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The IMF, Africa, and Climate Change—Making Sense of an Implausible Trilogy

DANIEL CITRIN · DAOUDA SEMBENE

Abstract

Evidence suggests that Africa is the most vulnerable continent to climate change. While African countries contribute relatively little to global emissions, they remain significantly vulnerable to the devastating economic effects of this phenomenon. This paper reviews IMF activities and explores how best the IMF could support efforts by African countries to cope with macroeconomic policy and structural challenges associated with climate change. To this end, while recognizing the relative significance of the overall IMF contribution to addressing this global challenge, we make several recommendations about potential ways to strengthen the role of IMF surveillance, capacity development and financing. First, IMF staff should ensure that policy advice in the context of global, regional and country surveillance fit specific circumstances and institutional capacity of African countries as well as their economic vulnerabilities to climate change. To enable timely response to climate-related crises, staff teams should also be prepared to provide advice on a flexible basis, without being tied to formal periodic work schedules. Additionally, the IMF could facilitate adaptation and mitigation by engaging in intensive outreach activities about the economic impact of climate change. Second, there is merit in developing comprehensive IMF capacity development strategies in close collaboration with the authorities in climate-vulnerable countries. For effective implementation, the IMF will need to identify and actively seek adequate financing for capacity development activities on climate issues. Finally, while the Resilience and Sustainability Trust (RST) is a welcome addition to the IMF toolkit and represents a potentially significant source of financing for some sub-Saharan African countries, specific amendments could be considered notably with a view to limiting the potential cost for low-income borrowers to access its resources. Moreover, successful operationalization of the RST hinges on careful and flexible design of conditionality and how programs under the new facility will be linked to concurrent upper-credit tranche programs.

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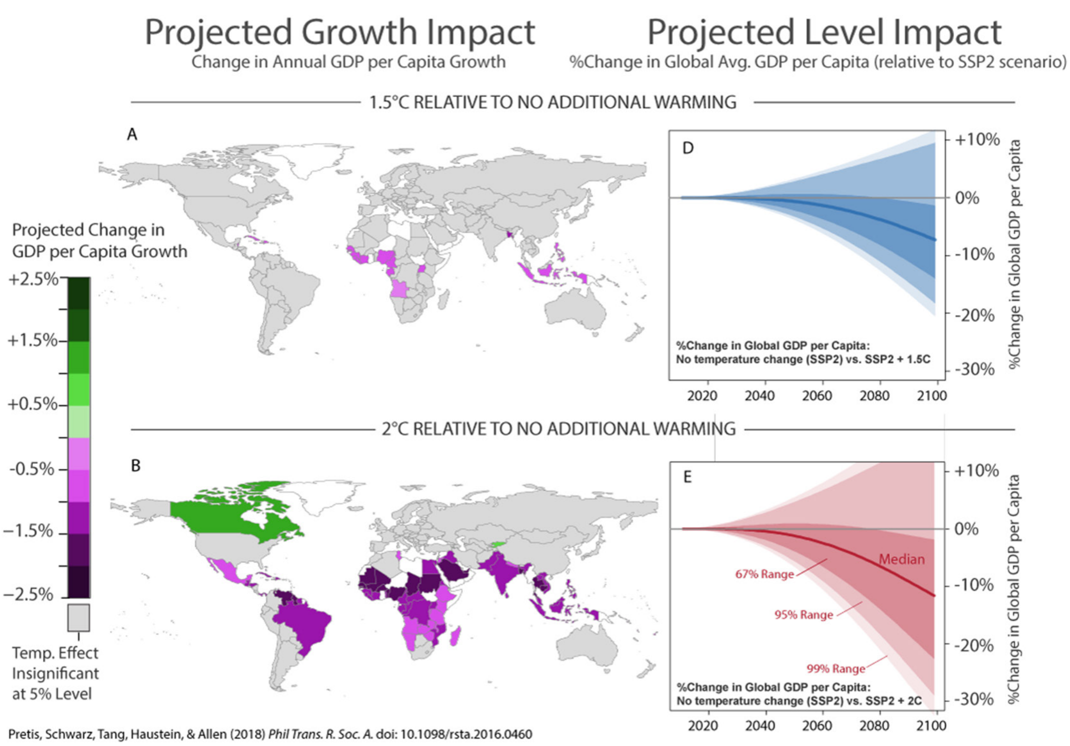
1. Introduction

Available evidence suggests that Africa is the most vulnerable continent to climate change.[1] Rising temperatures and sea levels and associated climate events and natural disasters are causing damage to agriculture, social and physical infrastructure, and affecting the livelihood and health of millions. While Africa contributes relatively little to global emissions, it is at risk of devastating effects that are considerably larger than in the rest of the world. In many countries across the continent, heavy dependence on rain-fed agriculture and weaknesses in critical social and physical infrastructure (e.g. public health, housing, sanitation, and water) lead to high vulnerabilities to human livelihoods and economic prosperity. And with more growth at risk correspondingly larger investments are needed for the region to cope and adapt effectively to climate change. Figure 1 depicts the projected changes in annual GDP per capita growth and in global average GDP per capita, in the cases of a 1.5°C and 2°C temperature increase. As illustrated, the African continent comprises many of the countries that will suffer the most in terms of growth of GDP per capita.

FIGURE 1. Projected growth impact and projected level impact of global warming



At the same time, vulnerability and adaptation needs tend to be higher for low-income countries with weak institutional capacity and limited financial capacity. Several studies have shown that building stronger institutions that can respond to natural disasters and strengthening financial buffers as well as basic social safety nets can help countries cope with climate change (and other

1 See IMF, April 2020 *Regional Economic Outlook: Sub-Saharan Africa, Chapter 2,* for one survey.

unforeseen disasters).[2] This suggests that climate change adaptation should be intimately linked with broader national development strategies, with policy reforms and public investments in view of competing needs and resource constraints.

In light of the growing macroeconomic implications of climate change at the global and country levels, the IMF has underscored its commitment to help member countries deal with the critical policy challenges arising from the phenomenon. In the past, the IMF has been involved in climate change-related issues mostly in the context of global macroeconomic analysis and work on specific fiscal policies such as energy subsidies and carbon taxes. Recently, there has been increased demand for coverage of these issues in the context of IMF surveillance and requests for capacity development support (technical assistance and training), particularly on fiscal issues. However, the work was conducted and organized largely on an ad hoc basis, and in 2021 the IMF moved to more formally and systematically integrate analysis of climate issues in its regular global, regional and country-level surveillance activities, as well as step up its capacity development activities to help officials in relevant areas.[3] In addition, it is working on helping countries fill their financing needs that will come with investing more to adapt, including by establishing a new lending vehicle aimed at addressing a country's long-term challenges such as climate change.

The international community faces myriad challenges at this juncture—not least is the need to deal with the global economic consequences of the Russia-Ukraine war and the ongoing and incomplete recovery from the COVID19 pandemic. Nevertheless, adequate attention to climate change mitigation and adaptation will be essential to securing the well-being of future generations in Africa and elsewhere. The role of the IMF, the world's preeminent international financial institution mandated to help its membership deal with macroeconomic and financial policy issues, will be critical in this endeavor, even though one recognizes the limited resources available to the institution relative to the magnitude of adaptation and mitigation needs. The institution and its membership need to figure out how best the institution can fulfill this role, while leveraging the expertise of other multilateral organizations and avoiding duplication. This note reviews IMF activities and proposes several ways to best support efforts by African countries to cope with macroeconomic policy and structural challenges associated with climate change.

2. Surveillance and capacity development

The policy strategy adopted by the IMF's Executive Board in July 2021 aims to step up the provision of advice and analysis on climate issues to its membership and the international community.

2 E.g. IMF, 2019, "Building Resilience in Developing Countries Vulnerable to Natural Disasters, or Hallegatte et al, World Bank, 2017.

3 See IMF 2021. In July 2021 the IMF Executive Board broadly endorsed a proposal by IMF Management and staff for a systematic and strategic integration of the aspects of climate change that have critical macroeconomic implications into the IMF's core activities.

It proposes to regularly cover macroeconomic policy challenges related to climate change facing individual countries in Article IV consultations,[4] to include climate-related policy actions in IMF lending programs when deemed critical to help solve balance of payments problems, and to provide ramped further technical assistance and training to country officials. It also underscores the need to regularly cover policies on a global dimension though its "flagship" reports[5] and regional economic outlook reports, and policy papers on climate issues. And importantly, to ensure that the institution would have adequate human capital and resources to undertake a stepped-up engagement, the strategy proposes a significant augmentation of staffing as well as a program of internal training.

What are the key highlights of the IMF's new climate strategy

Bilateral country surveillance

- Analyzing climate-related issues in about 60 Article IV reports a year, which would allow covering adaptation and resilience building strategies in member countries most vulnerable to climate change every 3 years, mitigation policies in the 20 largest emitters of green-house gases every 3 years, and policies to manage the transition to a low-carbon economy for all countries every 6 years.
- In the area of adaptation, IMF staff would review country strategies to strengthen budget and banking sector resilience to deal with disasters, how to incorporate infrastructure investment requirements into sustainable fiscal frameworks, and how to deal with the policy implications of supply-side shocks triggered by climate change. For mitigation, different policy options for reaching national mitigation objectives could be assessed, such as carbon pricing and other policies (e.g. taxes or feebates). And in the area of transition management, analysis and advice could cover the tax, regulatory, and other macroeconomic policy frameworks that would need to be put in place to help countries achieve their national commitments.
- Analysis of countries' financial sector under the periodic Financial Sector Assessment Program (FSAP) exercises carried out by the IMF and the World Bank would also integrate a climate component. This would entail stress testing a country's financial system to physical and transition risks and advising on policy reforms needed to strengthen supervision and regulation.

Global (multilateral) surveillance and analysis

- Increased coverage of climate issues: 1–2 chapters in each of the IMF's 3 flagship reports and regional economic outlook reports examining climate-related developments that have cross-country implications or that policy issues that require international cooperation

4 Article IV consultations are comprehensive reviews of economic and financial developments and policies conducted with each member country, mostly on an annual basis.

5 World Economic Outlook, Fiscal Monitor, and Global Financial Stability Report.

efforts; up to several general policy or methodological papers; and the launch of a new series of analytical papers call *staff climate notes*.

- Development of macroeconomic models that include energy sector aspects to analyze the macroeconomic, trade and other implications of climate developments and policies; integration of climate risk and policy options in debt sustainability analyses; and development of a range of toolkits to facilitate IMF staff's analysis of the implications of climate-related events and policy options for adaptation and mitigation.

Capacity development

- Increased application of the recently develop Climate Macroeconomic Assessment Program (CMAP), a diagnostic tool to help climate-vulnerable countries assess the macroeconomic impact of climate change and analyze the links between resilience-building policies, financing needs, and public expenditure management. CMAPs will underpin at least 10, or half, of the Article IV consultations with vulnerable countries every year (up from previous delivery of 2 per year).
- A substantial projected increase of capacity development provided to individual countries, particularly low-income countries and small states is a wide host of areas, such as: carbon taxes, climate-related public expenditure management, debt management, financial sector stress testing, financial supervision and regulation, strengthening capacity to collect climate related data and indicators, and building macroeconomic frameworks and scenarios.
- Increased efforts in training officials on the links between climate and macroeconomics through dedicated on-line courses, and interaction seminars, and incorporating climate modules in existing training courses.

Collaboration and partnering

- Climate change has complex interactions with a wide range of policy issues and many institutions with different mandates and different sets of expertise are engaged in climate work. Recognizing the need to work within the IMF's mandate and comparative advantage as well as the need to be aware of the policy advice and activities of other institutions, the strategy foresees close collaboration with other IFIs and development partners. It also envisages continuing to use the IMF's convening power to organize high-level conferences and seminars and broader exchanges with academics, policymakers, NGOs and the private sector on climate change and associated macroeconomic and financial challenges.

Internal resources and training

- Advancing the work under the strategy would require additional staff with relevant expertise. The strategy proposes considerable additional staff to be financed both by the

IMF's own internal resources as well as external donors to help support additional capacity development activities. It also foresees ramped internal training activities to deepen internal expertise in relevant areas.

How to best support vulnerable countries in Africa under the strategy

The strategy that the IMF has embarked on to intensify and formalize its engagement on climate issues is bold and comprehensive. The strategy has the potential to play a big part in helping vulnerable countries in Africa cope with the myriad climate-related challenges that it faces. We provide below some thoughts about how to ensure that the IMF's work can be effective.

The IMF is well placed to provide global and regional policy contexts which African policymakers need to be mindful of when addressing the macroeconomic and financial challenges arising from climate change. Through the integration of climate issues in its multilateral surveillance and general analytical work, African policymakers can benefit from analyses of long-term trends and evolving developments, likely spill-over effects on vulnerable African countries, and critical risks to macroeconomic and financial stability. The analytical work in various areas such as carbon pricing, tax, debt management, and financial system supervision can help identify policy issues and options.

The global and regional monitoring and general analytical work can then feed into the Article IV surveillance process to allow IMF country teams to review with official counterparts the macroeconomic ramifications of their climate strategies. To maximize effectiveness, the discussions should feed into a national development plan fully owned by the government. Moreover, IMF staff should take into account international cross-country experience, while tailoring their advice to domestic institutional capacity and specific country circumstances on issues such as priority expenditure needs, mitigation options (including those that can raise revenue), how to balance investment needs with budget constraints and debt sustainability issues, and financial stability risks.

Given inevitable human resource and capacity constraints on both the side of the IMF and the national authorities, the timetable for Article IV exercises to cover the most vulnerable countries every 3 years appears to be a reasonable plan to ensure the IMF's contributions are meaningful and of high quality. That said, the IMF should be prepared to provide advice flexibly—both in modality and timing. Countries will be developing or implementing strategies on an ongoing basis already, and to the extent possible, country teams should provide appropriate advice and analysis upon request without being dictated to by formal Article IV work schedules.[6]

As in much of the rest of the world, a key challenge many governments in Africa face is to rally public support for the difficult sacrifices needed to arrest the process of climate change and adapt to the

6 Once the planned build-up of expertise on climate issues is completed, this flexible provision of advice and analysis should not require significant additional resources.

economic consequences that are already evident. The IMF's analytical work could not only help inform national resilience strategies, but also could be used to support the authorities' outreach efforts with the public on climate issues. Intensive IMF outreach activities, including in the form of regional conferences, seminars, and workshops would be valuable. At the same time, a special focus of such activities on the most vulnerable countries would be desirable. In additional, IMF country representatives, stationed in many, if not most, African member countries, should be tasked with disseminating the work of the IMF on climate issues to key national audiences.

Beyond just analysis and policy advice, capacity development support to help the authorities implement adaptation policies will be critical if the IMF is to "walk the talk." The intention to increase capacity development under its climate strategy is therefore welcome. To make sure this assistance is delivered in areas of maximum need and potential impact, we recommend that for all climate-vulnerable countries in Africa, a comprehensive medium-term capacity development strategy should be prepared jointly with the authorities. Priorities for IMF technical assistance and training on climate issues should be identified in close consultation with country authorities and integrated into these strategies. In the event institutional knowledge and implementation capacity are limited, adequate emphasis should be placed on hands-on technical assistance in the field to support country officials.[7]

Once the priority capacity development needs are determined, adequate financing for these activities should be actively sought. In addition to ensuring an appropriate augmentation of internal resources, the institution should campaign for external financing. To this end, existing donor trust funds should be utilized, with terms of reference amended as needed—in fact, in the fiscal area considerable climate-related technical assistance is already being provided by existing arrangements. At the same time, consideration could be given to the establishment of a new dedicated climate capacity development fund for vulnerable low-income and middle-income countries to attract the interest of donors who wish to finance green activities specifically. Moreover, the IMF could seek funding from, and forge new relationships with, nongovernmental agencies, philanthropies, and private companies to help support its CD activities. It would be well worth the IMF adapting internal governance procedures as needed in this regard.

Overall, the IMF's policy paper on its climate strategy lays out clearly the justifications for the institution to step up its work on climate issues. And the membership of the institution has provided a clear vote of confidence in the IMF's technical contribution in this area, with the IMF's Executive Board recently approving the additional budget and staffing that IMF management proposed would be required.[8] However, successful implementation of the IMF strategy will require the institution to

7 In the context of strategic reviews of IMF capacity development, officials of recipient countries have indicated that they view the efforts of dedicated resident advisors as well as those of staff located in regional capacity development centers to be particularly helpful in this regard.

8 See IMF, FY 2023-FY2025 Medium-Term Budget, May 2022, which featured a 6 percent increase in the IMF's operational budget phased over three years, of which about 40 percent would be devoted to work on climate change issues.

significantly build up its expertise on climate issues, particularly in area departments (on country teams). Recognizing this challenge, the strategy includes front-loaded efforts towards both internal training and external recruitment of climate experts, and development of analytical toolkits, in addition to extra staffing. Successful implementation will also require strengthened collaboration with the World Bank and other MDBs. For the IMF to adequately demonstrate value-added to its membership in its climate work, the institution should focus on issues clearly within its core areas of competence of macro/fiscal management and financial system stability while it collaborates closely with other stakeholders to coordinate the provision of support for countries. In this regard, developing a framework for collaboration with the World Bank would be particularly important. More generally, as suggested previously, there is merit in setting up multi-stakeholder country platforms (or similar coordination mechanisms), in which the government works together with all relevant actors to identify technical and financing needs for countries and harmonizing their respective contributions.[9]

3. Financing

In addition to a stepped-up analytical engagement and increase in capacity development activities, the IMF can also play a strengthened role in helping African countries deal with financing its climate adaptation needs. Estimates of adaptation needs vary considerably due to differences in assumptions about future baseline trends in public goods that increase resilience to climate change as well as differences in the scope of need. For sub-Saharan Africa, IMF research indicates that adaptation needs will amount to $30–50 billion (2–3 percent of regional GDP) a year during 2021–2030.[10] A World Bank's study estimates that sub-Saharan African countries should meet investment needs of over 7 percent of GDP per year on average during 2015–2030 to achieve SDG goals, while meeting needs for low-carbon and climate-resilient projects.[11] Estimated needs for individual countries vary widely based on climate vulnerability and existing capacity of public services and infrastructure, and are hard to come by on a consistent basis. One set of estimates of adaptation needs for 2020–2030 by region in sub-Saharan Africa may be seen in Table 1.

Recognizing the enormous financing needs faced by many of its member countries in addressing the policy challenges associated with the ongoing pandemic and more recent implications of the Russia-Ukraine war, the IMF recently established the new Resilience and Sustainability Trust lending facility (RSF). The RSF is intended to complement the IMF's other lending facilities by focusing on longer-term structural challenges—notably climate change and pandemic preparedness—faced by low-income and vulnerable middle-income countries.

9 See CGD, Sembene, Lee and Plant (January 2022).
10 IMF Regional Economic Outlook: Sub-Saharan Africa, April 2020.
11 Rozenberg and Fay, 2019.

TABLE 1. Regional adaptation needs in Africa for 2020–2030

Region	Annual Average Between 2020 and 2030 (in US dollar billion)
Western Africa[a]	7.4–11.6
Eastern Africa[b]	9.1–14.3
Southern Africa[c]	2.5–4.2
Central Africa[d]	0.6–1.9
Total Sub-Saharan Africa	**19.6–32**

Source: UNFCCC (2021). Needs of African Countries Related to Implementing the UN Framework Convention on Climate Change and the Paris Agreement.

[a] Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea-Bissau, Liberai, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo.

[b] Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, South Sudan, Sudan, Tanzania, Uganda.

[c] Angola, Botswana, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, São Tomé and Príncipe, Zambia, Zimbabwe.

[d] Cameroon, Central African Republic, Chad, Congo, Democratic Republic of Congo, Equitorial Guinea, Gabon.

It is expected to be funded by voluntary loans of Special Drawing Rights (SDRs) from countries with strong balance of payments positions willing to re-channel SDRs they received under the overall $650 billion issuance of SDRs in August 2021. RSF operations are scheduled to be launched once a critical mass of contributions to meet the initially anticipated financing demand of around $45–50 billion was achieved, which the IMF anticipated would occur by the end of 2022.

The new RSF has various features that make it particularly helpful for African countries in their fight against climate change.

- Compared to other IMF loans, it has a longer repayment period of 20 years and grace period of 10 ½ years.
- Its loans are more concessional and subject to a tiered interest structure that lowers the lending rate for the poorest countries. The 30 countries in Sub-Saharan Africa in the poorest country Group A would pay 55 basis points above the SDR rate (currently 0.05 percent).[12,13]
- The amount of financing provided with an RSF loan would be additional in the sense that it would not trigger access limits stipulated under other IMF facilities. The baseline norm for access would be 75 percent of a member country's IMF quota but could rise to a cap of 150 percent of quota or SDR 1 billion, whichever is lower.[14] Thus for countries with relatively *large* quotas in relation to GDP—e.g. Burundi, Centra African Republic, Gambia, Lesotho,

12 See pg. 86 of IMF, Proposal to Establish a Resilience and Sustainability Trust (April 2022) for a list of countries in each of the 3 tiers.

13 The extended grace and repayment periods, and concessional interest rate, of course make it easier for the borrowing under the RST to be consistent with longer term debt sustainability.

14 Presumably, the higher the balance-of-payments financing need associated with the climate-related investments or policy reforms, or the bolder the reforms, the larger the access.

Liberia, Rwanda, Sierra Leone, Somalia, South Sudan, Zambia, and Zimbabwe—available financing could be relatively significant (see Table 2).

TABLE 2. RST: Available financing for sub-Saharan African countries[1]

Available Financing	75% to 150% of Quota in Millions USD	75% to 150% of Quota as a Share of GDP
Group A		
Burkina Faso	123.2–246.4	0.6–1.2%
Burundi	157.6–315.2	4.9–9.9%
Cabo Verde	24.3–48.6	1.3–2.6%
Central African Republic	114.0–282.0	4.4–8.8%
Chad	143.5–287.0	1.2–2.3%
Democratic Republic of Congo	1091.0–2181.9	2–4.0%
Djibouti	32.5–65.1	0.9–1.8%
Eritrea	16.3–32.6	0.7–1.4%
Ethiopia	307.7–615.5	0.3–0.7%
Gambia, the	63.7–127.3	3.1–6.2%
Guinea	219.2–438.4	1.3–2.6%
Guinea-Bissau	29.1–58.1	1.8–3.7%
Lesotho	71.4–142.9	2.9–5.8%
Liberia	264.5–528.9	7.8–15.6%
Madagascar	250.1–500.2	1.8–3.5%
Malawi	142.1–284.1	1.2–2.3%
Mali	191–382	1–2.0%
Mauritania	131.8–264.6	1.4–2.9%
Mozambique	232.5–465	1.5–2.9%
Niger	134.7–269.4	0.9–1.7%
Republic of Congo	165.8–331.6	1.3–2.6%
Rwanda	164–328	1.6–3.2%
São Tomé and Príncipe	15.1–30.3	2.8–5.7%
Sierra Leone	212.3–424.5	4.8–9.6%
Somalia	167.2–334.5	3.1–6.2%
South Sudan	251.8–503.5	7.7–15.4%
Tanzania	407.1–814.2	0.6–1.2%
Togo	150.2–300.5	1.8–3.5%
Uganda	369.5–738.9	0.9–1.7%
Zambia	1001.1–2002.2	4.6–9.2%
Zimbabwe	723.4–1446.7	2.8–5.6%
Sub-total Group A	**7367.4–14734.8**	
Average Group A		**2.4–4.7**

Available Financing	75% to 150% of Quota in Millions USD	75% to 150% of Quota as a Share of GDP
Group B		
Benin	126.7–253.4	0.7–1.4%
Cameroon	282.5–564.9	0.6–1.3%
Comoros	17.5–35.0	1.4–2.7%
Côte d'Ivoire	665.6–1331.2	1–1.9%
Equatorial Guinea	161.2–322.4	1.3–2.6%
Eswatini	80.3–160.7	1.8–3.6%
Ghana	755.3–1510.6	1.0–2.0%
Kenya	555.5–1111.0	0.5–1.0%
Mauritius	145.5–292	1.3–2.6%
Senegal	331.2–662.4	1.2–2.4%
Sub-total Group B	**3121.3–6242.6**	
Average Group B		**1.1–2.2%**
Group C		
Angola	757.4– 1514.8	1.1–2.2%
Botswana	201.8–403.6	1.1–2.3%
Gabon	221.1–442.1	1.2–2.4%
Namibia	195.6–391.2	1.6–3.2%
Nigeria	2512– 5024	0.5–1.0%
Seychelles	23.4–46.9	1.8–3.6%
South Africa	3122.6–6245.3	0.8–1.5%
Sub-total Group C	**7033.9–14067.8**	
Average Group C		**1.2–2.3%**
TOTAL SSA	**17522.6–35045.15**	**1.9–3.8% (Average)**

1/ The grouping of countries is based on the income and other eligibility criteria set at the time of IMF establishment of the RST.
Source: IMF and authors' calculations.

At the same time, there are some ways that the structure of the facility could be modified to make it more attractive to borrowers:[15]

- Unlike the IMF's zero-interest PRGT, the most vulnerable and poorest borrowers will pay some interest, and these rates could rise significantly as global interest rates rise. To limit the current and prospective cost to borrowers several steps could be taken. First, the IMF Executive Board could eliminate the requirement that the RST account reimburse the IMF's General Resources account for the administrative costs associated with the RST, which could be used to eliminate much of the margin being charged to the lowest income group of potential borrowers. Second, the IMF Board could set an interest cap to protect the lowest

15 A number of these points have been raised by Andrews et al, The IMF's RST Has Met Contributors' Wishes—Now It Must Meet Borrowers' Needs! (May 2022).

income borrowers from rising interest rates. This issue was recognized when establishing the loan facility in April, but no decision was taken at the time. And third, ultimately, the IMF's high income member countries could decide to establish a subsidy account to finance interest costs to low-income borrowers, akin to under the PRGT.

- The initial call for financing of $45 billion would only generate loans of $31 billion due to the reserve buffer stipulated by the RST's financial structure. This would amount to 92 percent of the total quota of just RST eligible countries in Sub-Saharan Africa alone, let alone other eligible IMF member countries, and is a modest amount compared with overall potential needs. Moreover, for low-income and vulnerable African countries with a small quota, the maximum limit of 150 percent of quota on RST loans would reduce their attractiveness—e.g. Burkina Faso, Djibouti, Eritrea, Ethiopia, Niger, Tanzania, and Uganda. Thus, as demand for RSF loans emerges, the IMF's wealthier members should be ready to provide additional financing, and at the same time, the IMF Board should consider raising the upper limits on access under the loan facility or extending exceptional access policies to the RSF.

What about conditionality under an RSF loan? A key requirement for any country to secure access to the RST is to have an active IMF upper-credit tranche program. Given the need to preserve the reserve asset characteristics of SDRs on-lent to the RST by contributing countries, such a financial safeguard has been deemed critical by the IMF Executive Board. This implies that countries willing to contract an RSF arrangement would need to agree and be on track with the implementation of a package of macroeconomic and other measures under a GRA and/or PRGT program. Though not necessarily problematic for many African countries currently under an IMF program, this requirement introduces a rigidity or deterrent to the IMF's financial support of climate-related policy actions in countries. Not only would a country need to come to the IMF for an upper credit tranche program to qualify, but if such a concurrent program were to go off track and program reviews were to be delayed, then disbursements under the RSF would also be delayed.[16]

For borrowing countries, attractiveness will then depend on how this linkage as well as conditionality under RST programs are applied. With regard to *linkage*, it is noteworthy that the IMF's so-called precautionary or non-borrowing programs intended for countries following good policies qualify. Setting the bar for countries to access such loans in a balanced way would therefore be desirable to facilitate demand under the RST.

As for *conditionality* under the RSF itself, it is intended to be flexible. It will be separate from that under the concurrent UCT program, and not required to directly contribute to resolving current

16 Mansoor and Sembene (2021) had argued that in the absence of an IMF program, an RST program could be based on a climate strategy adopted by the national government and a macroeconomic framework recommended in the context of IMF surveillance (annual Article IV exercises).

balance of payments needs being addressed by the UCT program.[17] The conditionality will not be linked with any specific climate investments or projects, which would continue to be the business of the World Bank and other MDBs. Nor will it contain quantitative targets, prior actions or benchmarks normally associated with IMF programs. Rather, disbursements will be made based on reviews ascertaining adequate implementation of reform measures. Moreover, the timing of reform measures would be more flexible, with their implementation only needing to be implemented during the duration of the program rather than at agreed dates.

More generally, the exact nature of a country's package of reform measures that would be deemed adequate to qualify for an RSF program is still being considered by IMF staff. However, hypothetical conditionality being considered also include specific measures such as the issuance of regulations on carbon pricing policy, a contentious issue in many African countries.[18] With adequate financial safeguards against risk provided by the linkage with UCT programs, it would seem appropriate to avoid controversial or excessive conditionality, especially since the latter does not necessarily need to contribute to the external stability issues that motivated the request for IMF assistance. In line with suggestions by Mansoor and Sembene (2021), there is thus scope for the IMF-supported program to build on national climate adaptation plans or strategies adopted by governments, subject to assessments by other expert institutions such as the World Bank and African Development Bank.[19]

As recognized by the IMF in establishing the new loan facility, close collaboration with the World Bank, the African Development Bank and other relevant institutions will be important to maximize the effectiveness and impact of RSF loans. This would not only be to leverage expertise of each institution and ensure coherent and coordinated policy advice, but also to maximize the catalytic role of IMF financing. While substantial, IMF financing can only provide a small portion of the financing needed by Africa in addressing the climate challenge. Close coordination and ongoing outreach would help the MDBs and others translate the IMF's macro endorsement into additional funds for recipient countries.

In this light, it is therefore encouraging that the IMF and World Bank have already agreed on the modalities of cooperation with regards to climate change issues in the context of RSF programs. Ties with other institutions should be deepened as well, with formal modes of cooperation agreed in cases of overlapping mandates in policy areas (e.g. on tax issues). Efforts for closer cooperation could include philanthropies and climate funds that support climate action in Africa. While such

17 RST loans would help provide general balance of payments support to help meet financing needs associated with longer-term structural challenges—initially, the RST would focus on addressing climate change and pandemic preparedness, though the Executive Board could agree to add additional policy challenges in the future. The RST loans could be used to address a range of balance of payments needs, such as (i) short term financing needs associated with implementation of policy reforms; ii) increasing policy space for actions to deal with longer-term challenges; and iii) augmenting reserves or other buffers to strengthen the ability to deal with possible future shocks. While an RST-supported program would accompany and UCT program, the latter would need to stand on its own. See IMF (May 2022), pages 14–22 for a discussion of these issues.

18 See for example Andrews, 2022.

19 See Box 1, IMF (2022).

efforts involve significant costs and are often hard to manage, they could prove critical in mobilizing additional climate finance for the continent, including from the private sector.

Overall, the RSF has the potential to provide significant support to Africa as it confronts the challenges associated with climate change. It will be important to get it operationalized as soon as possible, which would signal IMF success in securing a critical mass of the initial target contributions by the time of its Annual Meetings in October 2022. And full financing and success in getting it off the ground will require the active participation of the United States, its largest shareholder. Prompt RST operationalization will be critical to accumulate experience and draw concrete lessons about how RSF-supported programs would work, notably how conditionality will be applied in practice.

That said, timely RST operationalization will require overcoming a number of challenges. On the one hand, mobilizing quick and sufficient financing from potential RST contributors could prove more challenging in the current international context marked by the war in Ukraine. In addition, securing the resources needed to operationalize the Trust will require accelerating the process of SDR reallocations from countries with large SDR holdings, as the bulk of RST contributions is expected to be in SDRs.

On the other hand, there are many reasons why requests for RST support once the Trust is made operational could remain below expectations in the absence of effective engagement with eligible countries during the interim period. These include:

- the potential stigma that could be associated with IMF borrowing under the RST;
- concerns about the requirement for a concurrent IMF instrument with upper-credit tranche-quality conditionality[20] and
- the perceived lack of criticality of external stability risks emanating from climate change and pandemics.

In this light, quick operationalization of the RST will require effective and sustained engagement with both potential contributors and borrowers.

Over time, a relatively short cycle of RST policy reviews by the IMF Executive Board would help enact timely amendments to improve attractiveness, particularly from the perspective of low-income and vulnerable borrowers. Moreover, since the available resources under the facility will revolve only over a long time horizon given the maturity of the loans, additional capital beyond the initial targeted envelope of $45 billion would be desirable given the sizable financing needs facing RST-eligible countries. To facilitate mobilization of additional loan resources—either through additional SDR recycling or through other borrowing arrangements with donor countries—it will be essential to

20 While the greater financing may be an additional incentive for program countries, it could deter access to the RST by non-program countries concerned with potential stigma issues.

show that the RSF programs are effective instruments for helping vulnerable countries African and other regions cope with climate change and other longer term structural challenges.

4. Concluding remarks

The IMF is undertaking a broad initiative to step up its engagement with its membership on climate-related issues. Successful implementation of the plans in place could provide significant support to vulnerable low-income countries in Africa in their efforts to cope with the macroeconomic and structural challenges associated with climate change. To strengthen potential effectiveness and attractiveness to African countries of the IMF's current plan, the paper makes a number of recommendations with regard to IMF surveillance, capacity development and financing.

To maximize effectiveness and traction in *surveillance*:

- IMF country teams should ensure that the conclusions and implications of general analytical work and global and regional surveillance are appropriately tailored to fit specific country circumstances and institutional capacity, and that advice provided in discussions with country officials take account of and feed into national development plans fully owned by national governments.
- Also, while it seems appropriate that comprehensive reviews of climate-related challenges and strategies take place only every few years in the context of Article IV consultations, IMF country teams and experts should be empowered and prepared to provide advice on specific issues on a flexible basis in the interim, without being tied to formal work periodic work schedules.
- The IMF should engage in intensive outreach activities to support the authorities' efforts to rally public acceptance of the need for difficult sacrifices in the fight against climate change, when critical for overcoming related macroeconomic and structural challenges. IMF country representatives should play an important role in this effort.

To maximize impact in the area of *capacity development*:

- Comprehensive capacity development strategies should be prepared jointly with the authorities for all climate-vulnerable countries in Africa to make sure that CD assistance is properly prioritized to areas of maximum need and potential impact, with CD on climate issues identified and integrated into these strategies.
- In cases where implementation capacity is limited, hands-on technical assistance in the field should be provided.

- Adequate financing for capacity development activities on climate issues should be identified and actively sought. In addition to reprioritizing and augmenting internal budgets and existing donor funds, a new dedicated climate CD fund for vulnerable and low-income countries could be established. Moreover, the IMF could seek funding from nonofficial agencies, private companies, and philanthropies to help support its CD activities.

With regard to IMF *financing*, and the newly established RST facility in particular, we recommend the following:

- Although RST loans will be highly concessional, several technical modifications to the RST could be considered to limit the current and prospective cost to low-income borrowers. In this regard, we support calls for the requirement to charge the facility for associated administrative costs to be eliminated, a cap to be set on interest rates for low-income borrowers, and a subsidy account to finance interest charged to low-income borrowers to be established.
- To increase attractiveness in terms of available financing (in relation to need) for African countries with relatively small IMF quotas, the IMF Board could raise limits on access under the facility, in addition to seeking additional contributions from wealthy members more generally.
- Key to successful operationalization of the RST will be how programs under the new facility are linked to concurrent upper-credit tranche programs and how conditionality under the programs themselves are established. With regard to linkage, it will be important that the bar for countries to access precautionary and non-borrowing programs be set in a way that balances the authorities' performance and intentions with the need for adequate safeguards by the IMF. As for conditionality under RSF programs, excessive and controversial conditionality should be avoided, with scope for the IMF-supported program to build on national climate strategies, subject to an assessment by the World Bank (as currently planned).

Dealing with the myriad policy challenges associated with climate change has become an increasingly urgent issue for highly vulnerable African countries. It is hoped that the IMF can effectively play its part in supporting global efforts to assist national governments cope with this challenge, in line with its mandate while ensuring strong ownership by governments and societies at large. Although this contribution could prove relatively limited in view of the considerable needs for climate action, Africa and the world cannot afford to belittle any penny that can make a difference in fighting this existential threat to human survival and ecological balance.

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