposal and assessing options, including possible changes to the RST Instrument.

B. RST Lending and Demand Outlook

Demand to Date

8. The IMF Executive Board has so far approved 18 RSF arrangements amounting to SDR 6.3 billion in commitments. Group A countries make up less than 10 percent of total amounts committed, Group B close to 50 percent, with the remainder being Group C countries. In terms of number of arrangements, four RSF arrangements are for Group A countries, seven for Group B, and seven for Group C. Disbursements to date have surpassed SDR 1.2 billion given that RSF arrangements, by design, do not disburse at arrangement approval. Disbursements are expected to continue to ramp up as countries complete RSF reviews and more arrangements are approved. Access levels have concentrated at either the maximum (ten arrangements at 150 percent of quota or SDR 1 billion) or the norm (five arrangements at 75 percent of quota) with only three arrangements having access different from the norm or the maximum level of access. The four Group A countries are benefitting from the 2¼ percent interest rate cap adopted by the Executive Board in May 2023.

Demand Projections

9. Near-term demand for RSF arrangements is projected to be strong based on ongoing consultations between members and country teams. As of mid-March 2024, around 30-35 countries have expressed interest in an RSF arrangement. This near-term demand pipeline, which is larger than the one at the time of the 2023 Adequacy paper, is assumed to come to the Board with RSF requests in 2024-26, implying an average of around 14 new RSF arrangements being approved by the Executive Board each year. While uncertain, baseline projections assume that RSF arrangements of PRGT-eligible countries have a duration of three years, while those of other countries have a duration of two years.

10. Recognizing that most countries will request access at 75 or 150 percent of quota, estimates were made on the near-term demand pipeline. For analytical purposes, for 2024-26, one quarter of countries are assumed to have an RSF arrangement with access of 75 percent of quota, while the remainder are assumed to have access at 150 percent of quota. This breakdown is underpinned by the assessment that about three quarters of the pipeline countries are medium- or higher-capacity countries that have the ability to implement reforms that would likely justify maximum access.[9] In addition, all countries with approved RSFs that have borrowing space

[9] For actual RSF requests, access will be determined on a case-by-case basis following the standard laid out in ¶43 (main text of this paper).

remaining are assumed to receive a successor RSF arrangements the year after the original RSF arrangement expires.[10] Access for any RSF arrangement is capped at SDR 1 billion.

11. Under the baseline scenario, staff estimate that amounts committed through 2026 would be about SDR 22 billion, broadly in line with the commitment capacity underpinning the RST fundraising target (see Annex I, Table 4 below). Approved arrangements in 2024 would reach nearly SDR 8 billion in new commitments, almost twice the commitments made in 2023, and would return closer to 2023 levels in 2025, or roughly SDR 5 billion. By 2026, eligible countries with space to borrow are expected to start returning for a successor RSF, with about one fifth of total commitments stemming from successor arrangements. However, annual commitment levels are expected to decline somewhat in 2026, as fewer countries have space to borrow at 150 percent of quota. Average annual commitments over the 2024-26 period are projected to be SDR 5.6 billion.

Annex I. Table 4. Projected RST Commitments[1]
(SDR billions)

	2022	2023	2024	2025	2026 [2]
Approved RSF Commitments	0.9	4.2	1.1		
Annual New RSF commitments			6.9	5.0	3.9
Cumulative Usable Loan Resources		5.2	13.1	18.1	22.0
Pledged usable loan resources			16.7		
Memo:					
Number of RSFs	*3*	*13*	*16*	*9*	*16*

[1] For PRGT-eligible countries in the RST pipeline, it is assumed that arrangements are for 36 months, while others are assumed to have arrangements of 24 months.
[2] Projections assume that countries with approved RSFs below maximum access will request a successor program in the year following the original program expiration.

C. RST Resource Adequacy

Loan Resource Adequacy

12. Under the baseline near-term demand estimation, a total loan resource gap of about SDR 5.9 billion would emerge during the projection period. Assuming no new pledges come through, RST resources would be depleted in 2025 under the baseline demand scenario. To meet expected near-term demand through 2026 and avoid “first-come first-serve” risks while

[10] This is justified by staff’s informal engagement with RSF recipients and candidate countries. This assumption is also consistent with staff’s assessment that countries with lower capacity take more time to implement the lasting reforms that the RSF intends to support. Based on experience to date, many of the lower capacity countries are envisaging taking for example six years to develop and implement reforms, which in turn supports the objective of catalyzing climate financing. Moreover, the RSF is one of the only policy lending facilities focused on climate change challenges, and, as such, its signaling effect is strong, likely prompting countries to access a second round of RSFs when this is possible.

accommodating the liquidity buffer, staff estimate an additional SDR 5.9 billion in total loan resources would be needed, broadly in line with the existing shortfall relative to the 2022 RST fundraising target. It should be noted that there is some degree of uncertainty around baseline demand given the difficulty of predicting the timing of individual RSF requests and the corresponding access level which also depends on the pace of discussions on RSF arrangements and the associated UCT-quality program.

13. In light of the above projections, RST fundraising efforts need to be reinvigorated to secure additional resources of at least SDR 7.2 billion to cover strong demand through 2026 and secure the associated reserves, broadly in line with the 2022 fundraising target. To close the projected shortfall through 2026, total loan resources would need to reach about SDR 27.5 billion from the current level of SDR 21.6 billion pledged to date. Given the need for the estimated SDR 5.9 billion in loan resources to be accompanied by contributions to the RA and DA, total resources of about SDR 7.2 billion would be needed. As mentioned above, a few countries have informally indicated that they may consider making a pledge although these potential pledges appear unlikely to fully meet near-term demand. Staff urges potential contributors (including countries in Annex I, Table 9 which have not yet pledged) to make timely pledges and to work toward making resources available to the RST as soon as possible to ensure the continued operations of the Trust. Though there may be limits to SDR channeling, economically stronger countries are encouraged to scale up the ambition to channel SDRs beyond the original RST ask of 15-20 percent of the 2021 SDR allocation to help meet the strong demand for RST financing. RST loan resource adequacy is a key enterprise risk as discussed in the main paper.

14. Staff will continue to update its demand estimates going forward and consider a possible new fundraising target at the time of the comprehensive RST review in FY26. Looking at demand beyond 2026, there is significant potential for additional RSF requests from countries not currently in the near-term demand projections (i.e., about 90 RST-eligible countries) as well as for successor RSF arrangements from countries that will have borrowing space left once their initial RSF arrangement is completed. While fundraising in the near term will need to continue to ensure that near-term demand is comfortably met, the FY26 comprehensive RST review would be an opportunity to assess medium-term demand projections through the drawdown period of current contribution agreements while also taking stock of the experience with the evolution of demand.[11] At that time, a new fundraising target may be warranted to also reflect other potential policy changes that could be taken up at the comprehensive RST review.

Adequacy of Reserves

15. The RST's financial architecture was designed to generate sufficient reserve accumulation over time. Under the RST's architecture, net reserves (RA balances plus cumulative excess DA investment returns) are expected to grow steadily, funded by income from lending

[11] Currently agreed RST contribution agreements that come as contribution packages have a drawdown period though November 30, 2030 and a maturity of deposits on November 30, 2050.

margins (and service charges), and investment income of the RA net of administrative costs, and excess investment returns in the DA (investment returns net of SDRi paid to contributors).[12] At the time of the RST establishment, net reserves were expected to grow to cover at least 10 percent of credit outstanding, which was assessed as being adequate. The DA's backstop function to the RA further provides an additional layer of protection (although only in an unforeseen extreme tail-risk event of large financial losses exceeding net reserves), and at the time of RST establishment it was expected to increase over time to cover at least 35 percent of credit outstanding.

16. The RST simulation analysis from the 2023 Review is updated to reflect the latest developments. Compared with the simulation analysis in Table 12 of the 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts, key differences in the updated analysis include:

- Introduction of the interest rate cap of 2¼ percent for Group A countries in May 2023, which impacts the build-up of RA balances when SDRi is high.
- Higher than initially expected SDRi and its impact on RA and DA balances. The SDRi is assumed to return to the long-run average of 3 percent.[13]
- Updates on funding, with pledged loan resources below the target but slightly higher than in the 2023 Adequacy paper (i.e., SDR 21.6 billion compared with SDR 20.9 billion in April 2023) and with significant standalone contributions (i.e., SDR 5.6 billion with a 10-year maturity).
- Relatively higher demand from Group A countries (currently projected at 31 percent of total compared to 26 percent in the 2023 paper).

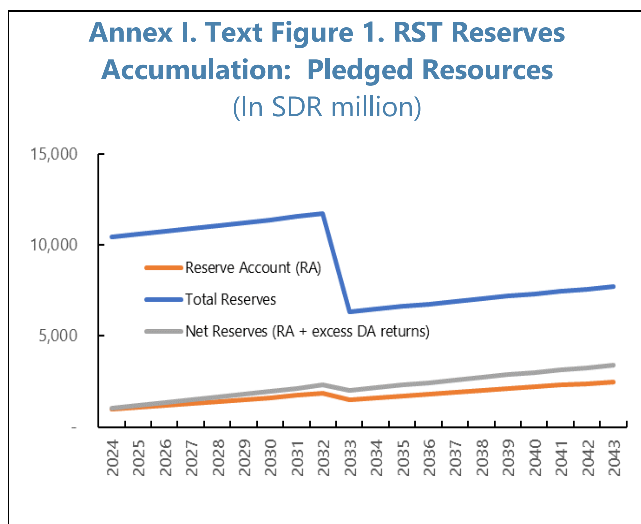
In addition to updating the baseline simulation analysis, staff also simulated adverse scenarios related to the impact on reserves of a higher SDRi, lower investment returns, and a larger-than-expected share of Group A countries requesting an RSF as well as a combined shock scenario (Annex I, Table 5).

17. An updated assessment of RST reserve adequacy, focusing on the scenario in which pledged resources are provided as planned, suggests that reserves remain adequate in the baseline. As in the 2023 Adequacy paper, the assessment of reserve adequacy only assumes that pledged resources are available. Accordingly, columns 1-5 in Annex I, Table 5 use the funding assumptions implied by existing pledges, with RST credit outstanding reduced from the target of SDR 22 billion to a lending capacity of SDR 16.7 billion, which reduces reserve generation from interest margins but also reduces RST credit risk exposure. Under the current funding scenario, the projected minimum net reserve coverage is robust at 13 percent of credit outstanding, in part due to the standalone contributions to the RA and DA that boost investment income and hence net

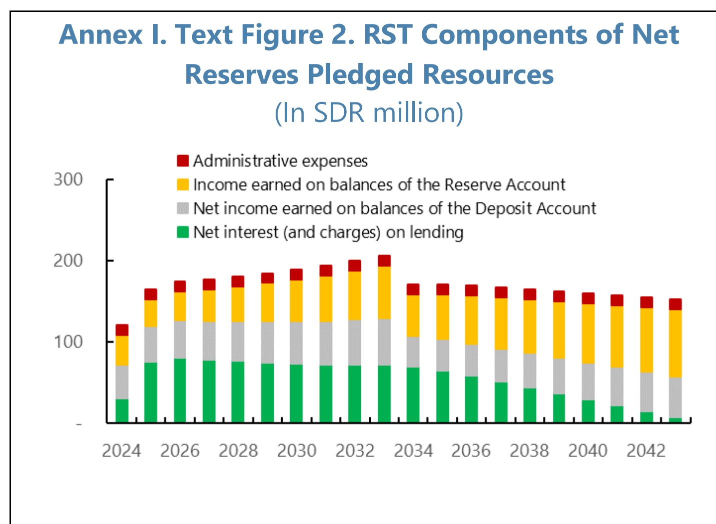
[12] The introduction of the interest rate cap for Group A countries is financed through cross-subsidization of interest rates between borrowers, reducing net interest income – a key source of RST reserve build-up.

[13] The same assumption on the long-run SDRi of 3 percent was also made for the 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts.

reserves, together with a modestly higher liquidity buffer, which lowers credit relative to initial reserve and deposit contributions (Annex I, Text Figures 1 and 2).[14] This level of reserve coverage comfortably exceeds the 10 percent benchmark set at the time of RST establishment.



Annex I. Text Figure 1. RST Reserves Accumulation: Pledged Resources
(In SDR million)



Annex I. Text Figure 2. RST Components of Net Reserves Pledged Resources
(In SDR million)

18. Reserve coverage also remains adequate under several risk scenarios. Those scenarios, also presented in Annex I, Table 5, are columns: (2) representing higher long-run SDRi of 5 percent, instead of 3 percent; (3) lower investment margin of 25 basis points, instead of 45 basis points; and (4) higher share of Group A loans of 45 percent during 2024-25 instead of an average of about 31 percent. The higher SDRi scenario (2) benefits reserve coverage by raising long-term average RA investment returns (assumed in line with investment strategy as SDRi plus the investment margin) even if there are weaker returns initially and lower lending income from Group A. Scenario (3) and (4) assume lower investment income and lending income respectively, but the effect on reserve coverage is modest. Even with the combination of a lower investment margin and a higher share of Group A lending in column (5), minimum reserve coverage is still projected at 10 percent in the RSF repayment period, i.e., higher than the minimum threshold established in the 2022 RST paper.

19. Given the above assessment that reserves are adequate under the baseline and adverse scenarios, staff deems the interest rate cap for Group A countries to remain appropriate. The analysis indicates that under all risk scenarios, net reserves as a share of credit outstanding stay at or above the 10 percent floor deemed appropriate in the 2022 RST paper. Periodic or ad hoc RST reviews will continue to provide an opportunity to monitor reserve adequacy in light of SDRi and other developments, and corrective measures can be adopted if needed to ensure the continued adequacy of reserves in the face of potential risks materializing.

[14] The liquidity buffer must be 20 percent of total loan resources or the largest LA contribution if this exceeds it. Under the current assumption of usable loan resources being capped at SDR 16.7 billion, the liquidity buffer amounts to about 23 percent.

Annex I. Table 5. RST: Projected Balances and Reserve Coverage under Revised Scenarios and Updated Parameters[1]

(In SDR million, unless otherwise noted)

	April 2022 Board Paper Baseline[2]	(1) Pledged resources	(2) Pledged resources higher SDRi	(3) Pledged resources lower return	(4) Pledged resources higher group A	(5) Scenario 1 stressed (combined 3 and 4)[3]
Resource Mobilization and Demand						
Total resources	33,207	31,888	31,888	31,888	31,888	31,888
Loan resources, including encashment buffer	27,219	21,561	21,561	21,561	21,561	21,561
Initial cash capital contribution to Reserves Account	544	913	913	913	913	913
Upfront investment to Deposit Account	5,444	9,414	9,414	9,414	9,414	9,414
Commitments to borrowing countries[4]	21,951	16,661	16,661	16,661	16,661	16,661
of which group A	5,598	4,534	4,534	4,534	5,735	5,735
of which group B	4,320	4,669	4,669	4,669	4,737	4,737
of which group C	12,033	7,458	7,458	7,458	6,190	6,190
Peak credit outstanding	21,951	16,661	16,661	16,661	16,661	16,661
Peak annual debt service to lenders	2,689	2,076	2,349	2,076	2,076	2,076
Cumulative net lending income before repayment period	-	707	254	707	530	530
Cumulative net investment income before repayment period	-	840	964	618	820	599
Reserves						
Reserve Account balance at start of repayment period[5]	1,843	1,498	1,166	1,467	1,295	1,266
Deposit Account balance at start of repayment period[6]	5,754	4,815	4,851	4,593	4,815	4,593
Minimum total reserves in repayment period[7]	7,597	6,460	6,099	6,186	6,230	5,958
Minimum net reserves in repayment period[8]	2,154	2,148	1,787	1,874	1,918	1,646
Minimum reserve coverage ratios (in percent)[9]						
Total reserves to credit outstanding	**35**	**40**	**37**	**38**	**38**	**37**
Net reserves to credit outstanding	**10**	**13**	**11**	**11**	**12**	**10**
Total reserves to debt service	**302**	**318**	**263**	**304**	**306**	**292**
Net reserves to debt service	**100**	**110**	**79**	**96**	**98**	**84**
Assumptions						
Steady state SDRi rate[10]	**3.00%**	**3.00%**	**5.00%**			
Return on investments above SDRi[11]	**0.45%**	**0.45%**		**0.25%**		**0.25%**
Share of Group A in total commitments (average)	**26%**	**31%**			**45%**	**45%**
Margins over SDRi paid by borrowers[4]						
Group A	**0.55%**	**0.55%**	2.25% cap on group A interest from May 2023			
Group B	**0.75%**	**0.75%**				
Group C	**0.95%**	**0.95%**				
Administrative costs (in SDR million)[12]	**25.0**	**12.0**				

[1] RST loans are assumed to be disbursed in two annual tranches, and each loan has a 20-year maturity and 10-year grace period. Terminal balances are calculated as the residual financial assets 25 years after inception of the Trust. Lenders are remunerated at SDRi rate which is expected to normalize at 3% in medium to long term (or 5% under stress scenario). Additional fundraising, if any assumes the same maturity dates for contributor's loans and deposits.

[2] See *Proposal to Establish a Resilience and Sustainably Trust* , SM/22/63, March 21, 2022.

[3] Stress scenario assumes total demand corresponding to pledged loan resources with 45% share of group A in 2024-25 commitments and return on investments at

[4] Group A includes PRGT-eligible countries that are not presumed blenders, group B includes presumed blenders and small states with GNI per capita below 10 times IDA threshold, and group C includes all other eligible members that are not included in groups A or B. Group A borrowers pay SDRi rate plus a margin of 55pb up to a cap of 2.25%, group B borrowers pay SDRi plus 75bp and 25bp service charge on drawings, and group C borrowers pay SDRi rate plus 95bp and 50bp service charge on

[5] Reflecting initial cash capital and cumulative net income on lending and investment returns, net of administrative costs. Return assumed at 45bp above SDRi.

[6] Reflecting principal of initial deposits, cumulative excess investment earnings above SDRi. Return assumed at 45bp above SDRi under the baseline.

[7] Reserve Account and Deposit Account balance, starting from 2034.

[8] Reserve Account and cumulative net income earned on Deposit Account balance, starting from 2034.

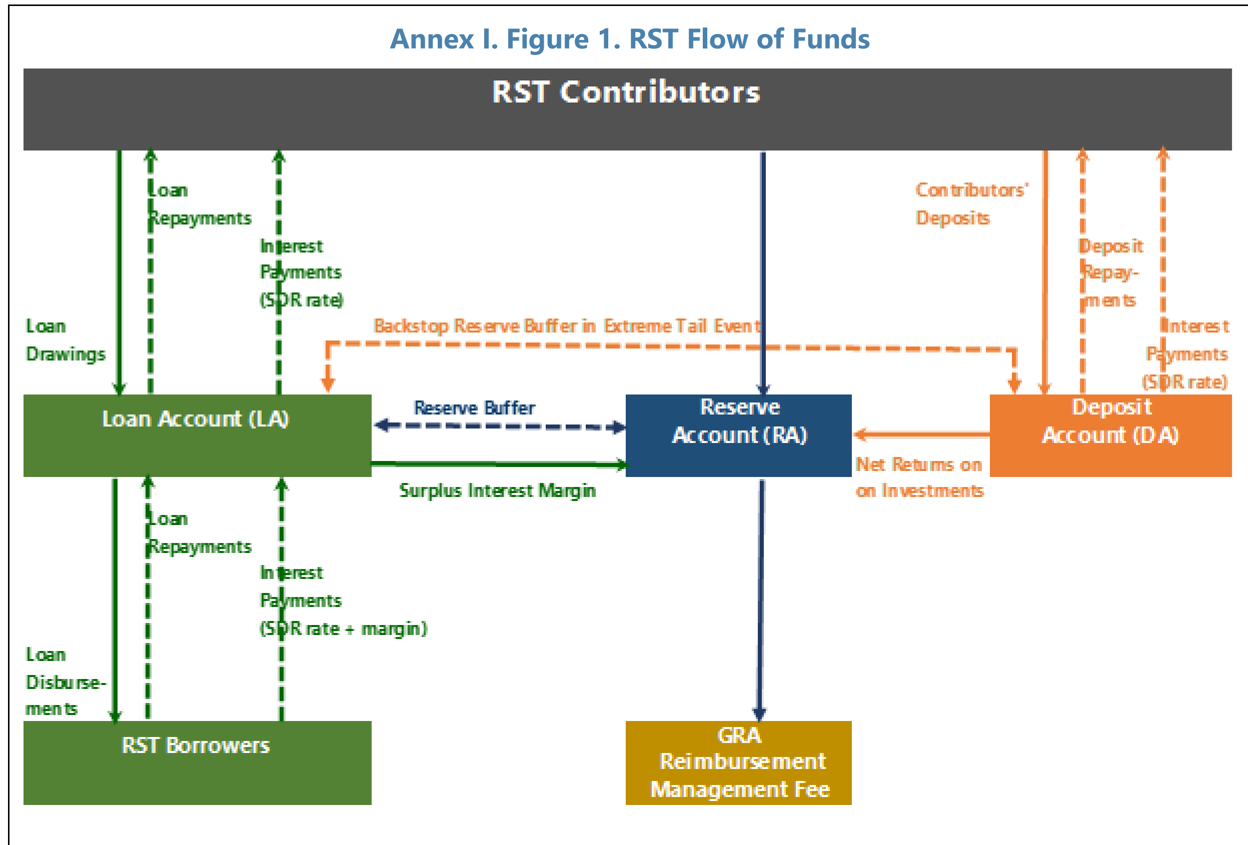
[9] Starting from year 2034.

[10] SDRi rate assumed to stabilize at 3% in 2031, GAS projections for 2024-26.

[11] Return target of investment strategy for the SDFI approved in April 2022 with adjustment for liquidity buffer.

[12] To be charged annually starting from 2024 and based on FY2024 estimated trust management fee and operational costs incurred to operate the RST.

Annex I. Figure 1. RST Flow of Funds



Annex I. Table 6. RST: Borrowing Agreements

(In SDR million; as of March 15, 2024)

Member/Contributor	Effective Date of Agreement	Expiration Date for Drawings	Currency of Drawings	Encashment Regime[1]	Amount Agreed	Amount Drawn	Amount Available	Amount Outstanding
Australia								
Government of Australia	12-Oct-2022	30-Nov-2030	SDR	YES	760.0	14.2	745.8	14.2
Belgium								
National bank of Belgium[2]	06-Dec-2023	30-Nov-2030	SDR	YES	547.9	45.2	502.7	45.2
Canada								
Government of Canada	12-Oct-2022	30-Nov-2030	SDR	YES	1,137.4	37.0	1,100.4	37.0
China								
People's Bank of China[3]	12-Oct-2022	30-Nov-2030	SDR	YES	4,900.0	-	4,900.0	-
France								
Banque de France	02-Jan-2023	30-Nov-2030	SDR	YES	2,500.0	560.9	1,939.2	560.9
Italy								
Banca d'Italia	15-Sep-2023	30-Nov-2030	SDR	YES	1,575.0	31.0	1,544.0	31.0
Japan								
Government of Japan[4]	12-Oct-2022	30-Nov-2030	SDR	YES	4,090.0	191.5	3,898.6	191.5
Korea								
Government of Korea	08-Dec-2022	30-Nov-2030	SDR	YES	737.6	48.5	689.1	48.5
Lithuania								
Bank of Lithuania	20-Jan-2023	30-Nov-2030	SDR	YES	69.4	-	69.4	-
Luxembourg								
Banque Centrale du Luxembourg	23-Aug-2023	30-Nov-2030	SDR	YES	207.5	-	207.5	-
Malta								
Central Bank of Malta	06-Dec-2023	30-Nov-2030	SDR	YES	20.4	-	20.4	-
The Netherlands								
De Nederlandsche Bank	09-Feb-2023	30-Nov-2030	SDR	YES	1,000.0	73.9	926.1	73.9
Oman								
Central Bank of Oman	20-Apr-2023	30-Nov-2030	SDR	YES	31.6	3.1	28.5	3.1
Qatar								
Ministry of Finance	30-Oct-2023	30-Nov-2030	SDR	YES	41.0	-	41.0	-
Spain								
Bank of Spain	12-Oct-2022	30-Nov-2030	SDR	YES	1,161.6	42.5	1,119.1	42.5
United Kingdom								
Government of the United Kingdom	19-May-2023	30-Nov-2030	SDR	YES	2,049.0	166.7	1,882.3	166.7

[1] The right to encash applies to loan and deposit resources. For the LA, to fund a request for encashment of an outstanding loan, the Trustee will call on resources committed by other contributors to the RST's Loan Account. Drawings under an encashing lender's agreement will resume as soon as the balance of payments and reserve position of the member have improved, as evidenced by the inclusion of the encashing member's currency in the Fund's Financial Transactions Plan (staff would consult with the lender in advance to ensure operational readiness).

[2] Belgium provided its RST contribution in two equal tranches (SDR amount equivalent to EUR 335 million each), with the original commitment under the borrowing agreement that became effective on December 6, 2023 and the additional commitment became effective on February 29, 2024.

[3] On November 7, 2022, China waived its encashment right under paragraph 6 of the borrowing agreement to early repayment of any outstanding claims on the RST's Loan Account until the total amount of committed RST loan resources reaches SDR 11.8 billion. The temporary waiver by China lapsed on February 28, 2023, when this condition was met.

[4] Borrowing agreement with the Government of Japan for about SDR 654 million became effective on October 12, 2022. The agreement was amended and restated effective March 15, 2023 for additional loan contribution of about SDR 3,436 million for a total amount of SDR 4,900 million.

Annex I. Table 7. RST Reserve Account Agreements
(In SDR million; as of March 15, 2024)

Member/Contributor	Effective Date of Agreement	Date Contribution Received	Contribution Amount	Contribution Currency[1]
Australia				
Government of Australia	11-Oct-2022	28-Oct-2022	15.20	SDR or other
Belgium				
Ministry of Finance[2]	25-Oct-2023	22-Nov-2023	10.96	EUR
Canada				
Government of Canada	27-Sep-2022	13-Oct-2022	22.75	SDR or other
China				
People's Bank of China	27-Sep-2022	02-Nov-2022	100.00	SDR or other
France				
Government of France	02-Jan-2023	01-Feb-2023	50.00	SDR or other
Germany				
Government of Germany	12-Oct-2022	20-Jan-2023	481.81	EUR
Italy				
Ministry of the Economy and Finance	28-Jul-2023	15-Sep-2023	31.50	EUR
Japan				
Government of Japan[2]	06-Oct-2022	13-Oct-2022	81.80	SDR or other
Korea				
Government of Korea	08-Dec-2022	15-Mar-2023	14.80	SDR
Lithuania				
Government of Lithuania	14-Dec-2022	22-Dec-2022	1.39	EUR
Luxembourg				
Government of Luxembourg	28-Jul-2023	23-Aug-2023	4.20	EUR
Malta				
Ministry of Finance and Employment	11-Jun-2023	06-Dec-2023	0.41	EUR
The Netherlands				
Government of the Netherlands	14-Dec-2022	21-Dec-2022	20.00	SDR or other
Oman				
Central Bank of Oman	20-Apr-2023	02-May-2023	0.63	SDR
Qatar				
Ministry of Finance	11-Oct-2023	30-Oct-2023	0.82	SDR
Spain				
Ministry for the Economy and Digitalization	08-Sep-2022	13-Oct-2022	23.23	EUR
United Kingdom				
Government of the United Kingdom	19-May-2023	19-May-2023	41.00	GBP

[1] SDR or freely usable currency in which the contribution is to be disbursed as laid out in the agreement. All contributions and transactions are denominated in SDR.

[2] Contributions received in two tranches: For Japan, the first tranche received on October 13, 2022 and the second tranche on March 22, 2023; For Belgium, the first tranche received on November 22, 2023, the second tranche on February 22, 2024.

Annex I. Table 8. RST Deposit Agreements

(In SDR million; as of March 15, 2024)

Member/Contributor	Effective Date of Agreement	Date Contribution Received	Maturity Date	Encashment Regime[1]	Contribution Amount	Contribution Currency[2]
Australia						
Government of Australia	11-Oct-2022	28-Oct-2022	30-Nov-2050	Yes	152.00	SDR or other
Belgium						
National bank of Belgium[3]	06-Dec-2023	06-Dec-2023	30-Nov-2050	Yes	109.59	SDR
Canada						
Government of Canada	27-Sep-2022	28-Oct-2022	30-Nov-2050	Yes	227.48	SDR or other
China						
People's Bank of China	27-Sep-2022	02-Nov-2022	30-Nov-2050	Yes	1,000.00	SDR or other
Estonia						
Bank of Estonia	21-Mar-2023	30-Mar-2023	31-Mar-2033	Yes	25.00	SDR
France						
Banque de France	02-Jan-2023	15-Feb-2023	30-Nov-2050	Yes	500.00	SDR
Germany						
Government of Germany	12-Oct-2022	20-Jan-2023	20-Jan-2033	Yes	4,577.19	EUR
Italy						
Banca d'Italia	15-Sep-2023	15-Sep-2023	30-Nov-2050	Yes	315.00	SDR
Japan						
Government of Japan[3]	06-Oct-2022	13-Oct-2022	30-Nov-2050	Yes	818.00	SDR or other
Korea						
Government of Korea	08-Dec-2022	15-Mar-2023	30-Nov-2050	Yes	147.60	SDR
Lithuania						
Bank of Lithuania	13-Oct-2022	01-Feb-2023	30-Nov-2050	Yes	13.88	SDR
Luxembourg						
Banque Centrale du Luxembourg	28-Jul-2023	23-Aug-2023	30-Nov-2050	Yes	41.50	SDR
Malta						
Central Bank of Malta	11-Jun-2023	06-Dec-2023	30-Nov-2050	Yes	4.08	SDR
The Netherlands						
De Nederlandsche Bank	09-Feb-2023	28-Feb-2023	30-Nov-2050	Yes	200.00	SDR or other
Oman						
Central Bank of Oman	20-Apr-2023	02-May-2023	30-Nov-2050	Yes	6.33	SDR
Qatar						
Ministry of Finance	11-Oct-2023	30-Oct-2023	30-Nov-2050	Yes	8.20	SDR
Spain						
Bank of Spain	08-Sep-2022	19-Oct-2022	30-Nov-2050	Yes	232.32	SDR
Switzerland						
Swiss National Bank	13-Feb-2024	22-Feb-2024	22-Feb-2034	Yes	500.00	EUR
United Kingdom						
Government of the United Kingdom	19-May-2023	24-Apr-2023	30-Nov-2050	Yes	410.00	SDR

[1] The right to encash applies to loan and deposit resources. The encashment of DA claims would be funded from liquidation proceeds from the contributor's relative share in the market value of the pooled invested DA assets. The encashing contributor commits to reconstitute its DA deposit as soon as it no longer has a BoP or reserve need, as evidenced by the inclusion of the encashing member's currency in the Fund's Financial Transactions Plan.

[2] SDR or freely usable currency in which the contribution is to be disbursed as laid out in the agreement. All contributions and transactions are denominated in SDR.

[3] Contributions received in two tranches: For Japan, the first tranche received on October 13, 2022 and the second tranche on March 22, 2023; For Belgium, the first tranche received on November 22, 2023, and the second tranche on February 29, 2024.

Annex I. Table 9. RST: Potential Contributors[1]

(In SDR million)

No	Country	New SDR allocation in 2021	No	Country	New SDR allocation in 2021
1	Algeria	1,878	20	Luxembourg	1,267
2	Australia	6,299	21	Malta	161
3	Austria	3,768	22	Mexico	8,542
4	Belgium	6,144	23	Netherlands	8,373
5	Brazil	10,582	24	New Zealand	1,200
6	Canada	10,565	25	Norway	3,598
7	Chile	1,672	26	Oman	522
8	China	29,214	27	Qatar	50
9	Denmark	3,296	28	Saudi Arabia	9,577
10	Estonia	233	29	Singapore	3,730
11	Finland	2,310	30	Slovak Republic	959
12	France	19,316	31	Slovenia	562
13	Germany	25,525	32	Spain	9,138
14	Ireland	3,306	33	Sweden	4,246
15	Israel	1,841	34	Switzerland	5,531
16	Italy	14,443	35	United Arab Emirates	200
17	Japan	29,537	36	United Kingdom	19,316
18	Korea	8,225	37	United States	79,539
19	Lithuania	423			

Source: Finance Department.

[1] On April 25, 2022, the Managing Director sent fundraising letters to the 35 potential contributors with strong external positions that participated both in the Financial Transactions Plan (FTP) and the Voluntary Trading Arrangement (VTA), requesting "at least 15–20 percent of their 2021 SDR allocation". Qatar and United Arab Emirates, which participated in the FTP and not in the VTA at that time, were not formally approached for a contribution to the RST. Qatar's RST agreement and VTA were signed in October 2023. In December 2023, the United Arab Emirates announced its pledge to contribute to the RST.

Annex II. Approved RSF Arrangements[1]

#	Country Name	Approved access (SDR million)	Approved access (% of quota)	Duration (mo)	UCT Quality Facility	Approval Date
1	Costa Rica	554	150	18	EFF	11/14/2022
2	Barbados	142	150	36	EFF	12/7/2022
3	Rwanda	240	150	36	PCI	12/12/2022
4	Bangladesh	1000	94	42	ECF-EFF	1/30/2023
5	Jamaica	574	150	24	PLL	3/1/2023
6	Kosovo	62	75	24	SBA	5/25/2023
7	Seychelles	34	150	36	EFF	5/31/2023
8	Senegal	243	75	36	ECF-EFF	6/26/2023
9	Niger	99	75	23	ECF	7/5/2023
10	Kenya	407	75	20	ECF-EFF	7/17/2023
11	Morocco	1000	112	18	FCL	9/28/2023
12	Moldova	129	75	22	ECF-EFF	12/6/2023
13	Cabo Verde	24	100	18	ECF	12/11/2023
14	Benin	149	120	24	ECF-EFF	12/14/2023
15	Paraguay	302	150	18	PCI	12/19/2023
16	Mauritania	193	150	31	ECF-EFF	12/19/2023
17	Cameroon	138	50	18	ECF-EFF	1/29/2024
18	Côte d'Ivoire	976	150	30	ECF-EFF	3/15/2024
	Total Approved (SDR million)	**6,266**				
	Total Approved (USD million)	**8,344**				

[1] As of March 15, 2024.

Annex III. RSF Facility Survey Results

This interim review was informed by consultations with key stakeholders closely involved with the early rollout of the instrument. Since the interim review is focused on the implementation experience so far, targeted surveys were shared with the authorities of countries with RSF arrangements and the IMF mission chiefs for those countries. The sample size is small, but the response rate is high and feedback is informed by direct experience.[1] Surveys focused on which aspects of the RSF were attractive, which were less so, challenges in identifying reform measures, and potential improvements to the instrument. This annex summarizes the main findings.

A. Factors Making the RSF Attractive

1. Some of the main perceived benefits of the instrument include the types of reforms being undertaken and the comprehensiveness of the consultation process, including with domestic and external stakeholders. All surveyed authorities agreed that reform measures were well-targeted and expected to have a significant positive impact on longer-term structural challenges. IMF capacity development and diagnostic tools were also valued. All country authorities and the majority of mission chiefs agreed that the RSF facilitates domestic consensus-building and provides a framework to strengthen collaboration with international partners on reforms that aim to address structural challenges.

2. Survey respondents also saw potential benefits from the RSF in terms of catalyzing additional financing. Most authorities and mission chiefs agreed that the RSF should help attract both additional official sector and private sector financing to address longer-term challenges.

B. Factors Taking Away from the RSF's Attractiveness or Challenging Implementation

3. Respondents identified some challenges on the both the design and operationalization of the RSF. In terms of design, most authorities and mission chiefs agreed potential challenges could include delays in RSF financing from delayed UCT program reviews, delays due to new UCT program negotiations, and the requirement to apply for a new RSF if the parallel Fund program is cancelled. A minority of authorities saw access limits as a factor that makes the instrument less attractive. By contrast, most mission chiefs agreed this was an issue. Further, about half of authorities agreed that perceptions of a lack of evenhandedness around access levels and in assessing reform quality made the RSF less attractive or more challenging to implement. A large majority of mission chiefs agreed.

[1] At the time the survey was prepared, this included: Barbados, Bangladesh, Costa Rica, Jamaica, Kenya, Kosovo, Morocco, Niger, Rwanda, Senegal, and Seychelles. Staff received responses from 9 of 11 country authorities and all Fund mission chiefs.

C. Identifying Reform Measures

4. The survey provides some insight into the challenges around identifying RSF reform measures. Most mission chiefs and authorities agreed that RMs were ambitious relative to their country's implementation capacity and developmental needs. Most mission chiefs also agreed that a lack of sufficient expertise was a challenge in identifying reforms. A significant minority of country authorities shared this view. By contrast, only about a third of both groups agreed that a lack of sufficient time was an issue when identifying reform measures. In terms of coordination, Fund mission chiefs were more likely to agree that coordinating RM identification with external developing partners was a challenge and were evenly split on whether coordination within countries was also difficult. Authorities mostly disagreed on these points. Finally, a significant minority of RSF country authorities and mission chiefs also agreed that there was difficulty in synchronizing RSF reform measures with those of the concurrent UCT program.

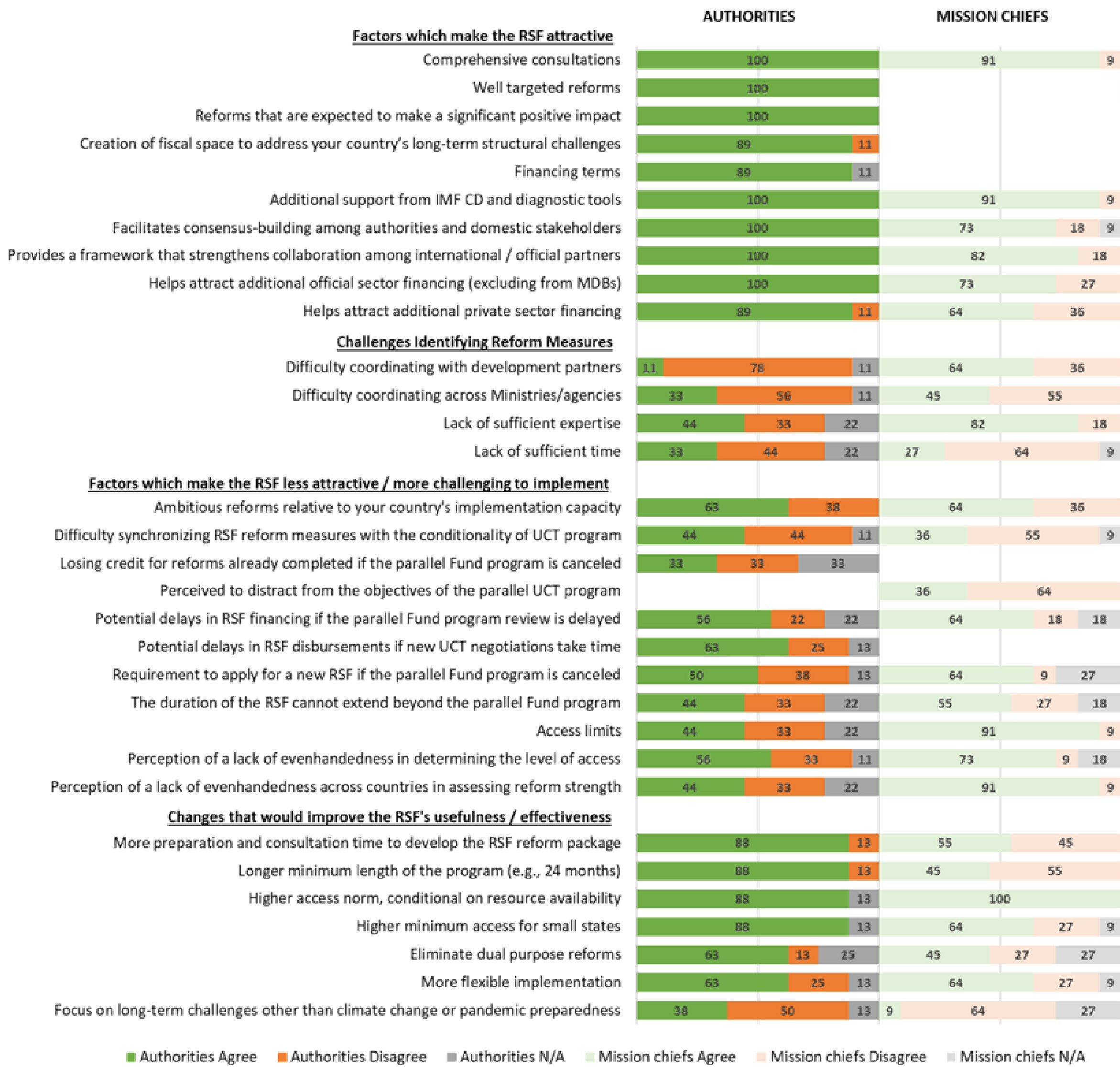
D. Changes that Would Improve RSF Usefulness and Effectiveness

5. The survey also sought stakeholders' views on potential areas where improvements could be made to the facility or its implementation. Suggestions which the majority of survey respondents agreed would be useful included:

- More preparation and consultation time (*both authorities and mission chiefs*)
- Longer minimum length of RSF arrangements (*authorities*)
- Eliminating dual-purpose reforms (*authorities*)
- A higher access norm, conditional on scaled up RST resources (*both*)
- Higher minimum access for small developing states (*both*)
- More flexible implementation (*both*)

6. Written feedback on the surveys provided some additional insights. In terms of additional flexibility in implementation, suggestions included more flexibility in the phasing of disbursements, including for early reform completion; more flexibility to adjust the content of reform measures without affecting the schedule of disbursements; and more flexibility in assessing whether a reform measure has been completed (e.g., function over form). Resource issues were also highlighted, with some authorities pointing to the need to augment access limits, supported by capacity development and greater knowledge-sharing. For their part, Fund mission chiefs stressed the heavy resource load on country teams that comes with RSF arrangements, along with calls for more guidance in specific areas.

Annex III. Box 1. RSF Facility Survey Results
(percent of responses)



Note: The composition of the two surveys varied slightly by type of respondent.

Annex IV. Ex-Post Assessment of Reforms: Possible Approaches

This annex outlines preliminary views on approaches that can be used to evaluate the effectiveness of RSF reform measures (RMs), both at the overall and the country level.

A. Overall Approach

1. The diversity in the types of risks facing member countries, and different starting points for the reform effort, make it challenging to establish a single methodology for ex-post assessments and monitoring. For example, sectoral-based adaptation reform measures (e.g., in the power, water, land use sectors) are not readily comparable across countries. Moreover, RSFs are supported by i) a concurrent UCT-quality program, which focuses on broader macroeconomic outcomes, and ii) demonstrated ownership over addressing specific longer-term structural challenges. Nevertheless, with these caveats in mind, there are a few approaches that could be considered for cross-country assessments:

- ***Insights from the Review of Conditionality (RoC) Framework.*** Consistent with the RoC's approach to assessing structural reforms—the closest analog to RMs in UCT-quality programs—an assessment could focus on analyzing the type, number, depth, and implementation rate of RMs over time with the aim of drawing lessons going forward (Main text ¶11-14).

- ***Catalytic Role.*** Evaluate how effectively the RSF arrangements catalyzed additional financing from other sources, such as the private sector or other development partners during and after RSF implementation. This can be measured by tracking the amount of co-financing mobilized alongside RSF resources (Main text ¶20-22). Combining this with stakeholder and development partner surveys, investors' views, and institutional capacity analysis could result in a more comprehensive picture.

- ***Macroeconomic Performance.*** Assessing the differential macroeconomic and environmental outcomes of RSF arrangements in building buffers, in reducing sovereign spreads, and in emissions-to-GDP loss reductions when data becomes available.

B. Country-Level Approach

2. At the country level, a comprehensive ex-post assessment of the effectiveness of RSF-supported reform measures should examine RMs as a package given complementarities (and prerequisites) across reforms. Such an assessment should also account for the outcomes of all RMs, many of which are expected to take time to materialize (e.g., institutional reforms). Nevertheless, a partial ex-post assessment could potentially be performed, beginning 12-18 months after the completion of an RSF arrangement, by relying on:

- ***Framework-based Approaches.*** Assessing the impact of institutional reforms is complex due to the long-term nature of their effects and the often-intertwined factors influencing outcomes.

Leveraging international frameworks like the PEFA (Public Expenditure and Financial Accountability) or follow-ups to Climate-PIMAs to assess climate aspects of PFM performance and comparing progress across countries is a valuable approach. The Integrated Climate Result Framework of the World Bank could also be applied to a set of metrics that could be tracked at the sectoral level to assess the outcomes of RSF arrangements in a comparable fashion to that for other policy lending from MDBs. As discussed in Box 1, most countries are at an early stage of green PFM implementation. A gauge of progress is therefore a well-sequenced and gradual rollout of green PFM from the upstream part of the budget cycle to the downstream stages. Another example is an analysis of physical risks (e.g., extreme weather events) and transition risks (e.g., policy changes, technological advancements) in the financial sector beyond top-down stress tests. This requires consistent data collection, standardized definitions, and adequate disclosures by financial institutions, and robust supervisory frameworks (including tools and approaches, guidelines for financial institutions on governance, management, disclosure of climate risks, and data collection from financial institutions for climate risk monitoring) which are the focus of current RSF arrangements. Next steps would be granular balance-sheet stress testing and transition planning by financial institutions. Most green fiscal policy RMs are directed towards removing fossil fuel subsidies and the preparatory steps towards explicit carbon pricing (e.g., studies and legal framework). However, the ultimate objective is to progress towards more advanced stages of implementation.

- ***RMs with measurable interim results.*** While many RSF-supported reform measures have long-term benefits (e.g., institutional reforms), about a quarter of RMs in the approved 18 RSF arrangements have measurable results that can even be monitored in the short-term. Examples include publishing top-down stress testing of the financial system for climate risks (Costa Rica and Bangladesh); climate budget tagging of development expenditures (Rwanda); climate tagging of budgetary expenditure requests in certain pilot ministries (Niger); application of climate-resilient investment appraisals to select major infrastructure projects (Seychelles and Niger); publishing a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process (Cabo Verde); disclosing climate-related risks of select commercial banks (Seychelles); publishing electricity tariff trajectories (Seychelles) and adjusting electricity and water tariffs periodically (Cabo Verde); timebound phasing out of subsidies (Senegal); increasing the tax rate on polluting fossil fuel products by a certain date and expanding cash transfers (Morocco); establishing an agricultural insurance mechanism (Benin); implementing carbon pricing in 2025 with US$5 per ton of CO2 (Mauritania); and banning routine gas flaring in oil and gas fields through legislation (Mauritania).

- ***Longer-term progress indicators*** *(typically only feasible at least 24 months after completion of an RSF arrangement).* Many other RMs can be effectively evaluated once they are fully operational based on their ex-ante objectives (e.g., incorporating NDCs fully into policy frameworks, managing climate risks, reducing greenhouse gas emissions, improving the climate resilience of infrastructure and efficiency in buildings, and mobilizing private investment for green projects); and progress indicators (e.g., changes in emissions levels, climate-infrastructure

investment figures and efficiency metrics, amount of green finance mobilized). Annex IV, Table 1 reports a few examples of such assessment metrics.

Annex IV. Table 1. Measuring RM Effectiveness: Illustrative List of Progress Indicators

Reform Category	Objectives	Progress Indicator
Green PFM	Effective and transparent use of climate-related public resources	Share of pro-climate, neutral, and carbon-intensive expenditures in total Level of green public investment and its share in total capital expenditure Coverage of climate-tagged budget expenditures and their impact Publicly available information on climate spending and outcomes Integration of climate considerations into budget documents and reporting Social vulnerability (ND Gain Social Indicator)
Financial Sector Policies	Enhance financial system resilience to climate risks Mobilize private climate finance Conduct transition planning	Extent of climate stress testing conducted by financial institutions Amount of private finance mobilized for green projects and the size of green bonds issuance Number of plans developed for progressive decarbonization

Annex IV. Table 1. Measuring RM Effectiveness: Illustrative List of Progress Indicators (concluded)

Other fiscal policies (carbon pricing-related)	Adoption and effectiveness of carbon pricing mechanisms Reforming fossil fuel subsidies	Carbon price level, trajectory and coverage, and the size of emissions reductions Extent of explicit fuel subsidy removal (gap of retail price to supply cost) Additional revenues generated and impact on consumption Coverage, targeting, and adequacy of climate-related social safety nets
Sectoral: Power	Market-determined tariffs Promote clean energy generation and increase the resilience of the power grid to climate risks Enhance competition	Gap to cost recovery for electricity tariffs Share of renewable energy (RE) generation
Sectoral: Agriculture and land use (incl. forestry)	Resilience of the agricultural grid to physical climate risks Protect forests	Share of insured/ protected farmers Allocation of green fiscal incentives and their impact on targeted sectors
Sectoral: Water	Market-determined tariffs Resilience to floods and other climate change-related physical risks	Gap to cost recovery for water tariffs

- ***Case-by-case post-financing assessments and ongoing monitoring.*** Following the end of an RSF arrangement, monitoring could take place under the current Post-Financing Assessment policy. The April 2022 RST Board paper (¶67 and ¶68) specifies the triggers and modalities of such an assessment. Article IV consultations will also be a key vehicle to cover issues related to longer-term structural challenges addressed by the RST and follow up on the implementation of past IMF policy advice as long as they remain macro-critical.

Annex V. Areas of RSF-Related Technical Support from Development Partners, Complementing Fund and World Bank Support

Country	Areas of Technical Support
Bangladesh	ADB: financial and technical support to establish a project preparation facility for enhancing the bankability of priority climate projects. AFD and EIB: climate policy-based lending support. GCF: support to facilitate private sector financing. EU and JICA: capacity building to facilitate green energy transition and to enhance climate project pipelines. UNDP and UNDRR: support to implement a climate fiscal framework and contribution to disaster risk financing agenda.
Barbados	IADB: adaptation; enhancement of infrastructure through public-private partnership; debt swap initiatives; blue bond issuance; green/climate budget tagging and sustainable/green procurement. CAF, EIB, GCF, IADB, and others: support toward package of initiatives to further authorities' climate agenda—presented at June 2023 Summit for a New Global Financing Pact.
Costa Rica	IADB: integration of climate change risk to fiscal planning—tracking climate change-related spending in budget and financial reporting; public investment and infrastructure resilience; decarbonization. AFD and GIZ: methodology to assess tax expenditures through a climate lens.
Kenya	EIB: assisting diagnostic review of existing green finance frameworks; private sector consultations on new guidelines to tackle barriers impeding commercial banks
Jamaica	AFD: greening of the financial system. IADB: reforms to the PPPs policy framework; methodology to conduct investment projects' climate risk assessments; methodology to define project selection criteria; electric vehicle policy; guidelines for energy efficiency; and institutional framework for green bond issuance. WB: adoption of a National Natural Disaster Risk Financing Policy (DRF).
Mauritania	AFD: enhance knowledge of groundwater resources; strength institutional framework for water management.
Moldova	UNDP: review of electricity tariff differentiation options. IFC: development and implementation of sustainable finance strategy and action plan.
Niger	GIZ: incorporation of climate change into public investment management. AFD, AfDB, EU, FCDO: institutional capacity to facilitate access to climate change funds; strengthening small farmers' resilience; groundwater management; renewable energy; land restoration.
Paraguay	EU: integration of climate change risk to fiscal planning and public investment; electricity sector; forest preservation. IADB, CAF: integration of climate change risk to fiscal planning and public investment; electricity sector; electromobility; forest preservation; water and wastewater management. UNEP; GCF; WWF: forest preservation; waste management.

Country	Areas of Technical Support
Rwanda	GIZ: green taxonomy. AFD: gap analysis of banks' climate risk management frameworks. KfW: climate finance strategy. UNDP: green budget tagging. IFC: preparation of climate project pipeline. WFP: reform of the disaster risk reduction and management framework.
Senegal	GCA: support in the definition of RMs and assessment of legislation related to the urban and construction codes (e.g., to build resilience to rising sea level in coastal areas and enhance the construction standards to reflect climate change in the new baseline).

Sources: IMF Country Reports
Notes: ADB = Asian Development Bank; AFD = French Development Agency; AfDB = African Development Bank; CAF = Development Bank of Latin America and the Caribbean; EIB = European Investment Bank; EU = European Union; FCDO = UK Foreign Commonwealth Development Office; GCA = Global Center for Adaptation; GCF = Green Climate Fund; GIZ = German Development Agency; IADB = Inter-American Development Bank; IFC = International Finance Corporation; JICA = Japan International Cooperation Agency; UNDP = United Nations Development Programme; UNDRR = United Nations Office for Disaster Risk Reduction; UNEP = United Nations Environment Programme; WB= World Bank; WFP = World Food Program; WWF = World Wildlife Foundation.