CENTER FOR GLOBAL DEVELOPMENT

The IMF and Climate Change

Focus on What Matters for Greater Impact

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Abstract

The IMF has an important role to play in climate-related macro-financial issues, especially at a time of great uncertainty for global climate action. As the only multilateral institution responsible for promoting global macroeconomic and financial stability, the IMF needs a better approach to help countries, particularly emerging market and developing countries (EMDCs), get their economic frameworks right—as a necessary foundation to mobilize public and private investments including for climate action. This is the key area where the IMF can be bold to help advance climate action in the current environment. In parallel, the IMF should streamline the remainder of its climate work to what is macro-critical and aligned with its mandate. As a part of the global constellation of actors working to solve climate change, we need the IMF to do its job well—not all jobs.

This paper recommends that the IMF (1) dramatically strengthen lending programs by enabling countries to more durably implement ambitious reforms, escape debt overhang that inhibits growth, and ultimately invest to make their economies cleaner and more resilient; (2) rethink the Resilience and Sustainability Trust (RST), which has thus far had incremental impact, to support a narrower set of ambitious macro-critical reforms aimed at catalyzing investment and supporting stronger programs; (3) buy political space and leverage IMF expertise by strictly limiting coverage of climate issues in surveillance to where it is macro-critical and aligned with the IMF's mandate; and (4) further enhance partnership with the World Bank, being clear where more collaboration is needed and where the institutions can divide and conquer.

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The IMF and Climate Change: Focus on What Matters for Greater Impact

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Introduction

The International Monetary Fund (IMF) has taken on an expansive role in the global fight against climate change, scaling efforts since 2021 across lending, surveillance, and capacity development. Until earlier this year, one would be pressed to find an IMF publication, meeting, or speech without a notable section on climate change.

While the macro-financial challenges associated with climate change are squarely aligned with the IMF's mandate, it is not clear that the institution's approach is yielding the most impact. Specifically, what can the IMF do to better support macroeconomic and financial stability necessary to underpin transition investments? And is the IMF's approach aligned with its comparative advantage; or is the institution straying into terrain where others are better equipped to lead?

The political context also matters. Under the Trump administration, the IMF's largest shareholder is also the world's biggest climate denier. This shift has fractured the delicate balance underpinning multilateral ambition on climate action. The United States has fortunately taken a more nuanced view at the IMF so far, pressing management to abandon "non-core" climate work and refocus on economic reform programs and stronger surveillance. Ironically, the IMF can have the most impact on climate action by largely taking this advice.

In a context of strained public debt and limited fiscal space, the IMF needs a better approach to help countries, particularly emerging market and developing countries (EMDCs), get their economic frameworks right—as a necessary foundation to mobilize public and private investments including for climate action. This is the key area where the IMF can be bold to help advance climate action in the current environment. In parallel to strengthening how it helps EMDCs open space for investment, the IMF should streamline the remainder of its climate work to what is macro-critical and unambiguously aligned with its mandate. As a part of the global constellation of actors working to solve climate change, we need the IMF to do its job well—not all jobs.

This note recommends that the IMF:

- Dramatically strengthen lending programs by enabling countries to more durably implement ambitious reforms, escape debt overhang that inhibits growth, and ultimately invest to make their economies cleaner and more resilient.
- Rethink the Resilience and Sustainability Trust (RST), which has thus far had incremental impact, to support a narrower set of ambitious macro-critical reforms aimed at catalyzing investment and supporting stronger programs.
- Buy political space and leverage IMF expertise by strictly limiting coverage of climate issues in surveillance to where it is macro-critical and aligned with the IMF's mandate.
- Further enhance partnership with the World Bank, being clear where more collaboration is needed and where the institutions can divide and conquer.

This article does not argue that the IMF walk back its commitment to help its members address the impacts of climate change and related policies due to the whims of its largest shareholder. Rather, the institution should make a big push to enhance how it supports countries making reforms, while at the same time tailoring its engagement across its toolkit and better aligning its activities with its mandate. This approach will enhance support for countries that most need it and maintain political space so that what the IMF says and does on climate carries more weight.

Status of the IMF's climate work

The IMF has a role to play, consistent with its mandate, in addressing macro-critical cross-border economic challenges. Climate change is a unique global challenge and deserves heightened attention because it poses an existential threat to our planet and the very underpinnings of our economies. But even for the skeptics on the necessity and urgency of climate action, there are undeniably present and future macroeconomic and financial implications for individual countries and the global economy that overlap squarely with the IMF's work. For example, some countries are facing more severe and frequent natural disasters, leaving them to grapple with heightened fiscal costs, growth shocks, and financial risk. And many countries are choosing to pursue policies to decarbonize their economies and adapt to climate change—which impacts fiscal, monetary, and financial policy in those countries, as well as global exchange rates, trade, and financial flows.

The IMF has engaged in climate-related issues for the last two decades but historically did so on an ad hoc basis. This changed in 2021 when a new U.S. administration offered support. In the May 2021 Comprehensive Surveillance Review, the Executive Board agreed that the IMF should discuss climate change adaptation and mitigation wherever the associated policy challenges are deemed macro-critical.[1] Later in 2021, the Executive Board approved a comprehensive strategy to more systematically help members address the impacts of climate change. The climate change strategy set specific targets for climate coverage in bilateral and multilateral surveillance, introduced capacity development tools, and envisioned ramping up staff with climate expertise in specialized climate hubs rather than integrated within existing departments.[2] The 2022 budget augmentation paper more thoroughly outlined the planned phasing strategy for these targets and the budget implementation for each.[3]

Since 2021, the IMF delivered on this Board-approved strategy, rapidly expanding its engagement on climate-related issues. Annex 1 shows the extensive climate-related tools the IMF has available to its members. The IMF's Independent Evaluation Office (IEO) reported that IMF surveillance of climate issues has rapidly grown over the last three years, with coverage in nearly every bilateral

1 IMF, May 2021, "2021 Comprehensive Surveillance Review—Overview Paper."

2 IMF, July 2021, "IMF Strategy to Help Members Address Climate Related Policy Challenges: Priorities, Modes of Delivery, and Budget Implications."

3 IMF, May 2022, "Budget Augmentation Framework."

surveillance report since 2021, up from below 40% before 2019. Climate was featured in every semi-annual World Economic Outlook and Global Financial Stability report since 2021, and in two Fiscal Monitors. And the IMF expanded its capacity development tools and collaboration with the World Bank on climate-related issues. While the IMF has made progress in hiring additional staff, however, the IEO reports that "available resources continue to fall short of meeting the growing demand for climate-related work."[4]

The IMF extended its engagement on climate-related issues to its lending programs with the establishment of the Resilience and Sustainability Trust (RST) in 2022. Following the 2021 $650 billion allocation of Special Drawing Rights (SDRs), the RST was a way for advanced economies to "channel" a portion of their SDRs to the benefit of other countries. The RST's concessional lending instrument, the Resilience and Sustainability Facility (RSF), is open to 143 low-income and vulnerable middle-income countries to help build longer-term balance of payments stability to increase resilience to external shocks.

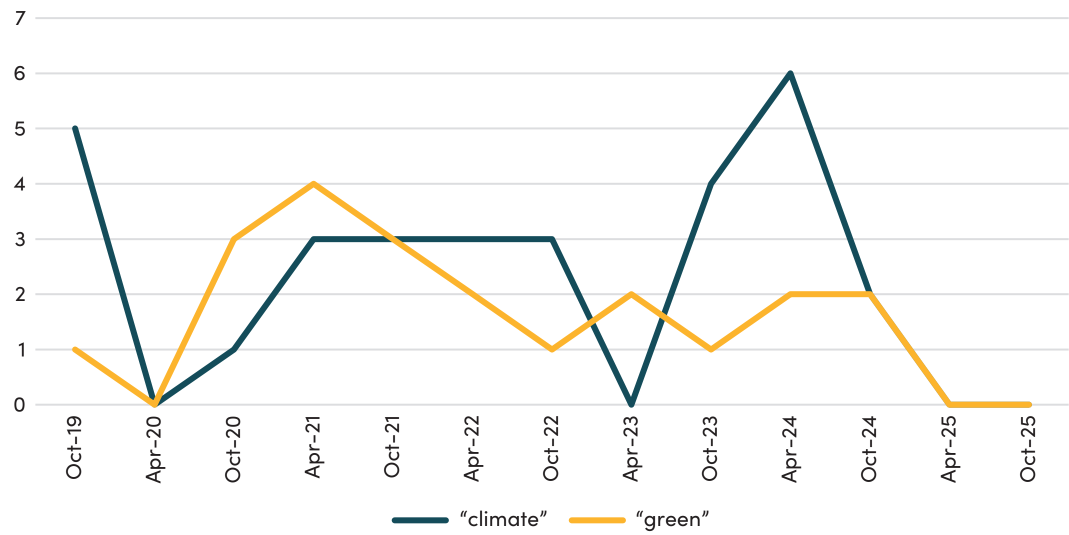
How operationally is the RST different? In a normal IMF program, the financing gap is determined mainly based on the actual or projected balance of payments needs during the life of the program. The innovation of the RST was the focus on building resilience to potential balance of payments problems outside of the constraints of the timebound IMF program (e.g., the RST maturity extended up to 20 years, whereas IMF programs do so up to 10 years). The IMF has finalized 26 programs RSF arrangements, totaling $13.9 billion. All arrangements so far have focused on climate-related reforms, though the recently approved arrangement for Jordan also had a pandemic preparedness component.

Since 2021, the IMF has also expanded its participation in international forums and global conversations on climate policy, reinforcing the perception that it is a top focus for the institution. With the World Bank, the IMF participated in the 28th and 29th United Nations Conference of Parties (COP) and co-hosts the Secretariat for the Coalition of Finance Ministers for Climate Action. The IMF also provides policy input and analysis to the G20 and G7. And it collaborates with international organizations on topics such as climate data gaps, standard setting, and scenario analysis of climate-related financial risk.

Further, since Kristalina Georgieva became Managing Director in October 2019, she has discussed climate or green priorities in each Annual or Spring Meetings "curtain raiser" speech outlining her priorities—except in April 2020, which was focused on the response to the raging COVID pandemic, and in the two speeches after President Trump's second inauguration.

4 IMF IEO, September 2024, "Draft Issues Paper: The IMF and Climate Change."

FIGURE 1. Use of the words “climate” and “green” in the managing director’s spring/annual meetings curtain raiser speech



Source: IMF Speech Transcripts.

US political context

The IMF is a multilateral institution with a global shareholder base. Much of that shareholder base is keen for the IMF to continue its work on climate change, including supporting countries in implementing their Nationally Determined Contributions (NDC). The U.S. political context, however, weighs inordinately at the IMF. The United States is the largest shareholder and has a veto on major policy decisions. Sitting just down the street from the IMF, the U.S. Department of Treasury is an active voice shaping views at the Executive Board. And U.S. political support is explicitly necessary on core governance reforms important to the global credibility of the IMF, most immediately finalizing the 2023 increase in members’ quota shares.

Under the second Trump administration, the United States has dismantled domestic action and shunned multilateral cooperation on climate change. In this context, U.S. Treasury Secretary Scott Bessent claimed in an April 2025 speech that the IMF “has suffered from mission creep” by devoting “disproportionate time and resources to work on climate change.” Bessent called for the IMF to focus on its core mission of promoting global monetary cooperation and financial stability, rather than “non-core” issues like climate. He called on the IMF to enhance work on:

1. More effective lending programs: The IMF should focus its lending on temporary balance of payments problems paired with deeper reforms—and be “willing to walk away from countries that are not willing to make needed reforms.” [5]

5 Past U.S. administrations have made this call but acquiesced when weak or repeat programs for strategic partners came to the Board. Time will tell if this administration sticks to this principle.

2. Tackling unsustainable debt: The IMF should more forcefully call out unsustainable lending practices and push official bilateral lenders to engage early with borrower countries to minimize periods of debt distress.
3. International monetary system surveillance and imbalances: The IMF needs to restore its role as an even-handed, ruthless truth teller by consistently calling out distortive currency and trade practices. [6]

While the hostility to climate action is distinctive to the Trump administration, these IMF-specific themes are recurring across U.S. administrations. In a September 2023 speech, for example, Treasury Under Secretary Jay Shambaugh, President Biden's top financial diplomat, said: "we cannot let the temptation to address every problem pull the IMF away from its core mission of macroeconomic and exchange rate surveillance and guidance." On climate-related issues, Shambaugh argued that the IMF should take a focused approach in surveillance and capacity development, as well as lending through the RST. He said that: "the IMF should not be experts on climate issues. Instead, it should focus on macro-critical issues and rely on the World Bank and others for sectoral expertise."[7] Essentially a similar message to Bessent packaged with less hostile rhetoric: the IMF can be most effective by sticking to its core mandate.

Stronger IMF program design: Building the foundation for climate investment

The IMF's key contribution to facilitate just clean energy transitions will be support for EMDCs enacting sound policies to create fiscal space and determining how to allocate shrinking donor funding pools to incentivize investment. And not just any investment. Investment that is aimed at not just at decarbonizing but also tackling poverty and creating jobs—making economies more politically, financially, and environmentally sustainable over the medium term.

To do this, the IMF needs a radically more ambitious approach to program design. Bessent's call for the IMF to enhance reform ambition and debt sustainability are core aspects of this new approach. But it's not enough to do these two things alone. Countries need a plan for social spending to secure political support for reforms and less tangible investments in climate action. Specifically, the IMF shareholders and management should use upcoming policy reviews to rethink program design in the context of three interrelated goals:

1. **Support reform agendas that are ambitious *and* politically sustainable.** Bessent urged the IMF to press for more ambition on reforms and be "willing to walk away from countries that

6 Treasury Secretary Scott Bessent Remarks before the Institute of International Finance, April 2025.
7 Remarks at the Center for Global Development on the IMF and Support for Developing Countries by Under Secretary for International Affairs Jay Shambaugh, September 2023.

are not willing to make needed reforms."[8] This is exactly right. The IMF should be insisting on reform ambition, with a focus on macro-fiscal sustainability, financial sector depth, and predictable/stable macro contexts necessary to incentivize investment. Bolder reforms, however, should not be conflated necessarily with greater upfront austerity. The IMF's Spring 2025 Fiscal Monitor analyzed how to build public support for energy subsidy and pension reforms, finding that clear communication, strong country ownership, and gradual implementation increased public acceptance.[9] This type of research should be integral in program design, and the IMF should consider expanding capacity development and financing to enable countries to better communicate and sequence reforms.

2. **Fully account for investment needs necessary to promote growth, development, and climate action.** Program benchmarks also need to evolve beyond a fixed social spending floor to an ambitious view of social spending needs. The IMF's recent paper for the 4th Financing for Development (FfD) Conference provided a welcome starting point by developing estimates for necessary development and climate spending across key areas, with adjustments for absorptive capacity. In this analysis, the IMF estimates that developing countries need $3.5 trillion from 2025–2029 to progress in just five of the Sustainable Development Goals (education, health, road infrastructure, electricity access, and water and sanitation) and address climate needs in these sectors.[10] Developing investment plans is a key area where the World Bank should be in the lead, but also where the IMF has a key supporting role. The two institutions announced last year an "Enhanced Cooperation Framework for Climate Action" to coordinate climate engagement in countries. The two institutions should expand this type of partnership so that macroeconomic programs under IMF programs are better aligned with the investment needs identified in World Bank country partnership strategies, with the IMF's FfD paper as a starting point.

3. **Strengthen the sovereign debt architecture to incentivize action on debt relief.** More realistic program assumptions and higher investment needs should mechanically lower debt carrying capacity—resulting in more program countries needing to address unsustainable debt burdens. In this context, fixing a debt relief system that is still too slow and fragmented needs to be a priority. The IMF, with the World Bank, must strengthen debt sustainability analyses by fully incorporating investment needs and long-term shocks. The IMF should also live up to its referee role in individual country cases—stating an ambitious debt relief envelope, as well as enforcing and potentially strengthening its toolkit to hold creditors accountable to providing the necessary relief.[11] And major creditors,

8 Treasury Secretary Scott Bessent Remarks before the Institute of International Finance, April 2025.

9 IMF, April 2025, "Fiscal Monitor: Fiscal Policy under Uncertainty."

10 IMF, May 2025, "The 4th Financing for Development Conference—Contribution of the IMF to the International Financing for Development Agenda."

11 The IMF should also continue to work through the Global Sovereign Debt Roundtable to advance innovations (e.g., state-contingent debt clauses, credit enhancements, private-official creditor coordination), which alone are not silver bullets but could contribute to a better sovereign debt architecture.

including China, need to come together and commit to making necessary improvements to the Common Framework so countries can get the relief they need in a timely and predictable manner.

Each of these goals have been contemplated at length internally at the IMF and in various forums over the years. Each has been and will undoubtably still be difficult to advance. More ambitious IMF programs will require more reforms from countries, more financing from the IMF and other institutions, and, in some cases, more debt relief from creditors. What is needed is a shared commitment by major stakeholders at a political level to holistically rethink tools and approaches, including outside of the IMF, with an overarching priority to help EMDCs achieve growth. Looking at these issues in isolation will result in running into the same roadblocks. The U.S. G20 year in 2026 could be an opportunity to seek this high-level political support for an overarching refocus on growth and investment as a core guiding principle for these interrelated goals.

Accordingly, at the IMF, shareholders and management should not take on these issues in isolation; rather develop a common vision so that the IMF can holistically use upcoming reviews to strengthen its overall program offering. Annex 2 shows several opportunities already built into the IMF's near-term work plan to influence these policies. The Comprehensive Surveillance Review (CSR), Review of Program Design and Conditionality, and the Review of the Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) will be particularly important. The IMF should also bring forward the LIC-DSF discussion, which is not scheduled until FY2027.

Resilience and Sustainability Trust: Rethink its impact

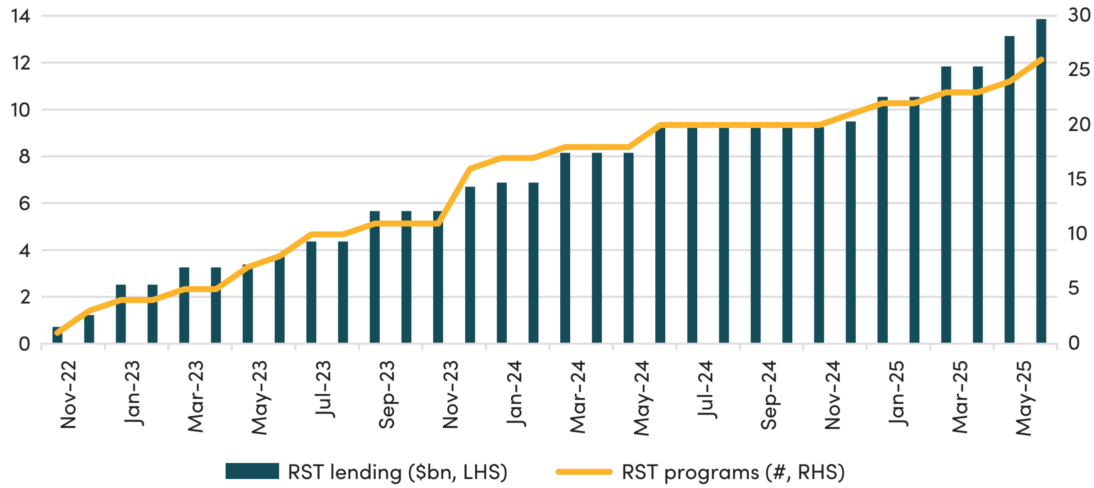
The IMF should rethink how the RST could support bolder investment plans to anchor ambitious program design described above.

RST performance to date

The RST was designed to provide (1) **more money** at (2) **more concessional terms** for countries taking on (3) **more reform ambition** (at least on climate and pandemic preparedness). How have RST programs stacked up against these objectives?

<u>**More money?**</u> **The RST has largely succeeded in increasing the size of IMF lending packages, approving $13.9 billion in financing for 26 countries.** See Annex 3 for a list of RSF arrangements approved to date. On average, RSF arrangements have added 60% more financing to the normal access IMF package, or about 0.9% of the borrower's GDP. Three RSF arrangements to date have been larger than the approved IMF program—Barbados, Mauritania, and Rwanda.

FIGURE 2. Cumulative RST lending



Source: IMF website.

<u>More concessional terms?</u> The RST has provided a new source of concessional borrowing for vulnerable middle-income countries and increased the amount of relatively concessional funds that low-income countries can access. The RST has a three-tiered interest rate system, with the poorest countries paying the lowest rate, lower-middle income countries in the middle, and middle-income countries paying the highest rate. For the poorest countries that borrow exclusively from the IMF's concessional Poverty Reduction and Growth Trust (PRGT), an RSF arrangement allows the country to access more financing at a roughly comparable grant element. As a country moves to higher incomes, the grant element becomes more favorable for the RSF portion of the financing package versus a blended or full arrangement from the IMF's non-concessional General Resources Account (GRA).

TABLE 1. Grant element of various IMF arrangements by income level

	Poorest → Least Poor				
	PRGT-Eligible				GRA
	Tier 1	Tier 2B	Tier 2A	Tier 2A (GRA Blend)	
Extended Arrangement	32%	25%	19%	12%	9%
Resilience and Sustainability Facility	**Group A**	**Group A**	**Group B**	**Group B**	**Group C**
	29%	29%	13%	13%	11%

Note: The PRGT has three interest rate tiers (1, 2B, and 2A), where the least poor countries (in 2A) are required to blend concessional PRGT and non-concessional GRA resources. The RST also has three interest rate tiers (Group A, B, and C), where Group A covers the bottom two PRGT tiers.

Source: IMF staff calculations.[12]

12 IMF, October 2024, "2024 Review Of The Poverty Reduction And Growth Trust Facilities And Financing—Reform Proposals."

<u>More reform ambition?</u> This is the area where the RST is still falling short of (albeit high) expectations. The RSF reform packages are not parsimonious, and many of the reform measures are not macro-critical and/or fall outside the IMF's mandate.

On the positive side, as the RST has progressed, there has been some improvement in reform ambition and coordination with the World Bank in more recent RSF arrangements. For example, the IMF has increased the number of high-depth reforms (i.e., lasting institutional changes, such as new legislation and regulations or broadened access to critical data). In the 2024 Interim Review of the RST, 40% of the measures in the 18 completed arrangements were considered high depth and 41% were medium depth.[13] In six recent arrangements—occurring after the interim review—59% of the reform measures were high depth and 37% were medium depth.[14] Additionally, the IMF and World Bank's "Enhanced Cooperation Framework for Climate Action" collaborated in the RST arrangements in Madagascar, Tanzania, and Egypt.

Notwithstanding this progress, there is a large variation in reforms across arrangements—even more so than one would expect given different levels of development and capacity—and a lack of linkage to broader macro-financial outcomes.[15,16] Further, many of the reforms are well outside of the IMF's mandate, raising the questions of how the institution can assess and monitor the conditions as required by its conditionality guidelines, even with considerable collaboration with the World Bank. One of the more substantive programs thus far has been Madagascar (see Annex 4). Still this arrangement includes measures that are sectoral in nature—e.g., relating to carbon storage in forests and water governance—clearly outside of the IMF's mandate. Similar sectoral conditions can be found in nearly all RSF arrangements.

Base case RST sunset

Under the current trajectory, the RST is a finite, sunset instrument for two reasons. First, the IMF requires that RSF arrangements must go alongside a normal IMF program. The IMF included this requirement for central bank SDR lenders that wanted to protect the reserve asset status of their SDRs and to anchor longer-term reforms and financing in a framework of near-term stability. As more countries access the trust, the pool of eligible borrowers will shrink without a change to the program requirement, higher access limits, or another incentive to get countries to participate. There are currently 25 IMF program countries that have not yet accessed RST financing. If each of these countries were to do so at the normal RST access of 75% of quota, the trust would deploy an

13 IMF, June 2024, "Interim Review of The Resilience and Sustainability Trust and Review of Adequacy of Resources."

14 Based on author's assessment of reform measures for Democratic Republic of Congo, Madagascar, Papua New Guinea, Tanzania, Jordan, and Pakistan.

15 Ahmed, Sarah Jane and Jwala Rambarran. April 2025, Boston University, "Strengthening the International Monetary Fund's Resilience and Sustainability Trust to Promote a Just, Global Climate Transition."

16 Brown, Hannah and Sanjeev Gupta. March 2023, Center for Global Development, "IMF Lending Under the Resilience and Sustainability Trust: An Initial Assessment."

additional $11.8 billion. Additionally, existing borrowers still under the 150% of quota or $1.3 billion RST borrowing limit could scale up, which would result in $2.3 billion in additional lending.

Second, without significant recapitalization or a shift in donor engagement, the RST's resources will gradually be depleted. Through February 2025, 23 countries have pledged $47 billion for three different accounts of the RST. Once all existing pledges are finalized, usable loan resources will stand at about $26 billion, which IMF staff estimate is sufficient to cover project RST demand through 2026.[17] Afterward, additional donor support would be necessary to continue RST lending beyond this point.

Critically, the United States under the Biden administration could not secure authorization from Congress needed to lend its pledged $10 billion to the RST. According to House Representative French Hill, Congressional Republicans adamantly oppose the RST on three grounds.[18] First, international financial institutions should not pursue climate finance at the expense of health, education, and poverty reduction that lower-income countries need the most. Second, with the RST, the IMF is straying into the territory of a development bank and should focus on its core mandate of promoting international monetary cooperation. Third, there has been vehement Republican opposition to the 2021 allocation of SDRs, which ex-ante eliminated any prospect of their support for the RST given its association to SDR channeling.

Even in this status quo scenario, there is room for reform to improve the RST's effectiveness. By narrowing its focus to what is truly macro-critical, the IMF can ensure that the remaining RST resources are deployed for ambitious, high-impact reforms. The IMF should exclude reform measures that are outside of its mandate—e.g., sectoral or non-economic governance measures, where the World Bank should lead. The IMF instead should focus on enhancing the parsimony, impact, and IMF-centric nature of reform measures. This means streamlining conditionality to concentrate on a select set of macro-critical reforms where the IMF has clear expertise—areas where it can design, estimate, and monitor the impact of policy changes.[19] Hicklin 2024 proposes five areas that would accomplish this: carbon pricing, including eliminating fossil fuel subsidies; gas- and oil- producing countries levying default penalties on methane emissions; adding climate change expenditures to medium-term budget; upgrading financial sector regulation and supervision to incorporate climate-related risks; and/or targeting an additional foreign reserve build-up to bolster resilience to shocks.[20] These reforms are squarely within the IMF's mandate and can be complemented with parallel World Bank or regional multilateral development bank (MDB) financing for sectoral interventions.

17 IMF, May 2025, "2025 Update of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts."

18 Representative French Hill, letter to House and Senate Leadership, December 2023.

19 This note focuses on RST work on climate change. A similar exercise to develop high-impact reform measures aligned with the IMF's mandate should occur for health programs as well.

20 Hicklin, John. March 2024, Center for Global Development, "The IMF's Resilience and Sustainability Trust: How Conditionality Can Help Countries Build Resilience."

RST reform: Anchor medium-term development and climate plans

A more transformative path for the RST would involve a fundamental rethink of its design, conditionality, and integration with broader development and debt sustainability frameworks—aligned with a new vision for program design described above. This scenario assumes the political will exists among key IMF shareholders, including the United States, to pursue major reforms.

Any hope of securing political support from the Trump administration likely involves breaking the explicit link between the RST and climate-linked reform measures. Instead, the core reform measure of the new RST would be to require countries accessing the RST to develop and publicly disclose a medium-term budget plan that incorporates the investments needed to achieve their growth and development goals, including but not limited to those related to clean energy transitions. This fiscal plan would detail the anticipated impacts on public sector expenditure and revenue, drawing on the IMF's analytical work for the FfD summit and its collaboration with the World Bank to estimate medium-term financing needs. The RST would still expand the IMF's engagement to potential balance of payments associated with the more ambitious resilience framework, beyond what would be included in the legal basis for a normal IMF program. And the associated IMF program, including the debt sustainability analysis, would be anchored in this more ambitious, transparent budget framework. This would necessitate a robust country platform, building on ongoing IMF-World Bank climate change cooperation, to align macro-financial and sectoral reforms.

The advantages of this approach are significant. First, it would move the RST beyond incremental reforms and more credibly anchor IMF engagement—both financing and policy reforms—around a credible path to mobilize the investments needed for climate action and sustainable development. Second, by requiring public disclosure of medium-term plans, it would enhance transparency and help build public trust in IMF-supported programs, making reforms more durable and politically sustainable. Third, it would help countries and donors align fiscal, monetary, and financial policies with a vision of long-term resilience, reducing the likelihood of repeated recourse to the IMF.

Why would this proposal appeal to various stakeholders?

For the United States, this proposal is clearly linked to the IMF's mission to expand trade and economic growth. Some may argue that this blurs the line between the IMF's macroeconomic mandate and development finance—exactly Bessent's criticism of the IMF. However, the proposal is not to turn the IMF into a development agency, but to ensure that its core fiscal and financial policy advice is grounded in a realistic assessment of what is needed for countries to achieve lasting macro-financial resilience and sustainability. Instead of delving into sectoral reform measures that are clearly outside the IMF's mandate, the IMF would focus on enabling a more credible macro-fiscal plan. The RST would continue to provide balance of payments support, but within a framework that incentivizes countries to make the ambitious reforms that Bessent called for and that are necessary for long-term stability.

For other donors, primarily central banks, the requirement for an IMF program link would remain to preserve the reserve asset status of their SDRs. However, the nature of this link could be reimagined. Already, a few countries have accessed the RST with a Policy Coordination Instrument (PCI) rather than a funded program. An abbreviated PCI process could be explored to continue to anchor the RST in the context of broader macro-financial stability, but also to better serve potential RST recipients that do not require a regular program. The IMF could also explore providing flexibility in RST program sizes, including revising overall access and program size norms.

And what about climate activists? Some may worry that nixing specific climate reform measures, and integrating climate and development goals, could dilute the focus on climate finance at a time when it is most needed. Many existing RST reform measures could be included in a regular IMF program (or for the sectoral measures, an MDB policy operation). But by improving fiscal space and the enabling environment for investment, this approach could have a much greater impact on countries' ability to make investments and attract private climate finance on a much larger scale than any single IMF lending instrument could provide alone.

Navigating US political realities

The proposal above addresses the Trump administration's objection to the RST's explicit climate focus and the criticism that the RST is focusing on sectoral development policies in the World Bank's remit. The remaining political obstacle is the underlying association with the SDR allocation. It is possible that the Trump administration will not support any version of the RST, even if they can get on board with the concept of reform. For example, U.S. Representative French Hill has pushed to scrap the RST altogether and refocus on the PRGT. [21] If this dynamic holds, stakeholders should be pragmatic about the institutional form of this donor-funded support. For example, if it makes it more politically feasible, rebranding the RST should be explored. Going back to the G20, if the Trump administration indeed wants to focus on boosting growth in EMDCs as part of its 2026 agenda, rethinking the RST to be more impactful could be an important deliverable.

Surveillance: Find the right balance

Surveillance of economic and financial policies of member countries is a core part of the IMF's mission. The IMF's technical and apolitical voice on macroeconomic and financial matters carries significant weight in many countries. On climate-related issues, the IMF has been a leading voice on key issues like carbon taxation, fossil fuel subsidy reform, and financial sector stress testing.

21 Chairman Hill: We Should All Be Pleased That Treasury Has A Leader Who Has Signaled That He Will Take IFI Issues More Seriously | U.S. House Committee on Financial Services.

That said, the IMF can be more judicious in focusing its climate work where it is macro-critical *and* aligns with the IMF's expertise. The membership has come to expect the IMF to raise climate issues in every document, diminishing the instances where a particular recommendation is truly macro-critical. The upcoming Comprehensive Surveillance Review must include a frank assessment of where the IMF can use its surveillance tools—and its voice—to most effectively advance the climate agenda. A key part of this discussion should be where the IMF needs to let others lead, especially in the context of competing priorities.

A key question will be whether the IMF should continue evaluating each country's climate mitigation plans and opining on the adequacy of climate mitigation efforts at the global level. Adaptation policy responses are clearly aligned with the IMF's mandate and the risk assessment work conducted in country surveillance. Mitigation work requires more nuance. Countries will enact macro-financial policies in pursuit of their NDCs. It is reasonable—and necessary—for the IMF to assess and advise on the economic impact of the design and implementation of these policies where they are macro-critical. For example, carbon taxation, carbon border adjustment mechanisms, and/or large-scale investment programs like the Inflation Reduction Act in the United States. Importantly, this will not include every climate policy, rather a focus on what is macro-critical.

The IMF's role should not extend, however, to measuring the emissions impact of economic policies. This is beyond the remit of the IMF's expertise on macro-financial issues. For example, the IMF also completes a yearly review of the effectiveness of mitigation policies at a global level in terms of emissions. This is undoubtably important work from a climate mitigation perspective. But with so much on the shoulders of the IMF already, it makes more sense for an institution with a broader mandate to take on a role that moves into emissions estimation—e.g., the World Bank or the United Nations.

There will also be cases where countries *not* taking climate mitigation policies will pose macro-critical economic risks. To maintain credibility, the IMF must take a clear position on the U.S. administration's actions. Bessent insisted that he wants to see the IMF being a "brutal truth teller" in its surveillance. Though he had in mind excessive external imbalances (and primarily China), the IMF needs to take this advice even for the United States and the Trump administration's actions to dismantle domestic climate policy and multilateral cooperation. The IMF must be forthright that the U.S. climate policy direction is harmful to the expansion of trade and economic growth, discourages international monetary competition, and harms prosperity—exactly contradictory to IMF's three intertwined missions.

Where it is macro-critical, the IMF cannot shy away from using strong and clear language on the risks climate change poses and the most pragmatic policy responses. As we have seen at the July 2025 G20 finance ministers meeting, where the senior IMF official's remarks did not mention climate, or in the Managing Director's two recent curtain raiser speeches, there is a risk the IMF will overly course correct to avoid politically-difficult climate topics. Or they may default to coded words that imply climate issues but do not raise the ire of the Trump administration—e.g., sustainability, energy security, or weather-related shocks—making dense IMF reports even less user-friendly. Both would be a mistake. The IMF needs to be a clear and forceful voice that climate change is a real risk to individual economies and the global economy. Now more than ever, it is important to have strong voices on this topic—especially from institutions that can bring technical tools and analysis.

IMF-World Bank collaboration: Stick to the comparative advantage

Given its mandate and resources, the World Bank should remain the leader in the IFI system in providing climate adaptation and transition finance, as well as the bulk of climate-related reforms. The IMF has an important enabling role to play—helping countries develop fiscal, monetary, external, and financial frameworks and capacity to monitor and manage risks, and provide the macroeconomic context to mobilize finance at scale. As part of upcoming policy reviews, shareholders should ask IMF and World Bank management to produce jointly a full matrix on where they should collaborate and a regular report card on how they are doing.

The country platform concept is a key example of where collaboration between the two institutions is highly welcome and should be expanded. A widely applicable formula for donor coordination in country cases has long eluded policymakers, though not for lack of effort. For example, the G20 in 2019–2020 attempted to mainstream the concept of country platforms to convene and align governments, businesses, non-governmental organizations, civil society organizations, donors and other development actors around a particular issue. Outside of a few cases, led by the World Bank, this effort did not gain much traction at the time. Later, in the climate space, the Just Energy Transition Partnerships had mixed results.

The World Bank and IMF have made much progress recently in enhancing their cooperation on climate issues, including with cooperation on RST arrangements. The World Bank and the IMF are also rallying again around the concept of an "Enhanced Cooperation Framework for Climate Action." This type of coordination should be expanded beyond the pilot cases, and expanded beyond climate to cover development needs. To do this effectively, stakeholders should evaluate with an open mind the best way to develop a reform and investment compact that is both aligned with the country's development priorities and political space, but also has earned strong buy-in from donors, the institutions, and the private sector. Importantly, greater coordination cannot come at the expense of efficiency by adding unnecessary bureaucratic hurdles.

When it comes to implementing the country platform, the IMF and World Bank should have a clearer delineation for engaging on reform measures. A more focused RST will be the first step to this end. The World Bank should be the clear lead on specific climate finance, such as sectoral projects and related reforms.

Capacity development is another key area of coordination between the two institutions. Both institutions have a range of climate-related capacity development tools available to member countries. Given its relatively smaller footprint in capacity development, the IMF should ensure that its climate-related offerings remain targeted, focused on its areas of technical expertise (e.g., public financial management, public investment management). For example, the institutions should explore integrating their flagship macroeconomic climate assessment tools, the CCDR and CMAP. The World Bank's CCDR provides a comprehensive, whole-of-economy diagnostic that identifies and prioritizes the most impactful reforms and investments for both mitigation and adaptation, tailored to each country's development context. The IMF's CMAP helps countries assess climate risks and integrate them into macro-fiscal planning, public investment management, and financial sector oversight. While the World Bank has already completed 72 CCDRs, the IMF has only completed less than 10 CMAPs.[22] These purposes of these tools are highly complementary. The two institutions should explore how to make the CMAP more interoperable with the broader CCDR, without getting bogged down by the two institutions lengthy internal approval frameworks.

Conclusion

There is no shortage of creative ideas one could imagine to enhance the IMF's support for countries tackling climate change. A recapitalization of the Catastrophe Containment and Relief Trust from precautionary balances. A new SDR allocation. A new broad-based debt relief initiative, like the Highly Indebted Poor Countries (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI). This article considered but did not recommend such initiatives—including because they are just not politically feasible right now. As much as it may want to be, the IMF is not an independent institution. It is a mirror of its shareholders and must operate within the geopolitical constraints they create.

The IMF has an important role to play in climate-related macro-financial issues, especially at a time of great uncertainty for global climate action. As the only multilateral institution responsible for promoting global macroeconomic and financial stability, the IMF has a central role to play in helping its members strengthen their macro-financial frameworks as a key precursor to mobilizing substantial and affordable climate finance. IMF management and pro-climate shareholders should work together behind the scenes to develop a strategic playbook for how the IMF can strengthen, prioritize, and maintain this work across its toolkit. In the current state of the world, the IMF must do so through a political lens, accepting trade-offs, so that what it does and says has the most impact.

22 IMF and World Bank websites.

Annex 1. IMF climate-related tools for member countries

Tool/Initiative	Description	Climate Change Relevance
Surveillance		
Policy advice and technical assistance in bilateral surveillance	Ongoing support to ministries of finance and central banks on integrating climate risks into macroeconomic frameworks, fiscal policy, and financial sector supervision	Helps countries mainstream climate into economic policy and financial regulation and address emerging risks
Debt Sustainability Analysis (DSA) with climate scenarios	Incorporates climate risks and investment needs into debt sustainability frameworks for low-income countries, supporting borrowing for climate action	Assesses fiscal space and risks related to climate investments and shocks
Climate Change Indicators Dashboard	A public platform with climate-related economic indicators, developed in collaboration with other organizations, covering economic activity, cross-border flows, financial risks, and government policy	Provides data and analytics to inform climate policy and track progress
Lending		
The Resilience and Sustainability Facility (RSF) is the lending arm of the Resilience and Sustainability Trust (RST)	Financing facility providing long-term, affordable financing to low- and middle-income countries for climate resilience and sustainability reforms, linked to policy reforms and often capacity development	Supports implementation of climate adaptation and mitigation policies, often in coordination with World Bank CCDRs
Capacity Development		
Climate Macroeconomic Assessment Program (CMAP)	A diagnostic tool to assess macro-fiscal implications of climate change and adaptation policies, including cost-benefit analysis of resilience investments and PFM	Helps countries understand the economic and fiscal impacts of climate risks and adaptation measures
Climate Policy Diagnostic (CPD)	Technical assistance to support the design and implementation of fiscal policies that back countries' mitigation and adaptation strategies	Helps countries understand the fiscal impacts of their climate strategies
Climate Public Investment Management Assessment (C-PIMA)	A diagnostic tool to assess and strengthen public investment management (PIM) practices, with a focus on integrating climate adaptation and mitigation into infrastructure planning and budgeting	Helps countries identify gaps and improve governance for climate-resilient and low-carbon infrastructure investments
Green Public Financial Management (Green PFM)	Technical assistance and guidance to integrate climate considerations into public financial management systems, including budgeting, reporting, and fiscal risk management	Supports mainstreaming of climate adaptation and mitigation in fiscal frameworks and budget processes
Climate Policy Assessment Tool (CPAT)	Model for rapid estimation of the effects of climate mitigation policies (e.g., carbon pricing, fossil fuel subsidy reform) on emissions, macroeconomic outcomes, and co-benefits	Enables countries to analyze and compare climate policy options and their impacts
Ad hoc input to World Bank on Country Climate and Development Reports (CCDRs)	Analytical work with the World Bank to integrate climate and development in country diagnostics, informing policy and investment priorities	Incorporates macroeconomic and fiscal dimensions of climate change in national strategies

Annex 2. Upcoming opportunities to influence IMF climate-related work

IMF Policy Reviews
Program Design/Lending: • FY26: Review of Program Design and Conditionality • FY26/27: Review of the Resilience and Sustainability Trust[23] • FY27: Review of the Bank-Fund Debt Sustainability Framework for Low-Income Countries
Capacity Development: • FY26: Capacity Development Priorities for FY27-29
Surveillance: • FY26: Comprehensive Surveillance Review (CSR) • FY26: Financial Sector Assessment Program (FSAP) Review
Independent Evaluation Office: • December 2025: The IMF and Climate Change[24] • 2H 2025: IMF Advice on Fiscal Policy[25] • 1H 2026: IMF Engagement on Debt Issues in Low-Income Countries[26]
G7/G20 Presidency Roster
2026 G7 – France 2026 G20 – United States
2027 G7 – United States 2027 G20 – TBD

Sources: IMF Executive Board FY26 Work Plan.[27]

23 The five-year review of the Resilience and Sustainability Trust was originally planned for FY26; however, it does not appear in the latest Executive Board work plan.
24 IMF IEO, September 2024, "Draft Issues Paper: The IMF and Climate Change."
25 IMF IEO, May 2024, "Draft Issues Paper: IMF Advice on Fiscal Policy."
26 IMF IEO, May 2025, "Draft Issues Paper: MF Engagement on Debt Issues in Low-Income Countries."
27 IMF, April 2025, "FY 2026 Executive Board Work Program."

Annex 3. RSF arrangements to date

Country	RSF Approved Access			
	$ Millions	% Quota	% IMF Program	% GDP
PRGT/PRGT Blend				
Bangladesh	1,300	94	41	0.2
Benin	194	120	31	0.7
Cabo Verde	31	100	53	0.8
Cameroon	179	50	23	0.2
Côte d'Ivoire	1,269	150	38	1.1
Democratic Republic of the Congo	1,040	75	60	1.1
Kenya	529	75	15	0.3
Madagascar	317	100	95	1.3
Mauritania	251	150	300	1.7
Moldova	168	75	22	0.7
Niger	129	75	50	0.5
Papua New Guinea	256	75	29	0.6
Rwanda	312	150	120	1.6
Senegal	316	75	21	0.7
Tanzania	776	150	75	0.7
GRA-only				
Barbados	185	150	167	1.9
Costa Rica	720	150	45	0.6
Egypt	1,300	49	16	0.2
Jamaica	746	150	79	2.7
Jordan	669	150	56	0.9
Kosovo	81	75	78	0.5
Morocco	1,300	112	27	0.6
Pakistan	1,300	49	19	0.3
Paraguay	393	150	N/A	0.7
Seychelles	44	150	81	1.5
Total	**13,804**			
Average		**108**	**64**	**0.9**

Source: IMF website; authors calculations.

Annex 4. Madagascar RSF reform measures

One of the more substantive programs thus far has been Madagascar, informed by both the C-PIMA and the CCRD, as well at the Enhanced Cooperation Framework for Climate Action. Of the 12 measures, nine fall within the IMF's mandate, directly linked to the C-PIMA findings. The program includes substantive measures regarding carbon taxation and fuel subsidy reform. Still the Madagascar arrangement, includes measures that are sectoral in nature—e.g., relating to carbon storage in forests and water governance—clearly outside of the IMF's mandate.

Pillar	Reform	Diagnostic
Reinforcing governance and PFM/PIM processes	**Climate governance.** Adopt a decree reinforcing the mechanism for intergovernmental coordination on climate change issues, currently with very weak decision making and enforcement mechanisms	CCDR
	PIM Framework. Adopt a decree integrating climate change considerations into the legal framework for evaluation and selection of PIM projects	CMAP CCDR
	PIM Implementation. Adopt a decree ensuring consistency of public investment projects selected and budgeted with the climate objectives set in the Nationally Determined Contribution	CMAP CCDR
	Climate budget tagging. Adapt the budget classification to better account for climate change issues in the budget preparation process and reinforce transparency on the integration of climate change concerns in budget choices	CMAP
Adaptation	**Water governance.** Approve in the Council of Ministers a bill to strengthen the governance of water resources and improve the allocation of water resources to key water users notably water utilities, farmers, and industries	WaterAid USAID
	Disaster risk management. Approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the National Contingency Fund, while ensuring adequate transparency and reporting of expenditures for each selected type of hazard	CMAP CCDR
Mitigation	**Energy prices and subsidies.** Fully eliminate all fuel price subsidies resulting from an administered retail price that has durably been below the calculated reference price	CMAP
	Fuel taxation. Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline	CMAP
	Renewable energy production. Adopt decree and operationalize financing mechanism to support off-grid and minigrid electrification and pro-actively incentivize private sector funding, with at least a total of 11.5 MW in newly installed renewable energy production capacity	CCDR
Protection of forests and biodiversity	**Carbon storage in forests.** Revise decree to promote carbon sequestration and strengthen climate adaptation and resilience through reforestation schemes with private sector participation incentivized by access to carbon markets	CCDR
Mobilizing climate finance	**National climate finance strategy.** Adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms and a timeline for implementation	CMAP CCDR
	National green taxonomy. Adopt a decree on implementing a national green taxonomy to provide clarity and transparency to financial market participants keen on investing in green projects and/or projects with clearly defined climate outcomes	CCDR

Source: IMF Madagascar Program Document.